

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-4.0	-14.0	-6.1	-1.6	3.3	3.4	9.7
S&P/ASX Small Ordinaries Accum. Index	-3.8	-9.6	-2.9	-1.8	-1.0	-1.3	4.8
Value Added (Detracted)	-0.2	-4.4	-3.2	-0.2	4.3	4.7	4.9

*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 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 November 2014):

AUD107.2 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ **The benchmark S&P/ASX Small Ordinaries Accumulation Index declined 3.8%.**
- ▶ **Better performing stocks within the Trust included Thorn Group and Walter Diversified.**
- ▶ **The team recently visited construction products and services provider Global Construction Services which was up 13.6% following their announcement of a strategic partnership with a Canadian based private equity fund.**

The Australian share market was weaker across all market cap segments during November. The benchmark S&P/ASX Small Ordinaries Accumulation Index declined 3.8%. The Perennial Value Smaller Companies Trust (the Trust) declined 4.0% after all fees, underperforming by a net 0.2%.

Despite the Peoples Bank of China announcing cuts to its key interest rates, commodity prices continued to weaken. This was exacerbated by a meeting of the Organisation of the Petroleum Exporting Countries (OPEC) in late November which triggered a sharp fall in oil prices as its members retained the existing 30 million barrels per day production target. While some of its members were keen to cut production, the largest member Saudi Arabia said that the threat from the US shale boom justifies their stance in maintaining the status quo. Weakness in commodity prices is taking its toll on some hedge funds with Brevan Howard Asset Management closing down its commodity hedge fund, and follows Hall Commodities in the UK, which was forced to close down last month.

A positive outcome of this weaker oil market is the benefit to consumers in the form of lower petrol prices ahead of the key holiday season. Citigroup Securities recently analysed that a 20c fall in the price of a litre of petrol has the same economic benefit as a 0.25% drop in mortgage rates. Additionally, low inflation should persist for some time, if not decline further, which should benefit consumers' pockets as well.

The strongest performing sectors were all defensives with utilities (up 8.3%), telecommunication services (up 2.6%) and consumer staples (up 2.2%). The weakest sector was energy (down 16.3%) following an 18.6% decline in the spot Brent crude price.

Domestically, economic data was mixed with the NAB business confidence index slipping to a 14 month low at the same time as the NAB business conditions index recorded the biggest one month improvement ever. The consumer confidence index increased and retail sales were stronger than expected. The unemployment rate remained at 6.2%. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% and the AUD ended the month down 3 cents at US85.0c.

The best attributor during the month was Thorn Group (up 16.6%) which released their September interim result that reflected strong growth in their core rentals business and good progress in their emerging finance businesses. The best performing stock in the Trust was Walter Diversified (up 20.4%) following the successful award of a contract from Santos GLNG for their Roma West coal seam gas project in Queensland. Not only is this contract win a positive for their bottom line, but also from a reputational perspective as well. Emerchants (up 19.6%) announced a "multi year" contract to provide reloadable card services for the clients of corporate bookmaker bet365 in Australia.

The Trust participated in the float of patent attorneys IPH Limited (up 55.7%) which listed during the month. A dominant market share both in Australia and Singapore, coupled with high-barriers to entry, low working capital requirements, significant foreign revenue and a healthy growth outlook in Asia attracted us to this company.

WA based construction products and services provider Global Construction Services (up 13.6%) announced a placement at a premium to the share price at the time to Brookfield Capital Partners III, a private equity fund managed by Canadian-based Brookfield Asset Management. We are of the view that this strategic partnership between GCS and Brookfield bodes well for GCS winning work on future Brookfield projects. We recently conducted a GCS site visit in October, as shown below.



Enzo Gullotti (Managing Director, Global Construction Services) flanked by Perennial Value's small cap portfolio managers - on site October 2014

Detractors included US shale oil producer Sundance Energy (down 39.9%), largely attributable to the fall in the oil price. It is worth noting that this company's operating break-even production cost in the September 2014 quarter was US\$20.40/boe (barrel of oil equivalent). We expect the company to wind back new well investments at current oil prices owing to a lower internal rate of return and note that even at US\$30/bbl WTI (versus month end price \$66/bbl), this company still makes a profit after all costs.

Nickel producer Panoramic Resources (down 31.7%) was sold down in November due to the mine life of its Lanfranchi operation in WA being shortened by six months. In our view this only partially offsets the prospect for material mine life additions at its Savannah mine (WA) and positive outlook for the nickel price. It is also worth noting that the nickel price rose 3.3% in US dollar terms and 6.9% in Australian dollar terms, resulting in a material increase in Panoramic's margins over the course of the month. The global nickel market is expected to move into a deficit in calendar 2015, which bodes positively for a firmer nickel price.

In terms of portfolio activity, we reduced our energy exposure ahead of the OPEC meeting by selling out of Karoon Gas at an average price of \$3.20. This also follows a positive drill result that indicated an oil intersection from their well off the coast of Brazil (month end price \$2.81). We also profitably sold out of Alacer Gold at an average price of \$2.34 in line with our expectations of weaker expected inflation (month end price \$2.26). Proceeds were used to increase our consumer discretionary exposure by adding to our position in Super Retail Group and Fantastic Holdings.

At month end, stock numbers were 55 and cash was 4.3%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	9.8	5.7
Materials	10.3	13.5
Industrials	18.8	14.6
Consumer Discretionary	26.6	24.1
Consumer Staples	0.0	4.3
Health Care	1.2	6.3
Financials-x-Real Estate	9.2	7.6
Real Estate	12.9	11.2
Information Technology	3.6	4.7
Telecommunication Services	1.8	7.1
Utilities	1.6	0.7
Other	4.3	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
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