

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	3.0	22.7	0.2	-0.4	15.2	10.8
S&P/ASX Small Ordinaries Accum. Index	0.9	15.7	-1.5	-5.3	8.8	5.6
Value Added (Detracted)	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 2.1% for the quarter and has outperformed by 7.0% for the financial year to date.**
- ▶ **Matrix Composites & Engineering (up 58.2%), Fairfax (46.1%) and APN News & Media (41.4%) were the most significant contributors to performance of the Trust.**
- ▶ **The Trust increased its position in iSelect and exited positions in TPG Telecom and Ardent.**

For the quarter, the S&P/ASX Small Ordinaries Accumulation Index (the Index) returned 0.9%. The Perennial Value Smaller Companies Trust (the Trust) delivered a return net of all fees of 3.0%, outperforming the Index by 2.1%.

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%.

Globally, economic data released over the quarter was mixed, showing overall improvement in developed economies, but slower activity in emerging markets. The data was also distorted by severe weather conditions in North America. The S&P500 rose 1.3% over the quarter, while the FTSE declined 2.2% despite continued indications that a modest recovery in Europe remains on track. The key concern over the quarter was China, which is experiencing a cyclical slowdown in growth with credit concerns arising following China's first onshore bond default in modern times. The Shanghai Composite ended the quarter down 3.9% with markets looking toward the central government for any fiscal response to stabilise growth.

Domestically, economic data was mixed with the unemployment rate ticking up to 6%, a 12-year high, as the economy continues its attempts to transition away from mining-investment led growth. On the positive side, the current low interest rate environment continues to benefit house prices and consumer spending. The RBA held cash rates steady at 2.5%, however they moved to a more neutral stance, sighting a period of stability in interest rates in contrast to the easing bias held last quarter. The Australian dollar ended the quarter at US\$0.927, up 3.4 cents.

At a sector level, Telecommunication Services (up 6.9%) and Materials (up 4.7%) were the best performers. Information Technology (down 13.0%) was the worst performer (driven by stocks not held in the Trust) followed by Energy (down 10.0%).

The best performing stock in the portfolio was Matrix Composites & Engineering (up 58.2%) after delivering a strong 1H profit result ahead of market expectations. Importantly Matrix was also able to demonstrate a large lift in their order book which grew \$30m in January alone, to sit at \$118m. This combined with a weakening \$A provides a solid outlook for profits over the next 12 months.

Media stocks were also significant contributors to the performance of the Trust during the quarter with Fairfax Media up 46.1% and APN News and Media up 41.4%. Fairfax delivered a strong 1H profit result with significantly higher earnings in Metro Media as aggressive cost cutting offset continued revenue declines. APN also delivered a profit result well ahead of expectations and also raised capital to buy out their partner in the Australian Radio Network which owns, amongst other stations KIIS FM, which recently became the highest rating FM station.

Other strong performers included Sealink Travel (up 27.3%) and BT Investment Management (up 27.0%).

The Trust had a small position in Mermaid Marine (down 25.9%) ahead of their capital raising to acquire Singaporean operator Jaya Holdings. The raising and subsequent weakness in the share price provided an opportunity to substantially increase this holding as we believe the acquisition was strategically sound and attractively priced (at a discount to asset value).

Other stocks which detracted from performance during the quarter were Funtastic (down 25.7%) given weakness in some toy lines and pressure on their DVD business, Madman, which they are looking to divest. iSelect (down 21.1%) was sold off after a major insurer joined the panel of a rival website, however we believe these concerns are overplayed, and used the weakness to add to our position.

During the quarter, the portfolio sold out of several strong performers where the valuations were becoming stretched,

such as Ardent Leisure and TPG Telecom. The capital was used to invest in more attractively priced stocks such as Automotive Holdings and Pacific Brands (on significant share price weakness). We also 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.

Perennial Value remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. In February were encouraged to see in an update from Capral Aluminium (held in the Trust) that new safety initiatives have reduced the injury frequency rate by 30%, despite the pick-up in activity and integration of the OneSteel Aluminium business.

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:



Issued by: The Investment Manager, Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Manager: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial's website www.perennial.net.au.