Perennial Value Smaller Companies Trust

Monthly Report as at 30 June 2012

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Smaller Companies Trust*	-4.9	-12.6	-8.3	-8.3	18.7	3.9	13.3
S&P/ASX Small Ordinaries Accum. Index	-4.8	-15.3	-14.6	-14.6	3.4	-8.9	5.6
Value Added (Detracted)	**-0.1**	**2.7**	**6.3**	**6.3**	**15.3**	**12.8**	**7.7**
Net Performance	-5.0	-13.4	-10.7	-10.7	13.9	0.6	11.0

*Gross Performance. ^Since inception: March 2002. **Past performance is not a reliable indicator of future performance.**

- The better performing sectors were utilities (up 5.0%), information technology (up 3.3%) and financials ex-property trusts (up 2.0%).
- Domestic economic data was broadly positive, with March quarter GDP growth of 1.3%.
- Miclyn Express Offshore Limited (up 10.9%), RCR Tomlinson Limited (up 7.8%) and Ardent Leisure Group (up 6.2%) outperformed.

During June, equity markets contended with European debt concerns, a string of earnings downgrades and capital raisings. On a positive note, the Greek elections led to the formation of a new government and the European Union summit late in the month saw European leaders ease lending conditions to Spanish banks. However, investors' aversion to risk continued, which saw bonds rally further earlier in the month with the Australian ten year bond yields hitting a new low of 2.8% intra month. This came at the expense of equities, with the S&P/ASX Small Ordinaries Accumulation Index (the Index) declining 4.8%. It is disappointing that the Perennial Value Smaller Companies Trust (the Trust) underperformed the Index return by 0.1%, also declining 4.9%.

For the 12 months ended 30 June 2012, the Trust outperformed the Index return by 6.3%, down 8.3% against the Index's decline of 14.6%.

Concerns over the slow down in global growth saw the resources (23% of the benchmark) and energy (8% of the benchmark) sectors bearing the brunt of the weakness at the smaller end of the market. While we remain underweight the resources sector, we have a close to Index position in the energy sector which, when coupled with the service providers of the energy sector, detracted from performance. Notable detractors included Red Fork Energy Limited (Red Fork Energy) (down 15.5%) despite releasing a positive drilling update. Matrix Composites and Engineering Limited (down 15.1%) did not make any earnings sensitive announcements during the month, however investors remained concerned with the company's daily production rates as well as its order book. Company contact during the month was positive in both respects and we used the price weakness to add to our position.

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

Trust FUM (as at 30/06/12):
AUD71.6 million

Team FUM (as at 30/06/12):
AUD7.3 billion

Trust Inception date:
March 2002

Risk Profile:
High

Income Distribution Frequency:
Half yearly

Minimum Initial Investment:
$25,000

APIR code:
IOF0214AU

*Excluding performance fees.

Our relative underperformance was also impacted by a few of our larger active weights materially underperforming namely, FKP Property Group (down 18.8%) despite making an announcement that the company was considering a demerger to unlock the large (65%) discount that this stock trades at relative to its net tangible asset value and Alacer Gold Corporation (down 16.7%) despite the gold price closing up 2.4% at month end.

Against this, larger Index constituents not held in the Trust performed strongly namely, Navitas Limited (up 11.3%), Flexigroup Limited (up 14.5%) and Allied Gold Mining PLC (up 45.6%) after the company received a takeover from listed peer St Barbara.

Domestic economic data was broadly positive, with March quarter GDP growth of 1.3% versus the prior quarter, well ahead of market expectations. The unemployment rate moved slightly higher to 5.1%. The Reserve Bank of Australia reduced the cash rate a further 25 basis points to 3.5%. The Australian dollar bounced back above parity with the USD finishing 5.7 cents higher at USD1.024. Globally, weakening economic data forced the Chinese central bank to cut interest rates by 25 basis points for the first time since 2008.

The worst performing sector was energy (down 14.8%) followed by healthcare (down 7.2%) and materials (down 6.9%). The best performing sectors were utilities (up 5.0%), information technology (up 3.3%) and financials ex-property trusts (up 2.0%).

