

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-0.3	-1.1	-1.1	-5.8	0.6	1.7	9.4
S&P/ASX Small Ordinaries Accum. Index	-0.5	-3.9	-3.9	-4.9	-1.2	-2.5	4.5
Value Added (Detracted)	0.2	2.8	2.8	-0.9	1.8	4.2	4.9

*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 30 September 2015):

AUD 114 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ **This is the second consecutive month that the Index has outperformed the S&P/ASX Top 100 Accumulation Index, despite equity markets being weak in both months.**
- ▶ **In Australia, the biggest development was not in economics, but in politics, with Malcolm Turnbull successfully challenging incumbent Tony Abbott to become Australia's fifth Prime Minister in as many years.**
- ▶ **The top performing stock in the Trust was tourism and transport company Sealink Travel Group (up 33.3%).**

Volatility continued throughout September with the S&P/ASX Small Ordinaries Accumulation Index (the Index) falling 0.5%. The Perennial Value Smaller Companies Trust (the Trust) declined 0.3% after all fees, thereby outperforming by a net 0.2%.

It is worth noting that this is the second consecutive month that the Index has outperformed the S&P/ASX Top 100 Accumulation Index, despite equity markets being weak in both months.

Globally, the month was dominated by extreme gloominess about the prospects for growth in China. Key data disappointed, including the latest monthly production and investment prints, alongside the manufacturing PMI and many investors seem to be losing faith that China can maintain growth of close to the 7.0% target. This is despite even more stimulus being announced and further exchange rate depreciation. The weakness in China is reverberating through the region, with Taiwan, Singapore and now Japan in technical recession. Outside Asia, however, the news was better, with European growth seemingly tracking close to 2.0%, although inflation across the region has dropped back close to zero. Similarly, the US economy is doing well, although employment growth was unexpectedly weak early in the month. The Federal Reserve (the Fed), however, balked at raising interest rates, citing offshore "wobbles" as a key reason for caution. Equity markets had a very tough month, with most indexes losing further ground, as many investors reassessed the prospects of a world without the same momentum in China's growth engine.

In Australia, the biggest development was not in economics, but in politics, with Malcolm Turnbull successfully challenging incumbent Tony Abbott to become Australia's fifth Prime Minister in as many years. There has been no significant policy change yet, but consumer and business confidence likely will lift on hopes of a fresh start, particularly around economic reform. The domestic data was a mixed bag. Retail sales growth was weak and consumer and business confidence fell, but the August employment report was much better than expected and the jobless rate fell slightly to 6.2%. The Q2 Gross Domestic Product (GDP) report was also underwhelming, showing that growth was barely positive, albeit after a decent Q1. The Australian Dollar (AUD) weakened further over the month, in line with Reserve Bank of Australia (RBA) expectations, dropping below 70 US cents, and the RBA leaving the cash rate steady, as was widely expected.

The best performing sector was information technology (up 5.5%), materials (up 2.0%) and consumer staples (up 1.5%). The worst sector was energy (down 28.7%) driven by further weakness in the oil price.

The top performing stock in the Trust was tourism and transport company Sealink Travel Group (up 33.3%). We initially invested in Sealink via its initial public offering in October 2013 at \$1.10 (month end closing price \$3.20) given our attraction to its key asset being operator of the only ferry service to Kangaroo Island, South Australia. During the month, the company announced the acquisition of Transit Systems Marine,

which has sole operator status across almost all of its business lines and brings with it an element of recurring revenue.

Despite a weaker USD gold price, gold producer Regis Resources performed strongly (up 31.8%) after reporting a better than expected FY15 result. The company also announced the resumption of dividends, which was well received by the market.



Perennial Value Small Cap Resources analyst Sam Berridge at Regis's Garden Wall mine holding one of their Quartz crystals – August 2015

Australia's largest milk processor Murray Goulburn, which also produces value added dairy products and owns brands such as Devondale, Cobran cheese and Danone yoghurt (via JV with Danone), benefitted from a recovering milk price which saw the MG Unit Trust price rally (up 22.4%). Additionally, director buying of shares on market occurred during the month.

Other strong performers include HFA Holdings (up 17.7%), Gateway Lifestyle (up 15.3%) and Pulse Health (up 13.7%).

The main detractors during the month were mining-related with nickel producer Panoramic Resources (down 25.0%) following a weaker nickel price. Swick Mining (down 23.8%) released their FY15 result which came in at the bottom-end of their guidance range. Whitehaven Coal (down 23.8%) declined following a weaker coal price. It is worth noting some material on-market share purchases by some of the directors during September.

During the month we reduced our nickel exposure by exiting Western Areas at an average price of \$2.56 (versus month end closing price of \$2.15). Proceeds were used to re-establish a position in M2 Telecommunications early in the month at an average price of \$8.90, which represented good value. Towards the end of the month, the company announced a merger with dark fibre telecommunication company Vocus, which makes strategic sense and provides not only scale and cost savings, but significant revenue synergies too.

At month end, stock numbers were 50 and cash was 3.1%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	7.7%	3.0%
Materials	8.2%	14.3%
Industrials	9.4%	13.5%
Consumer Discretionary	33.1%	21.9%
Consumer Staples	1.7%	7.0%
Health Care	4.2%	8.7%
Financials-x-Real Estate	9.5%	8.7%
Real Estate	14.0%	12.6%
Information Technology	5.3%	6.3%
Telecommunication Services	2.7%	3.3%
Utilities	1.1%	0.6%
Cash & Other	3.1%	-

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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