PERENNIAL VALUE MANAGEMENT

Perennial Value Smaller Companies Trust

Monthly Report as at 31 March 2013

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Smaller Companies Trust+	-4.9	-1.0	17.0	1.3	6.0	5.6	11.8
S&P/ASX Small Ordinaries Accum. Index	-3.3	1.6	11.2	-5.8	-0.8	-3.5	6.2
Value Added (Detracted)	**-1.6**	**-2.6**	**5.8**	**7.1**	**6.8**	**9.1**	**5.6**

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

- The best performing stock was TPG Telecom (up 21.2%), following a stellar interim result.
- During the month, we added to our position in Mt Gibson, Mineral Resources, Northern Iron, Mirabella Nickel and Whitehaven Coal.
- The best performing sectors were telecommunication services (up 6.2%) and consumer discretionary (up 2.1%).

Risk assets, in particular equities, were impacted by a decline in European sentiment during the month due to the collapse and subsequent bailout of the Cypriot banking system. Equity markets also had to contend with sentiment around China's future growth profile being dampened by both a speech from the Governor of the People's Bank of China, which had a tightening bias to it, and China's Ministry of Housing and Urban Development's hawkish comments on property prices. This negatively impacted the resources sectors, which accounts for approximately 30% of the benchmark index and contributed to the benchmark S&P/ASX Small Ordinaries Accumulation Index (the Index) declining 3.3% during March. A combination of a few material share price declines in some of our resource company holdings coupled with a sell off in a couple of our larger industrial positions (discussed below), resulted in the Perennial Value Smaller Companies Trust (the Trust) declining by 4.9% net of all fees and underperforming the Index return by 1.6%.

The best performing sectors were telecommunication services (up 6.2%) and consumer discretionary (up 2.1%). The worst performing sectors were energy (down 12.5%) and materials (down 8.1%).

On the domestic economic front, the economic data was mixed: January's retail sales (up 1.2%) showed an improving trend as did a 2.0% monthly rise in March's consumer confidence. The unemployment rate read relatively well at 5.4%, however most of the jobs growth was concentrated in the part-time segment. Residential building and housing finance approvals data were both weaker than expectations. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 3%, while the Australian dollar finished the month slightly firmer at USD1.04.

Performance during the month was impacted by one of our top holdings, Matrix Engineering (down 26.2%), which continued last month's underperformance following the company's earnings downgrade. At this stage it appears to reflect the deferral of several contracts into FY14, which given the fixed cost nature of this business has had a large impact on short term earnings. The outlook for FY14 looks more prosperous and given the strong indicators for demand (mainly new rig builds committed), we still expect a strong earnings recovery. We caught up with management during the month and we will continue to monitor the conversion of this demand to firm orders to ensure that our investment case remains intact.

Whitehaven Coal (down 24.3%) suffered from weakness in coal prices and resources generally for the reasons mentioned above. Additionally, the share price has been under pressure as the company awaits Federal Government approval to develop its Maules Creek coal mine.

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	**Risk Profile:** High
Trust FUM (as at 31/03/13): AUD124.4 million	**Income Distribution Frequency:** Half yearly
Trust Inception date: March 2002	**Minimum Initial Investment:** $25,000
	APIR code: IOF0214AU

*Excluding performance fees.

There is also a perceived overhang in the stock, given the largest shareholder Nathan Tinkler's (who effectively owns a 19% stake) cash flow issues. At the month end closing price ($2.12), the 'build versus. buy' argument is heavily skewed to the latter for any company looking to set-up a multi-mine, long duration coal mine.

Redflex Holdings (down 28.8%) gave an update on its internal investigation in relation to corruption surrounding its Chicago, USA contract. Given the on-going nature of the investigation, the release only made reference to identifying potential issues involving the US-arm of its operation and certain former employees in two additional geographies in the USA. In order to mitigate any further risk from what now appears to be a systemic issue in its US operations (circa 70% of group earnings), we sold out of the remainder of our position (readers will recall that we previously reduced our exposure when the company first announced of irregularities involving the Chicago contract).

Melbourne IT (up 14.5%) benefitted from divestment of one of its assets as part of its strategic review. Readers will recall that one of our main reasons for initialling investing in this company in March 2012, aside from its attractive dividend yield, was our view that the market had undervalued this company's assets. Over the past year we have built up our position to a significant holding. The cash proceeds of $152.5 million to be received from the sale of its DBS division alone equated to 95% of the company's market capitalisation at the time of the announcement, thereby implying that the market was ascribing a negligible value to its remaining assets.

The best performing stock was TPG Telecom (up 21.2%), following a stellar interim result. Strong net subscriber growth driven by their bundled home phone and broadband product, coupled with a budding mobile phone business, led to a profit upgrade. Free cash flow generation was equally impressive, which the company used to reduce gearing levels.

Other strong performers included Pacific Brands (up 8.9%), Transpacific Industries (up 8.8%), Pacific Energy (up 7.4%) and Tox Free Solutions (up 6.4%).

In terms of portfolio activity, we exited some of our expensive industrial holdings, such as Amcom Telecommunications and JB Hi-Fi, following strong share price appreciation. It is worth noting that despite the OECD's upgrade to China's GDP of 8.5% for 2013 (and stronger for 2014) this month, and comments from the RBA that noted the risks to the global outlook had recently diminished, the divergence in performance between small resources and industrials continued to widen over the month and now stands in excess of 50% for the 12 months to 31 March 2013. Given the sell-off in a range of resource companies, we used weakness during the month to add to our positions in Mt Gibson, Mineral Resources, Northern Iron, Mirabella Nickel and Whitehaven Coal.

At month end, stock numbers stood at 56 with cash at 3.4%.

Asset Allocation as at 31 March 2013

Asset Class	Trust Weight %	Index Weight %
Energy	19.3%	8.6%
Materials	20.9%	20.4%
Industrials	21.3%	20.5%
Consumer Discretionary	14.9%	22.3%
Consumer Staples	0.0%	1.7%
Health Care	0.0%	3.5%
Financials-x-Real Estate	4.7%	8.0%
Real Estate	6.6%	7.5%
Information Technology	4.1%	2.5%
Telecommunication Services	2.8%	3.7%
Utilities	2.1%	1.4%
Other	3.4%	-

Rounding accounts for small +/- from 100%.