Perennial Value Smaller Companies Trust

Monthly Report
31 January 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust+	0.7	-2.4	19.9	-7.8	-0.2	15.3	10.7
S&P/ASX Small Ordinaries Accum. Index	-2.8	-5.5	11.6	-7.4	-6.2	8.6	5.3
Value Added (Detracted)	3.5	-3.1	8.3	-0.4	6.0	6.7	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 31 January 2014):
AUD136.3 million

Income distribution frequency:
Half yearly

Minimum initial investment:
$25,000

Trust inception date:
March 2002

APIR code:
IOF0214AU

- **The Trust outperformed the Index return by 3.5% for the month and has outperformed by 8.3% for the financial year to date.**
- **Matrix Composites and Engineering (up 43.8%) and Boom Logistics (up 33.3%) contributed to the performance of the Trust.**
- **New additions to the Trust included HFA Holdings and GDI Property.**

Both the global and the Australian market were weaker, with the S&P/ASX Small Ordinaries Accumulation Index (the Index) down 2.8% in January. Despite the tough market backdrop, it is pleasing to report that the Perennial Value Smaller Companies Trust (the Trust) managed to deliver a positive return during the month of 0.7% net of all fees, thereby outperforming the Index return by 3.5%.

For the financial year to date, the Trust has returned 19.9% net of all fees against the index return of 11.6%, thereby outperforming by a net 8.3%.

For the global economy, the data released over the month was mixed, showing an overall improvement in developed economies, but slower activity in emerging markets. There was evidence that growth in China's economy may be slowing, with the manufacturing PMI dropping below the key 50 benchmark. In the US, most data indicated that growth is improving, although the employment report showed job growth to be weaker than expected. Japan's data was consistent with the economy growing strongly and economic data in Europe showed decent improvement. The World Bank raised its forecast for global growth for the first time in three years. However at month end, there was concern about the impact of Fed tapering on emerging economies with a number of sharp currency devaluations, notably Argentina, Turkey and South Africa.

The best performing sectors in the Index were materials (up 1.9%) and telecommunication services which was flat. The worst performing sectors were industrials (down 6.1%) followed by energy (down 5.6%). The consumer discretionary sector (down 5.3%) was also impacted by profit downgrades from Super Retail (down 19.4%) and The Reject Shop (down 35.3%) after both companies, which are large Index constituents not held by the Trust, issued profit warnings.

In Australia, the December retail sales data was positive and both business confidence and credit growth improved, although employment data is yet to show a significant pick-up in job activity. There was no central bank meeting during the month and the AUD/USD fell to 87.4c, briefly touching a four year low during the month.

A key performer for the Trust was Matrix Composites and Engineering (up 43.8%) following a quarterly update which demonstrated increased visibility in its forward order book. We have had a positive view on the end markets for Matrix's products for some time given the success many clients have had in ultra-deep oil drilling. So it is encouraging to see this translate into a growing order book, and this, combined with the positive impact of a falling Australian dollar (given the bulk of its revenues are in US dollars), suggests some earnings upside is possible for FY14 and FY15.

Boom Logistics (up 33.3%) was another stock which continued to recover from an oversold position last year. There were no announcements by the company, however, it is likely that the market is becoming more comfortable with its balance sheet post a December refinancing. Boom continues to trade at a large discount to its net tangible asset backing and has an exposure to improving infrastructure markets that we believe is not appreciated by the market.

Lifehealthcare was up 14.6% as the stock recovered from an initially poor IPO performance in December. Lifehealthcare is a specialist distributor of medical devices which we believe was neglected during the mad rush of IPOs in December. The Trust used the weakness after the float to increase our exposure and reduce the average entry price to $1.93, which compares favourably to both the IPO price of $2.00 and the closing price for the month of $2.27. Capral (up 12.9%) and Ausenco (up 11.1%) also recovered from oversold positions in the previous month, while Melbourne IT (up 12.0%) more than held its price after a 54c capital return.

The weakest performers for the Trust were from relatively small positions, with Crowe Horwath (down 26.1% following an earnings downgrade in December) and Global Construction (down 11.5% on small volumes).

The Trust continued to build a position in Mermaid Marine (down 13.8%) as it continued to weaken given the prospect of industrial action in the offshore vessel support industry which we view as a short term issue. Nufarm (down 11.6%) was weaker after foreshadowing a soft 1H result given tough conditions in Australia.

In terms of Trust activity, the Trust exited its position in PMI Gold as it delisted from the Australian Stock Exchange following the merger with Canadian listed Asanko. We also exited the small position in Webjet at a profit (bought for $2.67 in November and sold at an average of $3.02). The proceeds were used to build a position in HFA Holdings after strong 1H profit guidance demonstrated the strength and consistency of its US business which is now the bulk of profits. We believe that these US dollar earnings are underappreciated by the market. The Trust also added GDI Property, another new listing we believed was ignored given the spate of IPOs in December. The position in GDI was established at $0.88 compared to an IPO price of $1.00.

At month end, stock numbers were 57 and cash was 3.7%.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	13.3	7.0
Materials	9.1	18.3
Industrials	15.4	16.1
Consumer Discretionary	27.1	25.9
Consumer Staples	1.3	2.4
Health Care	2.6	4.5
Financials-x-Real Estate	5.4	6.4
Real Estate	14.5	9.7
Information Technology	3.6	2.3
Telecommunication Services	2.5	5.7
Utilities	1.6	1.7
Other	3.7	0.0

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

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