Perennial Value Smaller Companies Trust

Monthly Report
31 May 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	1.0	4.2	4.8	3.1	5.6	6.2	10.2
S&P/ASX Small Ordinaries Accum. Index	2.4	2.0	8.9	7.7	3.6	2.2	5.6
Value Added (Detracted)	**-1.4**	**2.2**	**-4.1**	**-4.6**	**2.0**	**4.0**	**4.6**

*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 May 2015):
AUD128.1 million

Income distribution frequency:
Half yearly

Minimum initial investment:
$25,000

Trust inception date:
March 2002

APIR code:
IOF0214AU

- **The RBA's rate cut and the unthreatening budget helped lift consumer confidence.**
- **The best performing small cap sectors were Industrials (up 4.0%), Healthcare (up 3.7%) and Materials (up 3.4%).**
- **Corporate activity was prevalent during the month across various industries.**

The old adage of "sell in May and go away" did not apply this year with the S&P/ASX Small Ordinaries Accumulation Index (the Index) gaining 2.4%. The Perennial Value Smaller Companies Trust (the Trust) rose 1.0% after all fees, thereby underperforming by a net 1.4%.

Globally, conditions in the emerging world continued to be soft with trade flows from Asia weak in response to muted growth in developed market demand in the first quarter. In fact, the US economy looks likely to have contracted in the first quarter, as it did at the same time last year. China announced more stimulus measures during the month, aimed at lifting growth back up towards the official target. Anxiety about Greece remained a key source of uncertainty, with some important payments to the International Monetary Fund looming in early June. Despite this, global indices were generally positive with the Nikkei 225 (up 5.3%), Shanghai Composite (up 3.8%) and S&P 500 (up 1.0%) all stronger, while the FTSE closed flat, and Hang Seng Index (down 2.5%) fell after a strong prior month.

In Australia, the month of May included some important policy developments, with the Reserve Bank of Australia (RBA) trimming the cash rate by 25 basis points to 2.0% and Treasurer Joe Hockey releasing his second budget. In contrast to last year, the reaction to the budget was broadly positive. The RBA's rate cut and the unthreatening budget helped lift consumer confidence, however business confidence held steady at depressed levels. Most of the other data released during May was on the softer side, with employment falling and the jobless rate rising marginally, and firms reducing their investment intentions. Activity in housing remained strong with auction clearance rates in Sydney staying close to 90%, boosted by the RBA's latest rate cut. The Australian dollar (AUD) closed the month at US dollar (USD) 0.76 (down 3.8%).

The best performing small cap sectors were Industrials (up 4.0%), Healthcare (up 3.7%) and Materials (up 3.4%). The worst performing sectors included Energy (down 4.3%), Utilities (down 3.9%) and Telecommunication Services (down 0.7%).

Corporate activity was prevalent during the month across various industries. The best performing stock during May was education and technology solutions provider Citadel Group (up 46.8%) which announced a material acquisition within its core competency. Smash repair chain AMA Group (up 18.0%) entered into a well-structured agreement to acquire 17 panel sites over the next six months as it continues to consolidate this fragmented market. Billing system software developer Hansen Technologies (up 16.7%) announced the acquisition of European-based billing system provider TeleBilling on an attractive six times EV/EBITDA multiple.

Fantastic Holdings (up 13.7%) was a strong attributor during the month on no company specific news. We had the opportunity to visit Fantastic Furniture's new joint venture-owned factory in Changzhou, People's Republic of China, which surpassed our expectations given this facility did not exist a year ago. The high level of automation and best-practise deployed from leading factories in similar and different manufacturing processes were incorporated to derive its current form, coupled with a stringent quality control overlay to improve the quality of product being sold through the Fantastic

Furniture chain of stores. This compares favourably to the previous inferior product that was supplied to Fantastic Furniture from a third party provider, at no additional cost to the consumer as manufacturing cost savings have been reinvested into better quality product. This bodes well for restoring Fantastic Furniture's entry-level product as offering good value for money.

Perennial Value's portfolio manager on site at Fantastic Furniture's modern manufacturing facility in Changzhou. The scale of the photo gives a sense of the size of this factory.

Other strong contributors included Thorn Group (up 12.9%) which announced a strong FY15 result for their year ended March, Melbourne IT (up 8.9%), Sandfire Resources (up 8.5%) and Super Retail (up 8.3%).

The main detractor in May was Energy Action (down 36.1%) which provided a negative trading update for FY15 due to lower sales and a one-off account receivable write off. We have spoken to the CEO, CFO and the board and conducted a site visit, and we're satisfied with their initiative to align their cost base with revenue. We will monitor the situation closely going forward and believe the underlying strength of the business remains intact.

South Australian based copper producer Hillgrove Resources (down 13.2%) announced a deeply discounted non-renounceable rights issue given its banker Barclays is exiting base metals and required its debt to be repaid. While this is a disappointing outcome, the reprieve here is that the board finally listened to shareholders and announced leadership changes, which we approve of, in addition to a significant reduction in overheads by relocating the head office from Sydney to Adelaide, combined with a reduction in board members. The bottom line is that we expect a vast improvement in the net profit in 12 months' time.

Other detractors included MMA Offshore (down 12.9%), Global Construction Services (down 11.1%), Whitehaven Coal (down 10.3%), APN News & Media (down 10.1%), Emerchants (down 8.5%) and Matrix Engineering (down 8.4%).

Relative performance was also impacted by having no exposure (on valuation grounds) to index-heavy Sirtex (up 25.6%), which announced positive results from further clinical data.

In terms of portfolio activity, we took profits in retirement operator Aveo Group following strong share price performance in recent months. Proceeds were used to subscribe to the upcoming IPO of retirement play Gateway Lifestyle which lists in June on an FY16 P/E of 11.8 times and offers a cash dividend yield of 6.5%. Profits were taken in Citadel Group and proceeds were reinvested into residential home builder Simonds Group, which had underperformed, thereby providing a cheaper entry point into a buoyant housing environment.

Profits were also taken in Super Retail Group post its decent share price gains with proceeds switched into APN News & Media, which was sold off following their investor day despite management delivering on their stated strategy which we ascribe to. Having acquired Select Harvest late last month at an average price of $8.57 and given our positive view on almond prices in light of the prolonged drought in California, we exited our position at an average $10.35. The risk-reward at these prices favours the former, and we used the S&P/ASX200 Accumulated Index inclusion at month end as a liquidity event to exit this holding.

Having been provided the opportunity in April to participate in the pre-IPO of outdoor media company QMS Media, we added to our position during the month ahead of its IPO in June. We are attracted to the outdoor segment of the market (digital and static billboards, street furniture etc.) given it is growing above 10% per annum, well ahead of traditional print media which is flat to negative. With this sector outlook, coupled with QMS's attractive valuation on 10.8 times FY16 P/E and a proven management team run by successful ex-Ooh Media executives, we expect it to have a good float.

At month end, stock numbers were 56 and cash was 5.6%.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	8.9	5.4
Materials	11.1	13.8
Industrials	11.6	16.0
Consumer Discretionary	32.4	24.3
Consumer Staples	0.7	2.9
Health Care	3.4	8.5
Financials-x-Real Estate	10.0	7.0
Real Estate	9.8	11.3
Information Technology	2.9	5.1
Telecommunication Services	2.6	4.8
Utilities	1.1	0.7
Cash and other	5.6	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment