PERENNIAL VALUE MANAGEMENT

Perennial Value Smaller Companies Trust

Monthly Report
31 March 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-0.7	3.0	22.7	0.2	-0.4	15.2	10.8
S&P/ASX Small Ordinaries Accum. Index	-1.2	0.9	15.7	-1.5	-5.3	8.8	5.6
Value Added (Detracted)	**0.5**	**2.1**	**7.0**	**1.7**	**4.9**	**6.4**	**5.2**

*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 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 March 2014):
AUD118.6 million

Income distribution frequency:
Half yearly

Minimum initial investment:
$25,000

Trust inception date:
March 2002

APIR code:
IOF0214AU

- **The Trust outperformed the Index return by 0.5% for the month and has outperformed by 7.0% for the financial year to date.**
- **The best performing stock in the portfolio was Crowe Horwath (up 23.6%)**
- **The Trust added a new position in Automotive Holdings and exited its position in Transpacific Industries.**

For the month, the S&P/ASX Small Ordinaries Accumulation Index (the Index) ended lower, returning -1.2%. The Perennial Value Smaller Companies Trust (the Trust), delivered a return net of all fees of -0.7%, outperforming the Index by 0.5%.

For the financial year to date, the Trust has returned 22.7% after all fees against the Index return of 15.7%, thereby outperforming by a net 7.0%.

Concerns around China's growth, rising interest rates in New Zealand (being the first country to raise interest rates post the Global Financial Crisis) and instability in the Ukraine all weighed on Australian equities. China saw its first onshore bond default by a domestic company, which raised investor's concerns over China's growth. Additionally, Chinese industrial production and power consumption hit 11 month lows, raising expectations of pro-growth government actions.

The best performing sectors were Telecommunication Services (up 1.4%) followed by Property Trusts (up 0.4%). The worst performing sectors included Information Technology (down 9.3%), Utilities (down 7.9%) and Energy (down 7.6%). The Trust is now underweight the Telco sector owing to its demanding valuation (our only exposure remains via iiNet). Our underweight position in Resources did benefit our performance given that Small Resources returned -6.10%, while Small Industrials delivered a total return of 0.10%. Resources were dragged lower by gold which, despite its mid-month rally stemming from Russia's incursion into the Crimea region, erased the previous month's gains to finish March down 3.2%, largely due to improving sentiment in the US.

Domestically, the low interest rate environment continues to drive improvements in house prices, residential construction and retail spending. The unemployment rate, however, rose to a 12 year high of 6% as the transition away from mining investment to other sources of economic growth progresses. The RBA kept interest rates unchanged at all-time lows of 2.5%, while the AUD/USD rose by 3.4c to end the month at 92.7c.

The best performing stock in the portfolio was Crowe Horwath (up 23.6%) which attracted the market's attention after announcing receipt of a non-binding indicative proposal from private equity firm Anchorage Capital. This M&A is at an early stage and we will continue to monitor the events that unfold given our substantial stake in the company.

Software and consulting business RungePincockMinarco (up 17.2%) released their interim result presentation during the month followed by directors buying shares on market, which we view positively.

BT Investment Management (up 16.2%) is benefitting from its UK operation JO Hambro, which continues to perform strongly generating material performance fees in the process and bodes well for its interim result that will be released in late April.

Energy management company Energy Action (up 15.0%) announced an accretive acquisition which complements their existing business. Other strong performers included Global Construction (up 13.0%), Prime Media Group (up 10.3%) and Sealink Travel Group (up 9.2%).

Sino Gas & Energy, an Australian company focused on developing unconventional Chinese gas assets, (down 23.8%) announced that its managing director will be stepping down in June for health and personal reasons. While a cloud remains over this company until it announces a replacement (a search is underway), the fundamental value propositions remains unchanged, underpinned by reserves and 58 wells. We used the share price weakness to add to our small position.

Funtastic (down 13.3%) announced a poor interim result for the 6 months ended 31 January. On the positive side, the company is in talks to divest non-core division Madman. This will improve the balance sheet and focus management's attention on further growing its portfolio of owned-brands, which include Chill Factor, Pillow Pets and Floaties.

In terms of portfolio activity, the Trust exited its stake in Transpacific Industries at $1.16 on valuation grounds. Having acquired our position at an average cost of $0.74 in December 2012, the majority of catalysts we were looking for namely the divestment of non-core assets, debt reduction, reduction in operating costs and efficiency improvements have come through, with the stock now trading in excess of 18x FY15 P/E, being a material premium to market. Proceeds were used to acquire a stake in Automotive Holdings when they raised capital during the month at $3.49 (month end closing price $3.89) to acquire a chain of car dealerships in Newcastle as well as a refrigerated freight company. These acquisitions are complementary to their existing operations and make the company the largest refrigerated carrier in Australia.

Profits were also taken in each of Sealink, APN News & Media, Prime Media Group, Lifestyle Communities and AWE following strong share price performances. We increased our exposure to AV Jennings and Brickworks given our positive view on the recovering housing market on the east coast. We used weakness in the copper and gold markets to add to our exposures in PanAust and Regis Resources.

At month end, stock numbers were 56 and cash was 1.0%.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	13.2	5.7
Materials	10.4	17.6
Industrials	15.5	15.8
Consumer Discretionary	28.5	24.0
Consumer Staples	1.1	2.9
Health Care	2.3	4.8
Financials-x-Real Estate	5.5	7.8
Real Estate	14.4	11.0
Information Technology	4.7	2.6
Telecommunication Services	1.7	6.0
Utilities	1.5	1.7
Other	1.0	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032 or visit www.perennial.net.au.

Signatory of:

PRI Principles for Responsible Investment