

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	7.5	-1.3	5.1	1.2	1.5	0.6	9.5
S&P/ASX Small Ordinaries Accum. Index	5.5	1.0	8.1	3.7	1.5	-2.1	5.2
Value Added (Detracted)	2.0	-2.3	-3.0	-2.5	0.0	2.7	4.3

*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 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 2016):

AUD 116 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

I0F0214AU

- ▶ **Strong absolute and relative performance with the Trust up a net 7.45%.**
- ▶ **Performance driven by holdings across several resource and industrial companies.**
- ▶ **Sundance Energy, eMerchants and Tox Free Solutions were strong attributors.**

Trust performance

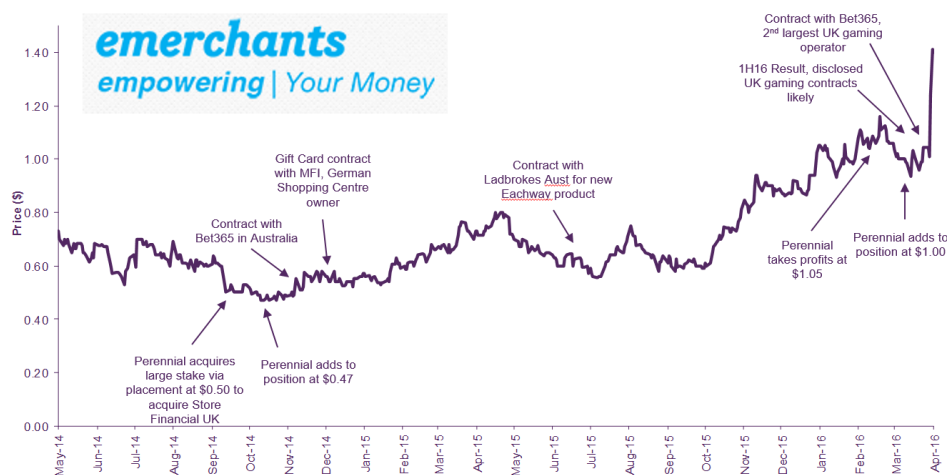
March was a healthy month in equity markets with the S&P/ASX Small Ordinaries Index (the Index) finishing up 5.5%. The Perennial Value Smaller Companies Trust (the Trust) was up 7.5%, outperforming by 2.0% net of all fees.

Globally, equity markets rose on accommodative central banks and the US Dollar (USD) sell off. The European Central Bank cut rates and expanded its asset purchase program early in the month, followed by a resurgence of 'dovish' commentary from the Fed later in the month. In Australia, the February unemployment rate fell from 6.0% to 5.8%, with most of the jobs being created in the Eastern states, demonstrating that the transition from the mining to non-mining sectors of the economy is on track. The Reserve Bank of Australia (RBA) left the cash rate at 2.0% and the Australian Dollar (AUD) rallied on the back of US Dollar (USD) weakness to finish the month at 76.6 US cents.

All sectors except for materials (down 0.7%) were positive during March. The best performing sector was energy (up 20.7%) driven by a rebound in the oil price, followed by utilities (up 19.6%) and healthcare (up 8.1%).

The best performing stock held in the Trust was Sundance Energy (up 123.7%), which benefitted from oil's 12.0% rally. Sino Gas Energy (up 44.4%) received their much awaited proceeds from the sale of gas from their Linxing asset. This, together with a positive reserve update, saw the share price rally.

Payment solutions provider eMerchants (up 33.0%) announced a significant multi-year contract win with Bet365 in the UK to provide prepaid debit cards. This is eMerchant's first reloadable card contract in Europe and Bet365 is the second largest player in the UK with 14.0% market share. The UK market is five times the size of the Australian market so this contract win has the potential to transform eMerchants globally.



Source: eMerchants website, Perennial, IRESS. As at 1 April 2016.

Tox Free Solutions (up 25.8%) announced the material acquisition of NSW-based Worth recycling that focuses on liquid and industrial waste treatment across four sites in NSW and comes with the all-important Environmental Protection Agency licence for oily water treatment, hazardous liquids and contaminated soil. Geographically, this acquisition increases Tox Free's Group exposure to 16.0% of revenue derived from a growing NSW.



Portfolio Manager Grant Oshry at Tox Free Solutions' recycling site in Karratha, WA

Other strong performers included Swick Mining Services (up 26.9%) following new contract wins to provide drilling services for Independence Group's (up 10.5%) Jaguar and Nova mines. Murray Goulburn Unit Trust (up 23.1%) announced offtake agreements with both USA's Mead Johnson and Indonesia's KALBE International for the supply of bulk dairy powder products, which forms the basis for the Company to proceed with its new investment in an infant formula facility at Koroit, Victoria. Capral (up 22.4%), Intecq (up 20.2%) and Smart Group (up 15.0%) all added to the Trust's performance.

Trust Activity

In terms of portfolio activity the Trust took advantage of the share price strength in Aveo Group (up 5.7%) and Sky City Entertainment (up 11.1%) to lock-in some profits. Proceeds were deployed in Melbourne IT's placement at \$2.00 per share (month-end closing price \$2.01) to fund the purchase of data analytics provider InfoReady, which we view as a strategic acquisition by the Company. We also participated in Tox Free Solutions placement at \$2.55 per share to fund their acquisition (month end closing price \$3.05) mentioned previously.

The Trust ended the month with 56 stocks and cash of 4.4%.

Outlook

It is early days but if the chart below is anything to go by, we believe we may be in the early stages of Value starting to outperform Growth and Momentum styles of investing, with the latter two styles starting to roll over as can be seen below:

Valuation gap - a catalyst for re-rating Value?



Source: Macquarie, March 2016

The Trust offers value, trading on 9.8 times FY17 Price to Earnings (P/E) and 8.5 times price/free cash flow, being a 33.0% and 36.0% 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	4.6	3.5
Materials	6.8	16.8
Industrials	9.7	10.6
Consumer Discretionary	34.4	23.5
Consumer Staples	5.7	8.5
Health Care	4.6	7.5
Financials-x-Real Estate	11.3	7.9
Real Estate	10.1	12.4
Information Technology	5.7	7.3
Telecommunication Services	1.5	1.5
Utilities	1.2	0.7
Cash & Other	4.4	-

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:



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