

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	10.7	2.3	3.2	1.6	4.3	10.2
S&P/ASX Small Ordinaries Accum. Index	7.3	4.7	2.3	-1.7	-0.3	5.3
Value Added (Detracted)	3.4	-2.4	0.9	3.3	4.6	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 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 March 2015):

AUD113.7 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ **Domestically the signals remain mixed, with the rotation to non-mining sources of growth still a work in progress.**
- ▶ **This quarter saw all sectors in positive territory except for industrials.**
- ▶ **Positive contributions were made by Life Healthcare Group (up 56.3%) and HFA Holdings (up 43.3%).**

During the quarter, the Perennial Value Smaller Companies Trust (the Trust) returned (net of fees) 10.7% compared to the S&P/ASX Small Ordinaries Accumulation Index (the Index) return of 7.3%, resulting in outperformance of 3.4%.

Globally, markets ended the quarter broadly higher with the Shanghai Composite (up 15.9%) and Nikkei 225 (up 10.1%) particularly strong, while the FTSE (up 3.2%) was also up. The US market lagged with the S&P500 (up 0.4%) ending the quarter only marginally higher. Part of the divergence in the European and US market performance in the quarter can be attributed to varying central bank Quantitative Easing (QE) programs with the European market announcing a larger than expected QE program in the quarter. In the US, the market remains focused on the timing and extent to which the US Federal Reserve (the Fed) may start to bring their QE program to an end.

Both globally and domestically, macro data was mixed. The biggest disappointment for the US was the underperformance of the consumer, despite improvements in non-farm payrolls and lower energy prices. The industrial data for Japan and China has disappointed, with PMIs unexpectedly slipping, but the improvement in Europe has been clear with Germany, in particular continuing to deliver activity data consistent with around 3% GDP growth. Domestically the signals remain mixed, with the rotation to non-mining sources of growth still a work in progress. Retail spending growth remains weak. Employment bounced back in February, and there was a small drop in the jobless rate, albeit from the cycle high of 6.4% in January. Business and consumer confidence slipped, however, alongside further slides in key commodity prices, particularly iron ore. The Reserve Bank of Australia (RBA) lowered the cash rate by 25 basis points to a record low 2.25% in February causing the Australian Dollar (AUD) to continue its decline. The AUD/USD ended the quarter at 76c down from 82c at the end of 2014.

This quarter saw all sectors in positive territory except for industrials (down 0.6%). The best performing sectors included utilities (up 17.2%), information technology (up 11.6%) and materials (up 8.4%).

Positive contributions were made by Life Healthcare Group (up 56.3%) which announced a profit upgrade given their material outperformance relative to their prospectus forecast for their interim result. HFA Holdings (up 43.3%) benefitted from the sale of their Australian subsidiary to now become a pure offshore fund of funds manager with the company deriving 100% of its earnings from offshore. Despite this share price appreciation, this company still trades at a 50% discount to other listed fund managers and offers a superior dividend yield, whilst also being a beneficiary from a weaker AUD.

Aluminium product manufacturer Capral (up 40.9%) reported a good operating result with strong guidance for the full year. A weaker AUD is supportive of their local manufacture as foreign imports become dearer. Additionally, Capral were successful in their anti-dumping case against one of their main competitors, an importer that represents 9% of Australian extrusion supply, which will see them face a significant rise in import duties, thereby placing Capral in a more favourable pricing position.

Patent attorneys IPH Limited continued its stellar rally (up 40.7%). IPH Limited has a strong presence in Australia and Singapore with a growing business in other parts of Asia.

Car parts, sports and camping retailer Super Retail Group (up 37.0%) reported on a strong start to the current half when they released their interim results. Importantly, they confirmed the worst is behind them in ironing out their IT issues post a new system that was implemented in their Rebel Sports chain of stores, while both new distribution centres are up and running.

iiNet (up 35.7% since time of acquisition) received a cash bid from competitor TPG. We added this stock to the Trust in February 2015 following its sharp sell-off post reporting their interim result.

Nickel producer Panoramic Resources (up 35.7%) rose on investor anticipation of further positive results from their Lanfranchi mine in Western Australia. Even though the nickel price was down, Chinese nickel pig iron production data suggests that low prices are having an impact on production and the nickel market is close to a floor.

Other strong performers included Sealink Travel Group (up 29.9%), Hansen Technologies (up 29.1%), Emerchants (up 28.1%) and M2 Telecommunications up (26.6%).

The main detractor in the March quarter was marine service provider MMA Offshore (down 43.5%) driven by a weaker oil price. We used this weakness to add to our position at an average price of 69.5c, which we view as representing good value when compared to the company's net tangible asset per share of \$2.19 as reported in their latest interim accounts.

Energy procurement business Energy Action (down 23.9%) downgraded their earnings. Part of the reason is attributed to the company entering into longer-dated contracts, the result being that revenue previously expected to be booked in FY15 will now be booked in FY16. Hence, we viewed this weakness as more of a timing issue.

During the quarter, we exited our positions in Ausenco and Boom Logistics given our concerns over their balance sheets coupled with no new material contract wins. We sold out of M2 Telecommunications on valuation grounds following its stellar performance. Additionally, we were concerned they may try and out-bid TPG for rival iiNet. Proceeds were used to establish a position in Washington H. Soul Pattinson & Co which trades at a 15% discount to its underlying assets, mainly TPG Telecom, New Hope Coal and Brickworks. We also participated in the successful IPO of NSW based tandem jump operator Skydive the Beach, which floated on a P/E of 12.5 times, being a discount to the tourism sector as well as the

market. There was no sell down from the founder, with new equity being raised to acquire their nearest competitor in QLD, which also reduces seasonality in this business.

As shown below, the valuation of the Trust remains attractive relative to market:

Prospective FY16	Price to Earnings (times)	Price to free cashflow (times)	Gross Yield (%)	Price to NTA (times)	Net Interest Cover (times)	3yr EPS growth (%p.a.)
Market Average Ex-100*	14.4	12.5	5.0	2.0	9.2	17.1
Perennial Value Smaller Companies Trust**	10.0	9.2	6.2	1.1	27.6	23.6
Premium/ (Discount) to Market	(31%)	(27%)	24%	(46%)	199%	38%

Source: * Macquarie Securities, Goldman Sachs and UBS as at 30 March 2015. ** Perennial as at 27 March 2015.

Perennial Value Management remains alert to Environmental, Social and Corporate Governance (ESG) issues in the Trust. Waste management company Toxfree Solutions lost time injury rate for 1H15 was zero. Toxfree supports gender equity and during the year the company increased the number of female employees from 15.7% to 20.0% of their total workforce.

At quarter end, stock numbers were 54 and cash was 5.2%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	8.6	5.0
Materials	11.2	13.6
Industrials	15.1	15.7
Consumer Discretionary	28.8	24.8
Consumer Staples	0.0	3.0
Health Care	2.0	8.5
Financials-x-Real Estate	9.9	7.1
Real Estate	12.1	11.5
Information Technology	2.9	5.2
Telecommunication Services	2.8	4.9
Utilities	1.3	0.7
Other	5.2	-

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:



Issued by: The Investment Manager, Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Manager: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial's website www.perennial.net.au.