

# Perennial Value Smaller Companies Trust

Monthly Report as at 31 August 2012

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception <sup>^</sup> % p.a.
Perennial Value Smaller Companies Trust*	6.5	6.0	11.5	5.2	16.0	6.4	14.3
S&P/ASX Small Ordinaries Accum. Index	2.9	-2.2	2.8	-11.1	-0.7	-7.5	5.8
<b>Value Added (Detracted)</b>	<b>3.6</b>	<b>8.2</b>	<b>8.8</b>	<b>16.3</b>	<b>16.7</b>	<b>13.9</b>	<b>8.5</b>
Net Performance	4.9	4.2	9.7	0.8	10.7	2.7	11.8

\*Gross Performance. ^Since inception: March 2002. Past performance is not a reliable indicator of future performance.

- The Trust outperformed the Index return by 3.6%.
- The Trust ranked first for the month in the Mercer Small Cap survey for July 2012.
- The best performing stock held in the Trust was Sundance Energy Australia Limited (up 61.9%).

The smaller end of the Australian equity market enjoyed a positive 2.9% return for the month of August. Some of the major contributors included S&P/ASX Small Ordinaries Accumulation Index (the Index) heavy weights: Australian Infrastructure Fund (up 18.9%), Carsales.com Limited (up 15.4%) and Navitas Limited (up 13.3%). Despite not owning any of these growth type stocks, the Perennial Value Smaller Companies Trust (the Trust) delivered an even stronger 6.5% return, outperforming the Index by a healthy 3.6%. This is a very pleasing outcome in light of the sheer strength of the Index's move this month.

Readers will also be pleased to note that the Trust ranked first for the month in the latest Mercer Small Cap survey (July 2012)\*. More importantly, the Trust also ranks number one on both the three year and five year timeframes.

A major focus of the market during August was company reporting season. Despite somewhat dire predictions, 54% of all companies that reported increased their earnings when compared to the prior year. Within this, industrial earnings were somewhat stronger than resource earnings. The majority of companies were cautious with respect to providing commentary as many pointed to tough trading conditions and limited earnings visibility. The equity market did come off its intra month highs following the fall in the iron ore price (below USD90 per tonne) as resource companies began to talk about reducing or deferring their capital expenditure.

Domestic economic data was mixed with residential building approvals falling sharper than expected. However, June retail sales recorded the strongest year on

## Perennial Value Smaller Companies Trust Facts:

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income by investing in a diversified portfolio of Australian shares predominantly outside the S&P/ASX 100 Index, and to provide a total return (after fees\*) that exceeds the S&P/ASX Small Ordinaries Accumulation Index measured on a rolling three year basis.

### Portfolio Managers:

Grant Oshry and Andrew Smith

### Trust FUM

(as at 31/08/12):

AUD88.4 million

### Team FUM

(as at 31/08/12):

AUD7.4 billion

### Trust Inception date:

March 2002

### Risk Profile:

High

### Income Distribution

#### Frequency:

Half yearly

#### Minimum Initial

#### Investment:

\$25,000

#### APIR code:

I0F0214AU

\*Excluding performance fees.

year increase since late 2009, no doubt reflecting some of the government's Household Assistance Package stimulus. July housing credit growth grew, which is pleasing given the reductions in interest rates earlier this year. The Reserve Bank of Australia left interest rates unchanged at 3.5% and the Australian dollar was weaker, finishing 2.0 cents lower at USD1.03.

The best performing sectors included information technology (up 9.4%), consumer staples (up 8.2%) and utilities (up 6.0%). The worse performing sectors were

healthcare (down 0.1%), property trusts (up 0.5%) and materials (up 1.0%).

The best performing stock in the Trust was Sundance Energy Australia Limited (up 61.9%) following the announcement that it had sold one of its acreages in the Williston Basin, North Dakota, USA, for a substantial profit. Readers will recall from last month's commentary that the share price had come under intense selling pressure as the market feared the company would need to raise capital to fund its oil drilling program. This announcement quickly put that concern to rest given the \$172 million cash proceeds that will be received as this sale alone equates to \$0.62 per share (versus \$0.68 month end closing price). Oakton Limited (up 18.9%) delivered a result in line with expectations, however its strong operating cash flow resulted in a higher final dividend. Matrix Composites & Engineering Limited (up 18.4%), Mermaid Marine Australia Limited (up 18.3%) and Miclyn Express Offshore Limited (up 18.1%) all delivered a good set of numbers coupled with a robust outlook, which bodes well given the Trust's overweight exposure to the energy sector.

Other strong attributors included Fantastic Holdings Limited (up 13.7%), Independence Group (up 11.8%) and Horizon Oil Limited and Thorn Group Limited (each up 9.1%).

Stocks which detracted from performance included Northern Iron Limited (Northern Iron) (down 27.2%) following the sharp fall in the iron ore price mentioned above. This company is currently in takeover talks and one of the conditions relates to net debt not exceeding \$90 to 92 million. The weaker iron ore price puts this condition at risk. We followed this matter up with management who stated that talks with the two interested parties continue at pace and this clause does not automatically end discussions. We took the view that any prospective buyers would look through the current weakness in spot iron ore prices, given the off take agreement Northern Iron has in place, and we used the share price weakness to add to our position. Red Fork Energy Limited (down 8.7%) conducted a \$50 million placement at \$0.67 per share to accelerate the pace of its

development. This saw the share price trade down towards this issue price (month end closing price \$0.685).

In terms of Trust activity, we reintroduced Oroton Group Limited (Oroton) during the month following its announcement that Polo Ralph Lauren Inc. will not be renewing its licence with Oroton when it expires at the end of June 2013. This saw the share price drop 25% when the stock resumed trading, thereby providing an opportunity for the Trust to get set at an average price of \$5.95 (month end closing price \$6.48). Readers may recall that we exited our Oroton position in March this year at an average price of \$8.26 on valuation grounds. We took profits in Alacer Gold Corp and switched the proceeds into Silver Lake Resources Limited (Silver Lake) following its announcement to take over Integra Mining Limited. Following this take over, Silver Lake will produce approximately 400,000 ounces of gold per annum from FY14 and diversifies its operational risk.

We also significantly added to our Clough Limited position, both pre and post its annual result. This follows the improvement made in the second half under its new Managing Director. His focus on returns, coupled with a net \$146 million cash pile and a very strong order book, provides earnings visibility for most of FY13 and the majority of FY14.

At month end, stock numbers stood at 55 with cash at 1.9%.

\*Mercer Investment Performance Survey of Australian Small Companies (Ex 100) (Actual Ranking). Return in AUD, before fees, as at 31 July 2012.

*Signatory of:*



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**Asset Allocation** as at 31 August 2012

Asset Class	Trust Weight %	Index Weight %
Energy	19.9%	7.7%
Materials	12.7%	27.4%
Industrials	22.4%	22.1%
Consumer Discretionary	17.0%	14.9%
Consumer Staples	0.0%	1.6%
Health Care	0.0%	4.2%
Financials-x-Real Estate	4.9%	6.0%
Real Estate	6.7%	5.5%
Information Technology	8.6%	4.0%
Telecommunication Services	4.7%	3.5%
Utilities	1.2%	3.0%
Other	1.9%	-

Rounding accounts for small +/- from 100%.

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