

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-1.7	0.9	6.0	6.0	8.9	2.0	9.4
S&P/ASX Small Ordinaries Accum. Index	-1.3	5.8	14.4	14.4	9.1	1.0	5.5
<b>Value Added (Detracted)</b>	<b>-0.4</b>	<b>-4.9</b>	<b>-8.4</b>	<b>-8.4</b>	<b>-0.2</b>	<b>1.0</b>	<b>3.9</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 30 June 2016):

AUD \$110 million

### Income distribution frequency:

Half yearly

### Minimum initial investment:

\$25,000

### Trust inception date:

March 2002

### APIR code:

IOF0214AU

- ▶ **Markets were volatile during June, with the S&P/ASX Small Ordinaries Index (the Index) down 1.3%.**
- ▶ **The UK Brexit referendum dominated markets globally, leading to a strong rally in the gold price.**
- ▶ **The Perennial Value Smaller Companies Trust's (the Trust) portfolio trades on an FY17 price to earnings ratio of 11.1 times, being a 28.0% discount to the ex-100 market.**

## Market Activity

The initial turmoil in global markets following the unexpected Brexit decision subsided and there was some recovery at month end; the S&P500 up 0.1%, FTSE100 up 4.4% and Shanghai Composite up 0.4% although the Nikkei 225 was weaker, down 9.6%. The Federal Reserve left rates unchanged and metal prices were strong, iron ore (up 8.0%) and copper (up 2.7%) retracing partially last month's declines. Brent oil remained steady and the Australian Dollar (AUD) firmed slightly to 74.5 US cents (up 3.0%).

The best performing sector during June was materials (up 7.9%) largely due to gold's dominance in the index (10% index weight), with the precious metal gaining 8.8% during the month, leading to a sharp rally in gold equities. Whilst the Trust does have some gold exposure, our underweight position negatively impacted relative performance. Energy (up 0.4%) was the only other sector to finish the month in positive territory. The worst performing sectors included utilities (down 11.3%), financials (down 6.7%) and healthcare (down 6.0%).

The Index declined 1.3%. The Trust, which was outperforming during the month, ended down 1.7% net of all fees, thereby underperforming the Index by 0.4%.

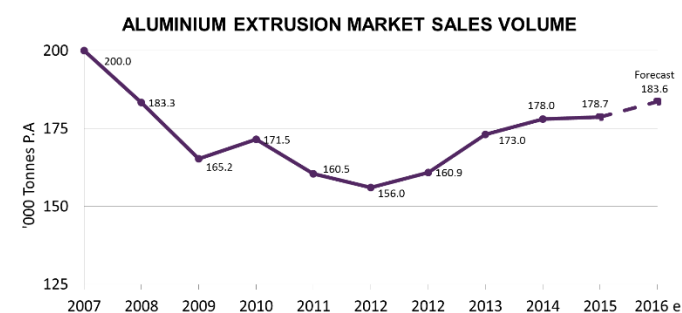
The worst performing stock in the Trust was Sundance Energy (down 39.4%) which conducted a discounted equity raising to provide a decent working capital buffer and allow the company to grow the business organically and via acquisition (given the availability of many cheap assets following a material decline in the oil price). However, this recapitalisation has also resulted in a significant amount of equity dilution. On a more positive note, Sundance reported IRR's (internal rate of return) of up to 45.0% for its core Eagleford acreage due to lower costs and improved oil recoveries. This will result in Sundance being at the forefront of an oil supply response as prices increase.

Sino Gas & Energy (down 17.5%) gave back some of May's stellar 35.0% gain and we remain comfortable with our position.

Pulse Health (down 17.0%) announced that they have terminated the acquisition of two hospitals in Western Australia on the grounds that their operational performance had deteriorated prior to settlement. Whilst this will reduce their FY17 earnings, we are pleased that the Board has displayed capital discipline.

The best performing stock during the month was Capral (up 33.3%) following a substantial earnings upgrade owing to a pick-up in recent activity levels on both stronger market demand and market share wins from favourable anti-dumping outcomes. The weaker AUD has also benefitted the company, as importers become less price competitive.

The chart below reflects the recovering Aluminium extrusion market, which Capral has been able to benefit from.



Source: Capral, 2015 Full Year Results Presentation, February 2016.

Fantastic Holdings (up 18.4%) announced the resignation of a non-executive director and appointment of a new independent non-executive director. Readers may recall that, back in January, the company announced a material profit upgrade which was marred by the resignation of the managing director a few days thereafter, given his disagreement with the Board over the Company's long-term incentive scheme (LTI). The managing director who resigned was also the chairperson presiding over the company's remuneration committee at the time. Perennial Value was vocal in our views to the Board at the time as we felt that the Remuneration Committee had ample time (2.5 years) to resolve the LTI issue which may have resulted in the then well-regarded managing director remaining in his role. Nonetheless, we are pleased that the Board has heeded our concerns by making this non-executive director change.

Remote power provider Pacific Energy (up 17.1%) announced that they are on track to exceed their guided forecasts and that 2017 is set to deliver a record result based on contracted revenue and likely renewals. The company also announced that it has established a subsidiary in South Africa with a view to tapping into remote power opportunities across the continent. Additionally, the company announced a formal alliance with Juwi Renewable Energy, a global renewable energy company, which Pacific energy worked with on Sandfire's DeGrussa hybrid power station. This puts the company in a sound position to tender for similar projects.

Gold producer Evolution Mining (up 14.8%) benefitted from the rally in the gold price. The company also held an investor day and commented that FY17 guidance will result in another strong year with production increasing and the dividend policy expected to double from 2.0% of revenue to 4.0%, which indicated the Board's confidence in future cash generation from operations.

Other strong producers included Independence Group (up 14.3%), Runge Pincock Minarco (up 13.9%) and SkyDive the Beach (up 10.9%).

### Trust activity

During the month, APN News & Media successfully demerged their New Zealand business, NZME Limited via a bonus issue to APN shareholders. This leaves APN as a pure-play radio and out of home media business, which we view attractively.

We exited our position in Sandfire Holdings (acquired in January 2015 at an average price of \$4.43) at an average price of \$5.66 (month-end price \$5.23) due to our negative view on the copper price, owing to increasing supply outweighing demand over the next year. Proceeds were used to acquire a position in specialist milk producer A2 Milk which announced a profit upgrade during the month and also referred to increased operating cash flow.

The Trust ended the month with 54 stocks and cash of 4.5%.

### Outlook

With many small cap stocks trading on lofty price-to-earnings multiples (which we do not hold in the Trust as they do not meet our value process) and little margin of safety, the Trust offers value trading on 11.1 times FY17 price to earnings ratio and 10.4 times price to free cash flow, representing a very significant 28.0% and 30.0% discount respectively to the ex-100 market.

**As always, our focus will continue to be on investing in quality companies which are offering attractive valuations.**

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	4.8	3.8
Materials	9.0	20.3
Industrials	8.7	10.9
Consumer Discretionary	34.3	21.9
Consumer Staples	6.5	6.7
Health Care	4.0	7.0
Financials-x-Real Estate	7.6	7.4
Real Estate	10.7	12.3
Information Technology	7.7	7.5
Telecommunication Services	1.1	1.3
Utilities	1.2	0.8
Cash & Other	4.5	-

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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