Perennial Value Smaller Companies Trust

Monthly Report as at 28 February 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+	-0.9	10.0	23.0	8.7	11.0	6.0	12.4
S&P/ASX Small Ordinaries Accum. Index	0.9	8.5	15.0	-2.4	2.6	-3.8	6.6
Value Added (Detracted)	**-1.8**	**1.5**	**8.0**	**11.1**	**8.4**	**9.8**	**5.8**

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

- While a combination of factors affected the results for February, on a net basis the Trust has outperformed the Index by 11.1% over the past 12 months.
- Clough Engineering, a long term top 5 holding of the Trust, announced a strong interim result and we welcomed the impressive outlook commentary.
- We established a position in Pacific Brands prior to its interim result on the basis of less industry discounting boding well for its gross margins, which came through in the results.

February was dominated by Australian listed companies reporting their interim results for the current fiscal year. Whilst overall Ex-100 company results were satisfactory, there were a few standouts at both ends. As a general comment, the outlook from the companies reporting could best be described as cautious, with the majority yet to identify any improvement in trading conditions and unwilling to provide guidance.

During the month, the S&P/ASX Small Ordinaries Accumulation Index returned 0.9% while the Trust declined by 0.9% net of all fees, thereby underperforming by 1.8%. A combination of strong Index performance coupled with poor performance from a few of our larger active positions (discussed below) worked against us this month.

The best performing sectors were consumer staples (up 11.2%), utilities (up 6.7%) and consumer discretionary (up 6.4%). The only sector to finish in the red was materials (down 9.6%).

On the domestic economic front, the Reserve Bank of Australia (RBA) appears to be taking a ‘wait and see approach’ by leaving the cash rate unchanged at 3%. Governor Stevens noted that the current inflation outlook “would afford scope to ease policy further, should that be necessary to support demand”. Economic data was mixed with strong consumer confidence and flat business confidence recorded in January. Retail sales contracted in December, while building approvals disappointed. The AUD finished the month slightly lower at USD1.03.

Performance during the month was impacted by one of our top 5 holdings, Matrix Engineering (down 21.0%), disappointing after delivering much lower guidance for the remainder of FY13 earnings versus our expectations and those of the market. At this stage it appears to reflect the deferral of several contracts into FY14, given the fixed cost nature of this business, which has had a large impact on short term earnings. The outlook for FY14 remains solid and given the strong indicators for demand (mainly new rig builds committed) we still expect a strong earnings recovery. We will continue to monitor the conversion of this demand to firm orders to ensure our investment case remains intact.

PMI Gold (down 23.1%) was sold off after the proposed merger with Canada’s Keegan Resources was terminated, largely due to a handful of major shareholders insisting the deal undervalued PMI Gold. We continue to see value in PMI’s gold assets and believe this will be realised either

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 28/02/13):
AUD126.2 million

Trust Inception date:
March 2002

Risk Profile:
High

Income Distribution Frequency:
Half yearly

Minimum Initial Investment:
$25,000

APIR code:
IOF0214AU

*Excluding performance fees.

by the company developing its asset or further corporate activity ensuing.

Redflex Holdings (down 30.0%) downgraded its earnings, reflecting higher legal costs and delays in the rollout of its Malaysian contract. The legal costs reflect the ongoing investigation into inappropriate dealings relating to its contract with the City of Chicago. The incident in question dates back to 2010 and has only been made public in recent months. We continue to monitor the situation and take the necessary steps to manage our investment, which sits outside our top 15 holdings as at month end.

The strongest performing stock was Sundance Energy (up 20.7%) which received scheme of arrangement approval from Texon shareholders, resulting in Sundance acquiring Texon's Eagle Ford assets. We view this acquisition favourably.

Prior to reporting, we acquired a position in JB Hi-Fi at an average price of $10.74 (month end closing price $12.95 i.e. up 20.6%) brought about by our post-Christmas observations of less discounting across the electronics category, which coupled with JB Hi-Fi's strong retailing skills, boded well for their upcoming results presentation. Given the strong share price rally that followed, we locked in a portion of our profits at an average price of $12.94.

Clough Engineering (up 17.3%) announced a strong interim result, following its December 2012 profit upgrade announcement. The outlook commentary was impressive aided by LNG spend visibility, which investors welcomed. Given Clough has been a top 5 holding for some time, it is pleasing to see its results come through and we reluctantly took some profits during the month to manage this stock's exposure in the Trust.

Other strong performers included Transpacific Industries (up 15.2%), Ausenco (up 13.8%), Forge Group (up 13.5%) and Prime Television (up 11.6%).

In terms of Trust activity, we ceased to be a substantial shareholder in Fantastic Holdings at $3.45 ahead of its interim result. The decision was the result of our concerns over weak furniture sales in the latter months of 2012 coupled with industry feedback that January's sales (a key month in the furniture industry) were only described as "okay". Following the release of its result and subsequent share price decline, we re-built our position at $3.10 (month end closing price $3.29). We exited Premier Investments following the strong share price performance in recent months and used the proceeds to establish a position in lower p/e multiple and higher dividend yielding Pacific Brands prior to its interim result on the basis of less industry discounting boding well for its gross margins, which came through in the results.

At month end, stock numbers were 59 and cash was 3.2%.

Asset Allocation as at 28 February 2013

Asset Class	Trust Weight %	Index Weight %
Energy	18.9	10.2
Materials	19.4	22.2
Industrials	20.5	23.9
Consumer Discretionary	16.0	17.0
Consumer Staples	0.0	1.6
Health Care	0.0	4.0
Financials-x-Real Estate	5.4	7.5
Real Estate	6.4	6.8
Information Technology	5.9	1.9
Telecommunication Services	2.7	3.6
Utilities	1.5	1.4
Other	3.2	-

Rounding accounts for small +/- from 100%.