

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	1.6	1.9	25.9	18.8	1.3	12.7	10.9
S&P/ASX Small Ordinaries Accum. Index	0.1	-2.3	14.4	6.2	-4.3	4.3	5.4
Value Added (Detracted)	1.5	4.2	11.5	12.6	5.6	8.4	5.5

*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 May 2014):

AUD120.8 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 1.5% for the month and has outperformed by 11.5% for the financial year to date.**
- ▶ **Mergers and acquisitions increased during the month.**
- ▶ **The best performing stock in the Trust was copper producer PanAust (up 37.1%) after it received a cash bid from its 23% shareholder GRAM**

May saw the Perennial Value Smaller Companies Trust (the Trust) return 1.6% net of all fees. This resulted in net outperformance of 1.5% against the S&P/ASX Small Ordinaries Accumulation Index (the Index), which closed up 0.1%.

For the financial year to date, the Trust has returned 25.9% after all fees against the Index return of 14.4%, thereby outperforming by a net 11.5%.

May saw the Coalition government's first budget which was characterised as tough, with both spending cuts and tax hikes. Mergers and acquisitions increased during the month with Aquila Resources, Goodman Fielder and SAI Global (all not held in the Trust) receiving take-over offers. Additionally, copper producer PanAust (held in the Trust) received a conditional offer from Guangdong Rising Assets Management (GRAM) while wealth management service provider SFG Australia (held in the Trust) received an offer from IOOF Ltd. This coupled with another spate of initial public offers kept the smaller end of the market, and indeed the Perennial Value team, very busy during the month.

Domestically, the Federal budget was handed down, revealing a path to surplus over the coming years broadly at the expense of households. As a result consumer confidence fell sharply following the Budget announcement. Data on construction work completed showed an uplift in residential construction, but non-residential and engineering were soft. The unemployment rate was unchanged at 5.8% due to a fall in participation. The RBA held interest rates steady with its neutral bias unchanged. The AUD/USD ended the month at 93c, in line with the prior month.

The best performing sectors in the benchmark were largely defensives, with Utilities up 10.4% mainly due to gas haulage provider Envestra (not held in the Trust) receiving a competing all-cash bid from Cheung Kong Group. Healthcare (up 3.9%) and Telecommunication Services (up 2.0%) also performed well. Weaker performing sectors were Information Technology (down 1.8%), Financials ex-Property Trusts (down 1.4%) and Consumer Discretionary (down 1.3%).

The best performing stock in the Trust was copper producer PanAust (up 37.1%) after it received a cash bid from its 23% shareholder GRAM as mentioned above. Education and training provider Vocation (up 25.0%) announced an accretive acquisition of the Real Institute, an accredited training provider with a strong presence in Queensland, New South Wales and WA, thereby further diversifying the company's dependence on the Victorian market. Australian copper producer Hillgrove Resources (up 22.1%) delivered a good quarterly production report with a clear path to repaying debt and thereafter focussing on capital management. Despite no formal news flow, Matrix Composites & Engineering (up 20.2%) benefitted from an oil services report released by Goldman Sachs which reflected that offshore capex, specifically in deep water and ultra-deep water (being Matrix's core markets), is set for the high growth in 2014 through to 2018.

Other strong performers included Aquarius Platinum (up 18.2%), SFG Australia (up 17.1%), Crowe Horwath (up 13.5%) and Hansen Technologies (up 12.6%).

Detracting from performance was toy company Funtastic (down 42.5%) as the company continued to drift lower given delays in delivering one of their core products onto the shelves in Walmart. Additionally the market has been waiting for a definitive outcome on their proposed divestment of one of their non-core businesses which will go some way to de-gearing their balance sheet. Domestic gold producer Regis Resources (down 36.0%) updated the market with lower than expected guidance given weaker production. Australian construction and maintenance services company GCS Group (down 20.4%) warned of lower profits for the current fiscal year due to delays in the letting of major projects. The company commented that tendering activity remains "robust" and that they expect revenues and margins to improve in FY15.

In terms of portfolio activity, we took profits by materially reducing our exposure in each of PanAust and SFG Australia following strong appreciation in each of their share prices after receipt of takeover offers. We also took profits in Horizon Oil, APN News & Media, Crowe Horwath and Prime TV following strong gains in each of their share prices in recent months. We exited our holding in Vocation on valuation grounds post its stellar performance. Proceeds were used to increase our M2 Telecommunications position as well as fund the take up our Aquarius Platinum rights. We also participated in the Mantra Group IPO given its attractive valuation for this capital-light business which provides us with exposure to tourism, a sector we are favourably disposed to given our expectations for a weaker AUD to attract in-bound foreign travellers and boost domestic travel.

At month end, stock numbers were 58 and cash was 3.1%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	10.9	5.9
Materials	12.8	18.4
Industrials	14.2	16.4
Consumer Discretionary	25.8	24.8
Consumer Staples	0.7	3.1
Health Care	2.0	4.6
Financials-x-Real Estate	5.3	5.9
Real Estate	14.3	10.1
Information Technology	6.1	2.6
Telecommunication Services	3.3	6.1
Utilities	1.5	1.9
Other	3.1	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
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Signatory of:



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