Perennial Value Smaller Companies Trust

Monthly Report
30 June 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-1.7	0.9	23.8	23.8	1.8	11.8	10.6
S&P/ASX Small Ordinaries Accum. Index	-1.1	-2.3	13.1	13.1	-2.9	3.4	5.2
Value Added (Detracted)	**-0.6**	**3.2**	**10.7**	**10.7**	**3.7**	**8.4**	**5.4**

*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 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 30 June 2014):

AUD118.8 million

Income distribution frequency:

Half yearly

Minimum initial investment:

$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- **The Trust has outperformed the Index return by 10.6% for the financial year to date.**
- **Corporate activity continued at the smaller end of the market.**
- **The better performing stocks in the Trust included Panoramic Resources (up 27.7%), Regis Resources (up 5.5%) and eBet (up 9.4%).**

The S&P/ASX Small Ordinaries Accumulation Index (the Index) was down 1.1% for the month of June. The Perennial Value Smaller Companies Trust (the Trust) was down 1.7% for the month, after all fees, underperforming the Index by 0.6%.

Pleasingly for the financial year the Trust has returned 23.7% after all fees against the benchmark return of 13.1%, outperforming by a net 10.6%.

Unlike the Australian market, global markets were mostly stronger in June, while China recorded slight improvements in key data namely the HSBC manufacturing PMI (to 50.8) and Industrial Production (up 8.8% year on year). Domestically data was mixed, with a number of retailers announcing earnings downgrades during the month given an unseasonably warm start to winter and a decline in consumer confidence post the Federal Budget. The RBA left the cash rate unchanged at 2.5%, retaining its neutral bias. The AUD/USD rose by 1.2c to end the month at 94.3c.

The best performing sectors in the benchmark were Utilities (up 2.6%) as well as Materials (up 2.1%) the later driven mainly by a recovery in the gold sector (where the Trust is underweight). Financials ex-Property Trusts (down 6.5%) was the weakest sector, followed by Telecommunication Services (down 4.9%). While the Trust was marginally underweight Utilities and Materials there was a more significant underweight in Financials and Telecommunications, which assisted performance.

Corporate activity continued at the smaller end of the market with a takeover offer for Papillon Resources and an attempted counter bid for Aquila Resources. Additionally downgrades were abundant with Kathmandu (reducing expectations given a late start to winter and poor consumer sentiment) and Cover-More (weaker outbound travel markets) being two examples. Neither of these stocks are held in the Trust.

While there were no major downgrades from stocks held in the Trust, there were several stocks sold down despite no news flow, perhaps as a result of tax loss selling given the end of the financial year. Weak stocks included Matrix Engineering (down 20.5%), Boom Logistics (down 14.3%), Mint Wireless (down 14.0%) and Funtastic (down 13.0%).

Performance in the Materials space was mixed with the best performance from Panoramic Resources (up 27.7%) given a more positive outlook for nickel and Regis Resources (up 5.5%) given the rebound in gold. Weaker performances came from Aquarius Platinum (down 7.7%) and BC Iron (down 9.1%) given volatility in their respective underlying commodity.

There was an encouraging development from a relatively recent addition to the Trust with eBet (up 9.4%) confirming guidance for a strong lift in profitability and providing a 57% increase in the dividend coupled with a capital return at the upcoming AGM (a refreshing outcome, given the numerous small companies seeking capital in the current market).

HFA Holdings (up 5.0%) was able to simplify their corporate structure by deploying excess cash (supplemented by a modest raising) to buy out the bulk of the convertible notes previously used to fund the business. This removes a potential source of significant dilution and was done at face value delivering significant accretion in value to ordinary shareholders. We believe the market is yet to fully factor in the significance of this transaction.

Other strong performers included Mobile Embrace (up 8.1%), Sundance Energy (up 6.0%) and Sealink Travel (up 5.6%).

In terms of portfolio activity, we exited Lifestyle Communities after a strong increase in the share price reduced valuation appeal. Additionally we sold out of STW Communications to reduce our media exposure and locked in profits when we exited Nufarm. Proceeds were used to selectively buy existing stocks on weakness and also participate in two IPOs coming to market in July.

At month end, stock numbers were 56 and cash was 6.7% ahead of the final distribution.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	9.9	6.1
Materials	12.7	19.9
Industrials	14.7	14.8
Consumer Discretionary	23.3	25.0
Consumer Staples	0.8	3.2
Health Care	2.0	4.7
Financials-x-Real Estate	6.1	5.6
Real Estate	13.9	10.2
Information Technology	4.9	2.6
Telecommunication Services	3.6	6.0
Utilities	1.5	2.0
Other	6.7	-

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:

PRI Principles for Responsible Investment