Active research delivers results: Sundance Energy Australia Limited

April 2013

SEA in brief

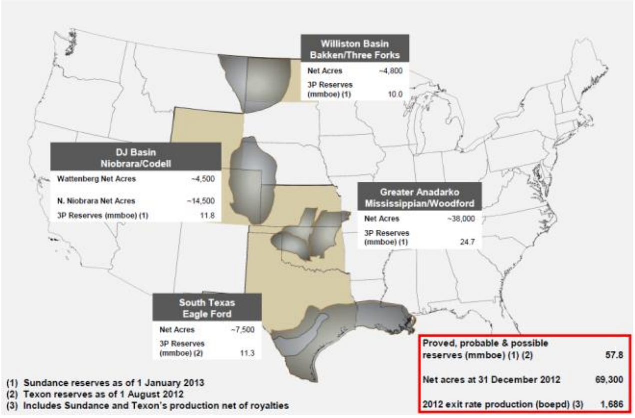
- Listed on the ASX in 2005.
- Based in Denver, Colorado the company has a well-located portfolio of assets in premier US oil and gas basins.
- Market capitalisation: ~$415 million.
- Sector: Materials.

Perennial Value Smaller Companies Team: US asset inspection in 2012 and March 2013

Andrew Smith, Eric McCRady (Sundance CEO) and Paul Durham

About the stock

Sundance Energy Australia Limited (SEA) is an US onshore oil and gas company focused on the acquisition and development of unconventional oil and gas plays. The company's shale oil and gas assets, operations are located in the Eagleford, Greater Anadarko, Denver-Julesburg ("DJ") and Williston Basins in North America.



The company has an established track record of project acquisition, value enhancement and subsequent divestment, netting an average of 75% IRR on investment across five transactions to date. The last of these transactions resulted in a material cash injection for the company which will be funnelled back into SEA's development projects.

One of the key distinguishing features of this company, and certainly one of its competitive strengths in our view, is the meticulous focus on asset returns and how those returns change as commodity prices and operating costs vary. The company's financial modelling is very close to real time financial management and gives it a first mover advantage. For example, going into the GFC, SEA's ability to identify its return on invested capital falling below an acceptable level meant that SEA was in a position to stop drilling before others. This resulted in prompt action to preserve capital, allowing SEA to endure the GFC in a more robust financial position than would have otherwise been the case.

SEA's listing on the ASX in 2005 was a function of the company's initial strategy of exploring for unconventional oil and gas plays in the Cooper Basin. Upon review, it was decided the risk/reward balance of US unconventional assets was more appealing, which led the company to exit the Cooper Basin and establish a portfolio of US based assets.

Adding Sundance to the Trust: Our fundamental research and investment process

Based on our analysis of the shale oil and gas sector in 2010, we identified the sector as one that could deliver substantial and impressive results for our investors. At that time, while shale oil mining was undertaken in Australia, the process was largely unproven and the Portfolio Managers looked for ASX listed companies with proven shale oil mining operations offshore.

Through Perennial Value's fundamental research process, we identified and invested in Aurora Oil & Gas Limited in June 2010 as a core holding in this sector. Given our assessment of the value that successful companies in this area could add to the Trust, we sought to diversify the Trust's exposure to the unconventional gas and liquids sector in the US.

Sundance was added to the Trust in February 2012 at an average price of $0.63 per share, as part of this diversification strategy. The investment case for the stock was based on the quality of the management team as well as SEA's established land positions within fields of proven economic viability with major partners; and, its track record of five successful value adding acquisitions and divestments. The initial investment case was further supported by our view that the market was at that time, attributing limited value to SEA assets despite transactions supporting higher valuations.

Why we took and held a position in Sundance

- Best in class management team that has a proven track record of consistently delivering on its asset trading strategy.
- The company's unwavering focus on the return on capital of its assets and its rigorous financial analysis give it a significant competitive advantage.
- Market valuations versus our assessment of fair value.

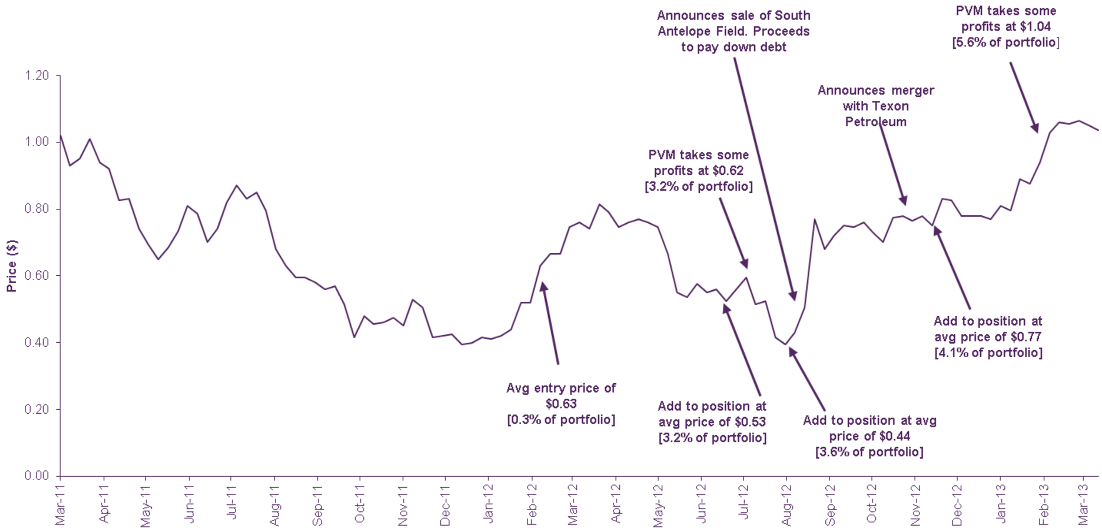
From a small position of less than 1% of the portfolio, we added substantially to our holdings through 2012 based on our assessment of management's ability to deliver on its strategy and on the back of share price weakness due to market speculation of a capital-raising. For the September 2012 quarter, the stock was a strong contributor to the Trust's performance following the announcement that SEA had sold a portion of its acreage in the Williston Basin, North Dakota USA, for a substantial profit. The transaction gave SEA a substantial cash injection which, based on its track record, we expected to be deployed into quality assets. Despite the strong share price move at that time, we continued to add to the position given the quality of the remaining assets and the lower risk of investment given the substantial cash holding.

In our view, SEA's rigorous financial analysis coupled with excellent in-house technical ability is a clear differentiator and gives the company a significant competitive advantage. Since our initial purchase in February 2012, our conviction has increased and our holding in March 2013 represents 5.6% of the portfolio.

As part of the investment process, members of the team have travelled to SEA's US assets three times over the last 12 months, with the most recent trip in March 2013. The purpose of these visits is to reconcile company guidance with activities on the ground, as well as assess SEA's operational approach and performance against its sector peers. On each occasion with have found SEA's depth of technical expertise and operational achievements to be best in class, which is consistent with management's strategy of investing heavily in internal technical ability. A more general observation on our most recent trip was a broader trend of improving operational results across the unconventional oil and gas space. We consider this to be a positive for the sector.

Portfolio Managers

Grant Oshry and Andrew Smith



Source: Perennial, Iress. As at March 2013.