

Perennial Value Smaller Companies Trust

Quarterly Report as at 30 September 2013

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Smaller Companies Trust ⁺	18.9	0.3	2.3	8.4	11.0
S&P/ASX Small Ordinaries Accum. Index	14.9	1.4	-2.6	1.0	5.8
Value Added (Detracted)	4.0	-1.1	4.9	7.4	5.2

⁺Net performance (including performance fee). [^]Since inception: March 2002. Past performance is not a reliable indicator of future performance.

- The Trust added alpha in each month during the quarter to outperform by 4.0%, with a return, net of all fees, of 18.9%.
- Abacus Property and Brickworks were added to the Trust during the quarter.
- Materials (up 27.6%), information technology (up 17.5%) and industrials (up 16.8%) were the strongest performing sectors.

The S&P/ASX Small Ordinaries Accumulation Index (the Index) ended the September quarter up 14.9%. It is pleasing to report that during this period, the Perennial Value Smaller Companies Trust (the Trust) added alpha in each of the months to outperform by 4.0%, with a return, net of all fees, of 18.9%.

The September quarter was buoyed initially by dovish talk from the US Federal Reserve (the Fed) in July. This changed in August as the Fed began to talk about plans to taper its quantitative easing program, but by the end of September this had been dismissed. Encouragingly, the Eurozone emerged from recession after six consecutive quarters of declining gross domestic product. Chinese data releases during the quarter were positive overall. Domestically, the Australian equity market digested the FY13 company earnings announcements, which were largely in line with expectations, along with a change in government as the Coalition took over the reins from the Labor party during September.

Domestically, a pickup in the housing market has begun to unfold, spurred on by the Reserve Bank of Australia's decision in August to reduce the cash rate by 25 basis points to a record low of 2.5%. House prices, finance approvals and residential construction have all seen growth, although non-residential construction remains weak. The Australian dollar (AUD) ended the quarter at USD0.93, up 3.3 cents.

At a sector level, materials (up 27.6%) was the standout as investors warmed to the idea of a pickup in local growth and some improving signs from China. Information technology (up 17.5%) and industrials (up 16.8%) also performed strongly. Traditional defensive sectors were weaker, namely healthcare (down 3.0%), consumer staples (down 1.1%) and property trusts (down 0.4%).

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

Risk Profile:

High

Trust FUM

(as at 30/06/13):
AUD131.6 million

Income Distribution

Frequency:
Half yearly

Trust Inception date:

March 2002

Minimum Initial

Investment:
\$25,000

APIR code:

IOF0214AU

*Excluding performance fees.

The Trust has been positioned to take advantage of several investment themes which we believe will drive strong returns in the coming year, namely: a reversal of the large underperformance of the materials sector, stocks which benefit from a falling AUD and those companies exposed to an improving housing sector. Pleasingly, there were several stocks related to these themes which provided good performance during the quarter and there are also several other stocks in the Trust exposed to the same themes, but which the market is yet to focus on.

In the materials sector, Independence Group (up 78.3% based on our average exit price of 403 cents in mid-September versus quarter end price of 394 cents) benefitted from a stronger gold price. Mount Gibson (up 62.4%) and Mineral Resources (up 29.2% based on our average exit price of \$10.66) both responded to the

continued recovery in iron ore prices. Hillgrove Resources (up 30.4%) was assisted by a firmer copper price.

Boom Logistics (up 124.1%) recovered from an over-sold position as the market begins to focus on its exposure to the potential recovery in infrastructure spending under the new Coalition government.

APN News and Media (up 52.0%) responded to signs of improved trading ahead of the Federal election, following an FY13 result which was in-line with guidance.

Several stocks which benefit from a falling AUD also contributed to performance with SAI (up 24.8%) reflecting relief by the market that they delivered a result in-line with guidance and also disclosed the positive sensitivity of their revenues to a falling AUD. Hansen Technologies (up 14.3%) after delivering a strong FY13 result and guidance for FY14.

In the housing sector, Mortgage Choice (up 33.3%) delivered a sound FY13 result, reflecting a strong improvement in their June quarter approvals which bodes well for a good start to FY14. AV Jennings (up 33.0%) reported a strong end to FY13, reflecting improved consumer interest in house and land packages for the first time in many years. Lifestyle Communities (up 30.8%) also reported stronger settlements as retirees were able to sell their existing homes in a more buoyant residential market and move into Lifestyle's villages.

Mirabella Nickel (down 31.5% based on our average exit price of 5.9 cents versus quarter end price of 1.5 cents) delivered a weak production report, which together with balance sheet concerns and our negative view on nickel in the short-medium term resulted in the Trust exiting this position during July.

The Trust remained active during the quarter, selling out of all our nickel exposures given our negative outlook for the nickel price and following strong performances from Independence Group and Western Areas as well as Mirabella Nickel for the reasons mentioned above. We decreased our iron ore exposure following strong gains from both Mount Gibson and Mineral Resources by reducing exposure in the former and exiting the latter. We

also reduced our gold exposure following strong gains in this sector by exiting Alacer Gold.

Proceeds from these sales were used to acquire Abacus Property, which trades at a discount to its net tangible asset value. In light of our positive view regarding a housing recovery, we added Brickworks to the Trust at an average price of \$12.05 (quarter end price \$13.60). Following a poor initial public offering in iSelect, which we avoided on valuation grounds, we acquired a position 25% below June's \$1.85 IPO price as we viewed this as a more attractive entry point providing a greater margin of safety.

After a stellar performance from our holding in Platinum Asset Management, which we acquired in early January 2013 at an average price of \$4.12, we sold out during July at an average price of \$6.19 (quarter end price \$5.50). Together with the dividend we received, this resulted in a total return of 52.2% during this period. We switched the proceeds into BT Investment Management at an average price of \$3.61 (quarter end price \$4.31) as it offered a relatively more attractive dividend yield. Additionally, this company will also be a beneficiary from any AUD weakness given its ownership of J O Hambro Capital Management in the UK.

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. Tox Free Solutions' focus on safety remains in place and the company recently won the 'Environmental Sustainability' category at the 2013 Australian Business Awards. This award not only reflects the positive manner in which this company conducts its business, but also stands them in good stead for retaining and winning new blue chip clients.

At quarter end, stock numbers stood at 55 with cash at 2.1%.

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Asset Allocation as at 30 September 2013

Asset Class	Trust Weight %	Index Weight %
Energy	13.9%	7.0%
Materials	15.2%	16.8%
Industrials	21.5%	18.3%
Consumer Discretionary	22.6%	26.9%
Consumer Staples	1.1%	2.3%
Health Care	0.0%	4.5%
Financials-x-Real Estate	6.0%	5.9%
Real Estate	8.4%	8.7%
Information Technology	3.3%	2.6%
Telecommunication Services	5.0%	5.3%
Utilities	0.9%	1.8%
Other	2.1%	-

Rounding accounts for small +/- from 100%.

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