Stocks which contributed to performance included vessels service provider to the oil and gas industry Miclyn Express Offshore Limited (up 10.9%), following the company winning a new five year contract with its Thai joint venture partner to supply Chevron in the Gulf of Thailand. Additionally, the company's CEO extended his employment contract for a further two years and also confirmed FY12 earnings. Pacific Energy Limited (up 8.9%) announced the successful win of a 15 year contract to supply power to the Tropicana gold project in the Western Australian goldfields making this the longest contract won by the company to date.

Other strong performers included RCR Tomlinson Limited (up 7.8%), Ardent Leisure Group (up 6.2%), GWA Group Limited (up 5.8%), Horizon Oil Limited (up 5.6%) and Abacus Property Group (up 4.6%) after the company announced the sale of their Epping Office Park, Sydney for $48.5 million, which they acquired in 1997 for $25 million.

Stocks which detracted from performance included Aquarius Platinum Limited (Aquarius Platinum) (down 41.7%) following losses in the previous month after announcing a fire at its Mimosa mine. This event will negatively impact production in the short term. In light of the negative impact on cash flow from operations, a weaker platinum price that is not forecast to improve for the next 12-18 months and labour issues the company is facing with its unions we commenced selling our holding late May. We completed this sell down during early June at an overall average price of $1.08 (versus the month end closing price of $0.70) due to our concerns over its balance sheet from pending capital commitments falling due over the next 12 months.

Billabong International Limited (Billabong) (down 29.6%) announced an earnings downgrade driven by the extreme weakness in Europe in recent weeks, coupled with weak retail conditions in its Australian and Canadian markets. Additionally, the company announced a discounted capital raising via a six for seven non-renounceable rights issue at $1.02, proceeds of which will be used to repay debt. We took up our full entitlement at this issue price (versus the month end closing price of $1.075). While we had factored in weaker earnings from Europe, we were disappointed by the amount of capital raised as it has only been four months since the company announced the 51.5% profitable sale of a portion of its Nixon (mainly watches and accessories) business for a net $285 million. This transaction, coupled with the bids the company subsequently received in late February from private equity firm TPG further vindicates the value in Billabong's brands, which is one of the reasons we were attracted to this company initially. While we had sold approximately 64% of our holding in late February around the offer from private equity at a profitable average price of $2.78, our mistake was not selling out entirely. The largest shareholder (16%), who is also the founder of the company and remains a Non-Executive Director, rejected TPG's offers and thereafter went so far as to personally purchase $7.9 million of stock on market at an average price of $3.13, which we viewed positively as who other than a person in this position to better value the company. Needless to say we were wrong. We are monitoring our current position closely and are encouraged by the founder being more amenable to engaging with private equity.

In terms of Trust activity, in addition to exiting Aquarius Platinum, we sold out of our holdings in Watpac Limited and Coventry Group Limited given the poor construction market outlook. The proceeds, together with some profits taken in TPG Telecom Limited were used to add to our positions in Red Fork Energy and Sundance Energy Australia Limited, as both of these non conventional oil and gas companies were oversold during the month and have some impressive drilling programs in the short term. We also added to our positions in Bradken Limited, Independence Group NL and NIB Holdings Limited.

It is pleasing to note that over the past two months we have seen eight merger and acquisition transactions occur outside of the top 100 companies, all of which were corporate to corporate. This, together with the significant gap between company earnings and bond yields highlights the value currently present in equity markets.

At month end, stock numbers stood at 49 with cash at 3.0%.

Asset Allocation as at 30 June 2012

Asset Class	Trust Weight %	Index Weight %
Energy	14.9%	7.9%
Materials	14.9%	28.4%
Industrials	25.2%	23.2%
Consumer Discretionary	16.0%	14.4%
Consumer Staples	0.0%	1.7%
Health Care	0.0%	4.4%
Financials-x-Real Estate	4.5%	5.6%
Real Estate	6.3%	5.1%
Information Technology	9.0%	3.5%
Telecommunication Services	5.4%	3.3%
Utilities	0.8%	2.7%
Other	3.0%	-

Rounding accounts for small +/- from 100%.