Perennial Value Smaller Companies Trust

Monthly Report as at 30 April 2013

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Smaller Companies Trust+	-7.8	-13.2	7.8	-5.3	2.8	3.7	10.9
S&P/ASX Small Ordinaries Accum. Index	-4.7	-7.0	6.0	-9.4	-2.3	-5.1	5.7
Value Added (Detracted)	**-3.1**	**-6.2**	**1.8**	**4.1**	**0.5**	**8.8**	**5.2**

+Net performance (including performance fee). ^Since inception: March 2002. **Past performance is not a reliable indicator of future performance.**

- The best performing stock was TPG Telecom (up 16.0%) as it continued to rally following a strong profit result in the previous month.
- We sold our position in Miclyn Express at a premium ($2.20 compared to month end price of $1.96).
- The Trust now has an Index weight in materials and an overweight position in energy.

The broader Australian market was up 4.3% and most global markets were also positive, with the exception of the Shanghai Composite which was down 2.6% as first quarter GDP data for China came in slightly weaker than expected. The S&P/ASX Small Ordinaries Accumulation Index (the Index) was down 4.7% in part reflecting the large component of the Index exposed to the resources sector.

Domestic economic data was mixed as residential building approvals and retail sales were solid while the unemployment rate moved 0.2% higher to 5.6%. Inflation for the March quarter was soft, providing the Reserve Bank of Australia (RBA) with scope to cut interest rates if required. The RBA kept the official cash rate steady at 3.0% and the Australian dollar (AUD) finished the month a little lower at USD1.037.

Disappointingly, the Perennial Value Smaller Companies Trust (the Trust) finished down 7.8%, underperforming the Index return by 3.1%. Over a 12 month period, the Trust is down 5.3% net of fees, generating 4.0% outperformance compared to the Index which was down 9.3%. The recent underperformance of the Trust was largely driven by a contrarian move to add to our resources exposure in recent months as the sector came under significant selling pressure.

When examined over a 12 month period there is a significant divergence in performance across the industrial and resources segments of the market. Small cap industrial stocks are up 14.7%, while small cap resource stocks are down 49.2%.

The performance of resource stocks has been much worse than the performance of the underlying commodities (e.g. oil down 12%, iron ore down 9%, gold down 11% and copper down 17%) with additional selling pressure coming from commodity fund redemptions and heightened shorting activity by those investors with a particularly negative view on China.

Perennial Value Smaller Companies Trust Facts:

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 30/04/13): AUD118.8 million	**Income Distribution Frequency:** Half yearly
Trust Inception date: March 2002	**Minimum Initial Investment:** $25,000
	APIR code: IOF0214AU

*Excluding performance fees.

The Trust has traditionally had a large underweight exposure to the resources sector as many stocks were either overvalued or speculative in nature. However, the recent sharp selloff in both materials and energy has created a situation where there are many resource stocks that are undervalued on both current cashflows and valuations, using conservative long term commodity price assumptions. This increased valuation appeal in the sector is in contrast to a strong re-rating of many small cap industrial stocks to levels that in a number of cases appear overvalued based on our analysis.

This dispersion of performance with the Index continued during April with telecommunications services (up 13.6%) and property trusts (up 5.6%) the best performers. The worst performers were the materials (down 19.7%) and energy sectors (down 11.9%).

As a result of the increased valuation appeal in the resource sector we have added to our positions in materials and energy stocks such that the Trust now has an Index weight in materials and an overweight position in energy. While this has impacted short term returns, we believe it has positioned the Trust well when valuations normalise. We see several possible catalysts for sentiment towards the sector to improve with better Chinese economic data possible in coming quarters while a fall in the AUD or increased corporate activity would also focus attention on the sector.

The worst performing stocks for the Trust during the month were in the gold sector, with Silver Lake Resources (down 50.2%) and PMI Gold (down 36.0%) sold off heavily after the 7.6% drop in the gold price during the month.

Mirabela Nickel (down 50.0%), Northern Iron (down 22.2%) and Hillgrove Resources (down 23.5%) were also heavily impacted by the poor sentiment towards the sector.

Given the pressure resource companies are facing from investors to return cash and cut costs in response to lower commodity prices, we began exiting mining service companies some time ago. In such an environment, both their revenues and margins are likely to come under significant pressure, in particular those companies who rely on expansion capital being spent in the sector. Based on this view, we avoided many large Index constituents which performed poorly during the month, for example the Trust is not currently invested in Ausdrill (down 45.5%), Emeco (down 26.4%), Boart Longyear (down 25.4%), NRW Holdings (down 21.2%) or Bradken (down 21.0%). Our preference in the sector is for companies exposed to maintenance spend or mine optimisation. While these companies may have also been caught in the selloff and have some short term earnings pressure, the different characteristics should led to more resilient earnings in the medium term.

The best performing stock was TPG Telecom (up 16.0%) as it continued to rally following a strong profit result in the previous month. The Trust's recent purchases in the retirement space also assisted performance with Ingenia Group (up 8.3%) and Lifestyle Communities (up 8.0%), as did Nufarm (up 7.1%) which recovered after heavy selling in the previous month.

In terms of Trust activity, we sold out of Miclyn Express Offshore at a premium ($2.20 compared to month end price of $1.96) as two private equity firms lifted their stake further to 75.2% of the company. We were becoming concerned with recent earnings performance for this business and coupled with weak protection for minority shareholders under the current company structure we took this opportunity to exit our investment profitably. We also sold out of Oroton Group given potential for weak earnings combined with a full valuation.

At month end, stock numbers stood at 56 with cash at 4.6%.

Asset Allocation as at 30 April 2013

Asset Class	Trust Weight %	Index Weight %
Energy	17.8%	7.9%
Materials	18.3%	17.2%
Industrials	21.4%	20.1%
Consumer Discretionary	14.4%	24.1%
Consumer Staples	0.0%	1.8%
Health Care	0.0%	3.5%
Financials-x-Real Estate	7.7%	8.7%
Real Estate	4.6%	8.0%
Information Technology	4.2%	2.5%
Telecommunication Services	3.3%	4.4%
Utilities	1.6%	1.4%
Other	6.7%	-

Rounding accounts for small +/- from 100%.