

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	2.9	7.3	9.2	18.7	5.9	9.8	11.3
S&P/ASX Small Ordinaries Accum. Index	2.3	6.2	7.4	7.5	-0.2	1.8	5.8
<b>Value Added (Detracted)</b>	<b>0.6</b>	<b>1.1</b>	<b>1.8</b>	<b>11.2</b>	<b>6.1</b>	<b>8.0</b>	<b>5.5</b>

\*Net performance (including performance fee). <sup>^</sup>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 August 2014):

AUD123.1 million

### Income distribution frequency:

Half yearly

### Minimum initial investment:

\$25,000

### Trust inception date:

March 2002

### APIR code:

IOF0214AU

- ▶ **The S&P/ASX Small Ordinaries Accumulation Index returned 2.3% with the Trust outperforming by a net 0.6%.**
- ▶ **Reporting season dominated the month of August.**
- ▶ **The Trust's best performing stocks were Sino Gas Energy (up 28.9%), M2 Group (up 21.2%) and Pacific Energy (up 21.1%).**

Following a strong July, it is again pleasing to report that the Perennial Value Smaller Companies Trust (the Trust) ended August up 2.9% after all fees. The benchmark S&P/ASX Small Ordinaries Accumulation Index returned 2.3% for the month, with the Trust outperforming by a net 0.6%.

Reporting season dominated the month of August with small industrials overall skewed to a marginal reduction in consensus EPS growth expectations for FY15. Pleasingly, high PE stocks such as Breville (down 12.9%, not owned in the Trust) that released disappointing results were de-rated by the market which provides some comfort that equity markets are behaving rationally. It is also refreshing that the spate of IPO's that came to market since December 2013 largely outperformed during August as they delivered their inaugural results.

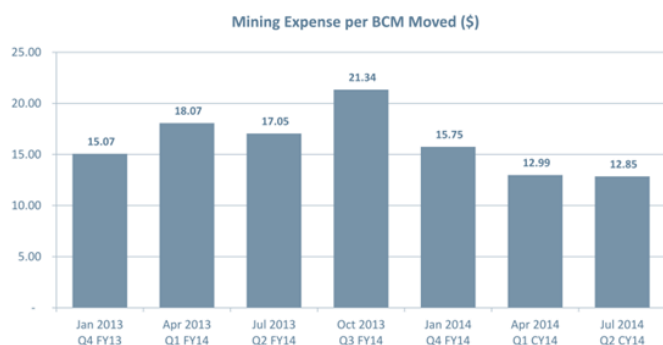
The best performing sectors in the benchmark were Information Technology (up 10.8%), Telecommunication Services (up 7.3%) and Financials ex-Property Trusts (up 5.4%). Underperforming sectors included Materials (down 4.1%) and Utilities (down 1.3%)

Domestically, economic data was mixed. The unemployment rate hit a twelve year high of 6.4% and retail sales increased 0.6% month on month in June, underpinned by strong sales in household goods and clothing. In August, the NAB business confidence survey increased 3 points and the Westpac consumer confidence index rose 3.8% month on month. The RBA left the cash rate unchanged at 2.5% and the AUD/USD ended the month steady at 93c.

The Trust's best performing stock during August was Sino Gas Energy (up 28.9%) which benefitted from a positive vertical well result in addition to the announcement of large price hikes in China's gas prices. M2 Group (owners of iPrimus, Dodo etc.) released a strong annual result reflecting good organic growth which saw its share price gain 21.2%. Mining services energy provider Pacific Energy (up 21.1%) delivered a pleasing result and better than expected dividend. Despite coal being an 'out of favour' commodity, producer Whitehaven Coal (up 15.8%) reported improvements across all its operations, helping this company achieve the top end of their production guidance.

Recently listed Dick Smith Holdings (up 13.4%) reported a result ahead of its prospectus, but importantly commented to a good start to 1H15 with positive comparable sales growth. Similarly, Mantra Group (up 11.2%) also delivered a decent maiden result following their recent IPO.

One of our preferred copper plays, Hillgrove Resources (up 9.1%) delivered a strong quarterly production report and used the free cash flow that was generated to pay down debt. The company remains on track to be in a net cash position in early CY15. This will help fund their recently articulated dividend policy which should come into operation within 12 months. Our conviction in this stock has increased following several site visits by our dedicated small caps resource analyst, geologist Sam Berridge. These visits highlighted incremental improvements in operations under the impressive leadership of mine manager Steven McClare. The improvements, including the decision to change mining contractors, have delivered consistent reductions in costs as shown in the chart below.



Detracting from performance was mobile payment provider Mint Wireless (down 26.0%) which reported a result that was in line with expectations. The stock was sold off on fears of increased competition from the major banks, however the market is large and Mint's fee is cheaper which favours the micro and SME segment as evidenced by their exclusive software licence with MYOB. Not all financial institutions are expected to release their own payment software given limited budgets, which was demonstrated by Mint's deal with Bank of New Zealand.

In terms of portfolio activity, we took some profits in each of iiNet, M2 Group and Dick Smith Holdings following share price appreciation. Proceeds were used to acquire positions in general insurer Tower Life NZ post the Reserve Bank of New Zealand allowing a NZ\$30m capital release, which hopefully paves the way for capital management to emanate. We also acquired a position in coal seam gas services provider Walter Diversified at an average price of 92cps (month-end closing price 100c) following the exit of a significant shareholder which had been viewed by the market as a possible 'overhang' on the share price.

At month end, stock numbers were 60 and cash was 1.7%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	12.6	6.5
Materials	13.8	17.5
Industrials	15.7	16.5
Consumer Discretionary	25.0	23.6
Consumer Staples	0.2	3.1
Health Care	2.2	5.7
Financials-x-Real Estate	7.0	6.7
Real Estate	13.3	10.3
Information Technology	4.3	2.9
Telecommunication Services	2.8	6.3
Utilities	1.5	0.8
Other	1.7	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032  
or visit [www.perennial.net.au](http://www.perennial.net.au).

Signatory of:



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