Perennial Value Smaller Companies Trust

Quarterly Report
30 June 2014

	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	0.9	23.8	23.8	1.8	11.8	10.6
S&P/ASX Small Ordinaries Accum. Index	-2.3	13.1	13.1	-2.9	3.4	5.2
Value Added (Detracted)	**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 returned 23.7% after all fees for the financial year against the Index return of 13.1%, thereby outperforming by a net 10.7%.**
- **This quarter saw a strong rally in bond markets which had a significant macroeconomic impact on sector performance in the domestic market as seen by the outperformance of utilities (up 8.4%) and property trusts (up 3.9%).**
- **The best performing stock in the Trust during the quarter was nickel producer Panoramic Resources (up 93.0% since purchase).**

During the quarter, the Perennial Value Smaller Companies Trust (the Trust) generated a return (net of all fees) of 0.9% compared to the S&P/ASX Small Ordinaries Accumulation Index (the Index) which finished down 2.3%, resulting in outperformance of 3.2%.

Pleasingly for the financial year, the Trust has returned 23.8% after all fees against the Index return of 13.1%, thereby outperforming by a net 10.7%.

Early in the June quarter, equity markets globally saw the sell-off in a number of expensive stocks, particularly high profile internet stocks in the USA. May saw the Coalition government hand down its first Budget, revealing a path to surplus over the coming years broadly at the expense of households. Mergers and acquisitions, in addition to initial public offers and capital raisings, dominated throughout the period. While the team spent a considerable amount of time working through these numerous deals, the Trust was selective in its participation.

Domestically, consumer confidence fell sharply following the Budget announcement. This resulted in a spate of earnings downgrades in the consumer discretionary sector from the likes of the Reject Shop, Pacific Brands and Kathmandu, neither of which are held in the Trust. The Reserve Bank of Australia (RBA) left the cash rate of 2.5% on hold during the quarter. The AUD/USD ended the quarter at 94.3c, up 1.6c.

This quarter saw a strong rally in bond markets which had a significant macroeconomic impact on sector performance in the domestic market as seen by the outperformance of utilities (up 8.4%) and property trusts (up 3.9%). The materials sector (up 1.9%) also outperformed following China posting better than expected 1Q14 GDP of 7.4% year on year. Sectors which lagged included financials (down 11.9%), healthcare (down 8.9%) and telecommunication services (down 6.8%).

The best performing stock in the Trust during the quarter was nickel producer Panoramic Resources (up 93.0% since purchase). We added this stock in early April given our short-term positive view on the nickel price following Indonesian nickel export bans. PanAust (up 46.6%) received a cash bid from its 23% shareholder Guangdong Rising Assets Management. APN News & Media (up 30.3%) benefitted from its strong ratings in the radio surveys, which bodes well for securing future advertising revenue. Crowe Horwath (up 27.3%) gained as a second bidder, Financial Index, emerged as a potential suitor - due diligence remained ongoing at quarter end. Sundance Energy (up 21.6%) announced the sale of its Wattenberg & Niobrara assets for US$116 million, well in excess of its valuation. The company also announced the acquisition of two assets in early stage production for up to US$78 million. Additionally, the stronger oil price benefitted its share price.

Other strong performers included SFG Australia (up 19.6%), eBet (up 19.3% since acquisition), Melbourne IT (up 18.8%) and Resmed (up 16.3%).

Detracting from performance was toy distributor Funtastic (down 53.8%), after the company announced an earnings downgrade following slower sales of a new product it launched into the US market. The company announced some senior management and Board changes and confirmed it is still in negotiations to dispose its non-core Madman business. We continue to monitor this position and await the outcome of this divestment, which we expect to have a positive impact in de-gearing the company's balance sheet.

Domestic gold producer Regis Resources (down 25.1%) updated the market with lower than expected guidance given weaker production. The company has been dogged by operational issues since February when a one in 150-year rainfall event led to flooding of its open pit at their Duketon Gold Project. We used this share price weakness to add to our position and took comfort when we saw the Chairman had purchased one million shares ($1.5 million) on market.

During the quarter, we exited our position in education provider Vocation on valuation grounds post its stellar share price performance following the announcement of several strategic acquisitions. We also exited our holding in Horizon Oil at average 37.5c (quarter end price 35c) as we were concerned that the merger with ROC Oil may not proceed. After participating in the Automotive Holdings capital raising in late March at $3.49 to fund 13 car dealerships in Newcastle and a refrigerated logistics businesses in Sydney, we exited our stake at average $3.98 during the quarter (closing price $3.65) given our concerns around the tough Federal Budget and the effect it may have on automotive sales.

Proceeds were used to re-establish a position in Aquarius Platinum at an average of 40.7 cents. Readers may recall that we exited our position in December 2012 at an average $1.08, given our concerns over their stretched balance sheet and poor macroeconomic outlook. Following a capital raising, the balance sheet has since been de-geared, while the macroeconomic outlook has improved as we enter the third year of a deficit market in platinum.

Perennial Value remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. During the quarter, Panoramic Resources instigated a number of safety initiatives targeted at further reducing soft tissue injuries within an aging workforce. Further, the company continued to support the "books in schools" programme, an initiative to assist in the resourcing of primary schools in Panoramic's regions of operations in East Kimberley and Kambalda, WA.

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