

| | Month | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception [^] |
|------------------------------------------|------------|------------|------------|-------------|------------|------------|------------------------------|
| | % | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Smaller Companies Trust* | 6.1 | 5.9 | 6.1 | 19.5 | 4.3 | 11.4 | 11.1 |
| S&P/ASX Small Ordinaries Accum. Index | 4.9 | 3.8 | 4.9 | 8.1 | -1.8 | 2.6 | 5.6 |
| Value Added (Detracted) | 1.2 | 2.1 | 1.2 | 11.4 | 6.1 | 8.8 | 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 July 2014):

AUD119.6 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ **The Trust ended the month up 6.1% after all fees, outperforming its benchmark by 1.2%.**
- ▶ **Given the strong pipeline of IPO's that have come to the smaller end of the market over the past 18 months (47 IPOs) the Trust has selectively participated in 14.**
- ▶ **The Trust's best performing stock during July was HFA Holdings (up 32.4%).**

The Perennial Value Smaller Companies Trust (the Trust) ended the month up 6.1% after all fees, outperforming its benchmark by 1.2%. The benchmark S&P/ASX Small Ordinaries Accumulation Index (the Index) returned 4.9% for the month of July, largely driven by resources and energy companies.

Geopolitical tensions in the Ukraine and Middle East and further sanctions imposed on Russia overshadowed strong US economic data with 2Q GDP up 4% and company guidance broadly positive following 2Q US earnings results. Towards the end of the month, Argentina was declared to be in default by Standard & Poors after it missed a payment on its bonds. Chinese authorities continue to implement policy designed to lift economic growth and the Q2 GDP result of 7.5% growth for the year confirms to us that the authorities are taking the necessary steps to achieve their target.

The best performing sectors in the Index were Energy (up 8.5%), in which the Trust retains an overweight position, Healthcare (up 7.0%) and Materials (up 6.8%). Underperforming sectors included Consumer Staples (down 0.8%) and Utilities (up 0.2%).

Domestically, economic data was mixed with business confidence resilient, offsetting soft consumer sentiment and a rise in unemployment to 6.0%. The RBA left the cash rate unchanged at 2.5%. The AUD/USD fell by 1.3c to end the month at 93.0c.

Readers will be aware from previous commentaries that the team has spent considerable time wading through the numerous prospectuses and meeting with management, given the strong pipeline of IPO's that have come to the smaller end of the market over the past 18 months. Of the 47 IPOs in our universe (for companies with a minimum market cap of \$50m and those that raised >\$5m), we only participated in 14 (representing a 29% take up). Below is a summary of this performance:

| Average Returns** | Day 1 Performance | Return after 120 days or over holding period |
|---------------------------------|-------------------|----------------------------------------------|
| All IPOs (47) | 7.0% | 12.6% |
| IPOs added to Trust (14) | 14.4% | 21.9% |

Source: IPO list combined from UBS and RBS Morgans 18mths to 24 June 2014. **Performance data from IRESS, holding period 120 days return (or last trade if less data) for IPO's in Trust, exit price is used for those stocks no longer held.

The Trust's best performing stock during July was HFA Holdings (up 32.4%) as investors began to re-rate this company following last month's announcement which simplified their corporate structure by deploying excess cash (supplemented by a modest raising) to buyout the bulk of the convertible notes previously used to fund the business. This removes a potential source of significant dilution and was done at face value delivering significant accretion in value to ordinary shareholders.

Despite a goodwill write-down and impairment of assets totalling \$80 million, Boom Logistics (up 25.0%) rose as the company still managed to generate free cash flow which was used to pay down debt. The company also confirmed that post these write-offs, the net tangible asset value per share was 49cents compared to the month end closing share price of 15cents, thereby highlighting the intrinsic value on offer.

Quarterly production reports dominated during the month benefitting several of our resource and energy holdings, namely Panoramic Resources (up 20.5%), Whitehaven Coal and Sino Gas Energy (each up 18.8%) and Sundance Energy (up 18.6%).

Other strong performers included Mobile Embrace (up 22.5%), Ausenco (up 20.0%), Capral (up 16.7%) and Mint Wireless (up 16.3%).

Detracting from performance was Matrix Composites & Engineering (down 16.2%) following their quarterly update. Despite recording strong production during the quarter, their current order book as at 30 June 2014 was soft, given ongoing delays in converting pending orders to current orders.

In terms of portfolio activity, we exited our profitable holding in BT Investment Management on valuation grounds and used the proceeds to acquire a stake in US conventional oil driller Austex Oil at an average price of 19.6cents (month end price 24.5cents). We also added to our position in gaming solutions provider eBet which made an accretive acquisition during the month of Flexi-NET, which provides an alternative Ticket-In-Ticket-Out system and technology.

At month end, stock numbers were 57 and cash was 3.2%.

| Asset Allocation | | |
|----------------------------|----------------|----------------|
| Sector | Trust weight % | Index weight % |
| Energy | 11.8 | 6.4 |
| Materials | 13.6 | 20.2 |
| Industrials | 14.8 | 15.0 |
| Consumer Discretionary | 23.9 | 23.4 |
| Consumer Staples | 0.8 | 3.0 |
| Health Care | 2.0 | 5.5 |
| Financials-x-Real Estate | 6.3 | 5.7 |
| Real Estate | 13.9 | 10.2 |
| Information Technology | 4.8 | 2.7 |
| Telecommunication Services | 3.4 | 5.9 |
| Utilities | 1.4 | 1.9 |
| Other | 3.3 | - |

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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