PERENNIAL VALUE MANAGEMENT

Perennial Value Smaller Companies Trust

Monthly Report
31 August 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-3.0	-6.7	-0.8	-10.5	1.8	3.3	9.5
S&P/ASX Small Ordinaries Accum. Index	-4.9	-10.9	-3.4	-9.6	0.4	-0.7	4.5
Value Added (Detracted)	**1.9**	**4.2**	**2.6**	**0.9**	**1.4**	**4.0**	**5.0**

*Net performance (including performance fee). ^Since inception: March 2002. Past performance is not a reliable indicator of future performance.

Perennial Value Smaller Companies Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth 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
Risk profile:	High
Trust FUM (as at 31 August 2015):	AUD 115 million
Income distribution frequency:	Half yearly
Minimum initial investment:	$25,000
Trust inception date:	March 2002
APIR code:	IOF0214AU

- **Australian data was mixed, with the release of decent retail sales numbers for June and an unexpected spike in the jobless rate.**
- **All sectors were in the red during August, with the worst being energy (down 19.9%) driven by the fall in the oil price.**
- **The top performing stock was Smartgroup (up 22.5%) following the release of their interim result, which exceeded the company's guidance.**

Volatility was amplified in August, with the benchmark Small Ordinaries Accumulation Index (Index) falling 4.9%. The Perennial Value Smaller Companies Trust (Trust) declined 3.0% after all fees, thereby outperforming by a net 1.9%.

Globally, August was dominated by the slowing growth in China and the ensuing volatility in financial markets as many investors trimmed their holdings of riskier assets. As a result, China took steps during the month to underpin growth, cutting interest rates and bank reserve requirements, lifting infrastructure spending and announcing a surprise devaluation of the Chinese Yuan (CNY). However, by the end of the month, the markets seemed to have calmed, partly as the economic data firmed. In particular, there was a big upwards revision to Q2 Gross Domestic Product (GDP) growth in the United States (US) plus another decent payrolls outcome. Additionally, the data for Europe remained encouraging. Greece announced fresh elections, but markets took this news in their stride. Other emerging market central banks broke foreign exchange (FX) pegs with the US as the Federal Reserve (Fed) neared the start of policy normalization. Fed speakers though, indicated that the Fed may be backing away from September lift off. International markets all finished the month down, with the S&P500 down 6.3%, FTSE100 down 6.7%, Nikkei 225 down 8.2% and Shanghai Composite down 12.5%.

Australian data was mixed, with the release of decent retail sales numbers for June and employment growth for July again surprising on the upside, although there was an unexpected spike in the jobless rate back to 6.3%. The latest quarterly business investment report, however, was gloomy, revealing little evidence of the much-anticipated rotation towards non-mining sources of growth. In fact, economy-wide investment will likely fall again this financial year. Consumer confidence rose strongly early in the month (helped by fading drags like concerns about Greece) and business confidence slumped, highlighting again the disparity between households and corporates. There was further strength in the housing market, with prices continuing to rise, particularly in the east coast cities. The Reserve Bank of Australia (RBA) left the cash rate steady at 2.0% and the Australian Dollar (AUD) declined from 73 to 71 US cents.

All sectors were in the red during August, with the worst being energy (down 19.9%) driven by the fall in the oil price. Surprisingly, the next weakest exposures were found in telecommunication services (down 8.8%) and Utilities (down 8.6%), which are both traditionally viewed as defensive sectors.

The top performing stock in the Trust was salary packaging administrator and novated leasing service provider Smartgroup (up 22.5%) following the release of their interim result, which comfortably exceeded the company's guidance by delivering 33% underlying net profit growth on the prior comparable period. Additionally, the company guided to a 'promising start to the current half", where after directors acquired significant amounts of shares on market in their personal capacity.

One of the key attractions of this company is the tenure of clients that it has, which provides good insight into the relationship that Smartgroup has with its clients and is testament to their high-quality service offering.

Source: Company Reports

Energy Action (up 13.6%) clawed-back some of its previous month's losses following their result, which reflected strong gross cash conversion. Regis Resources (up 11.9%) added to last month's 20.4% return, benefitting from the 3.3% rise in the spot gold price during the month.

Fantastic Holdings (up 9.8%) delivered a strong FY15 result, reflecting strength in their core Fantastic Furniture and Plush sofa brands, with each recording strong comparable sales growth for the year. Management commented that this strength has continued during the first 2 months of the current fiscal year, with comparable sales growth in excess of 12%. The final dividend was increased 67%, which sends a positive signal to the market.

The main detractor during the month was APN News & Media (down 29.4%) following the release of their interim result, despite their radio division (which is the majority of their earnings) delivering earnings growth of 26%, with two thirds of this being organic growth. Some in the market sold the stock given their mixed outlook as July was described as being down on a like-for-like basis, while August saw improvement across all their divisions. We remain favourably disposed to APN and used this weakness to add to the Trusts position.

During the month, the Trust exited its position in Citadel group on valuation grounds, following its strong returns since the Initial Public Offering (IPO). Proceeds were used to build a position in Breville Group, which has de-rated materially from its March 2014 highs above $10 per share and now offers a better risk-reward profile from our average $6.42 entry price (closing price $6.48). The Trust also took advantage of an opportunity that presented in Retail Food Group, with the stock unduly selling off ahead of its result. The Trust purchased a position at an average price of $4.87, which the Trust then exited at an average $5.40 towards month end following the release of their result.

At month end, stock numbers were 49 and cash was 2.4%.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	8.5%	4.8%
Materials	10.6%	13.3%
Industrials	9.7%	15.8%
Consumer Discretionary	33.5%	22.7%
Consumer Staples	0.8%	3.4%
Health Care	4.4%	9.3%
Financials-x-Real Estate	9.6%	8.6%
Real Estate	14.1%	12.5%
Information Technology	5.3%	5.5%
Telecommunication Services	0.0%	3.5%
Utilities	1.2%	0.6%
Other	2.4%	-

Rounding accounts for small +/- from 100%.

For all other enquiries, please contact us on 1300 730 032
or visit www.perennial.net.au

Signatory of:

Principles for Responsible Investment