PERENNIAL VALUE MANAGEMENT

Perennial Value Smaller Companies Trust

Monthly Report
30 June 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-6.0	-3.7	-1.5	-1.5	5.2	5.3	9.7
S&P/ASX Small Ordinaries Accum. Index	-7.8	-4.0	0.4	0.4	2.5	1.3	4.9
Value Added (Detracted)	**1.8**	**0.3**	**-1.9**	**-1.9**	**2.7**	**4.0**	**4.8**

*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 June 2015):
AUD120.5 million

Income distribution frequency:
Half yearly

Minimum initial investment:
$25,000

Trust inception date:
March 2002

APIR code:
IOF0214AU

- **Globally, the month was dominated by events in Greece.**
- **Consumer confidence remains fragile and retail sales growth also was consequently weak.**
- **The best performing small cap sectors were Information Technology.**

The markets finished the financial year on a weak note with the S&P/ASX Small Ordinaries Accumulation Index (the Index) declining by 7.8%. Against this backdrop, the Perennial Value Smaller Companies Trust (the Trust) outperformed the market by 1.8% (net), declining 6.0% after all fees.

Globally, the month was dominated by events in Greece. Equity markets slumped as uncertainty about Greece's membership of the currency union escalated as it edged towards default. Major markets declined with the S&P500 (down 2.1%), FTSE (down 6.6%), Nikkei (down 1.6%) and the Shanghai Composite (down 7.3%) all finishing the month lower. US economic data continues to be positive, supported by stronger labour market and manufacturing indicators as well as a continued improvement in homebuilder sentiment. In China, the People's Bank of China reduced its 2015 GDP growth forecasts marginally to 7.0%, cut the benchmark 1 year lending and deposit rates by 0.25%, and the banks' reserve requirement ratio by 0.5% in attempt to stimulate growth.

In Australia, the domestic data flow was mixed. Even with strong Q1 nominal GDP growth (up 2.3%), overall nominal growth was still only 1.2% year on year. Employment in May grew at the strongest rate since April 2011, causing the unemployment rate to fall to a better than expected 6.0%. Business confidence lifted following the popular investment measures announced in the federal budget. Consumer confidence, however, remains fragile and retail sales growth also was consequently weak. The housing market remained strong and the Reserve Bank of Australia left the cash rate steady at 2.0%, with the Australian dollar (AUD) closing the month flat at 77 US cents.

The best performing small cap sectors were Information Technology (down 3.3%), followed by the traditionally defensive sectors: Telecommunication Services and Property Trusts (both down 3.5%). Energy was the weakest sector (down 14.3%) closely followed by Consumer Discretionary (down 11.6%), of which the biggest drag were media stocks Nine Entertainment (down 27.9%) and Seven West Media (down 18.4%) which are not held in the Trust.

The best performing stocks in the Trust all had positive corporate updates during the month. Smartgroup Corporation (up 15.8%) announced the renewal of their largest contract which is with the Department of Defence. This significantly reduces the risk to earnings in the short term and therefore we expect the re-rating to continue from the current P/E ratio of 11.6x FY16 earnings. Pulse Health (up 14.0%) announced encouraging earnings in their core hospital portfolio as well as the recently acquired Hills Clinic. This combined with the ramp-up of the Mackay facility supports strong earnings growth for FY16. Finally Melbourne IT (up 13.2%) announced the accretive acquisition of Outware Systems which is a leading developer of mobile solutions for enterprise and government sectors. This acquisition complements the hosting offering which Melbourne IT already has in these sectors.

Sandfire Resources (up 7.7%) outperformed a very weak materials sector benefitting from some impressive exploration results. The intersection reported was 16.5 million at 18.9% copper and 2.1g/t of gold, which translates into roughly AUD 1250/t recoverable value. This compares to a mining and processing cost of roughly AUD 170/t. The challenge for Sandfire Resources is to define adequate tonnage to justify development; with the DeGrussa plant located just 10km away, the hurdles to economic viability are relatively low.

Drilling core from Sandfire's exploration efforts.

In our commentary last month we discussed our positive views on two IPO's: QMS Media and Gateway Lifestyle. Despite the very weak market, both stocks had a positive debut up 18.5% and 2.0% above issue respectively.

The main detractor during the month continued to be Energy Action (down a further 28.7%) as tax loss selling compounded a disappointing earnings update in May. With poor cost management rather than a lack of revenue being the main issue, we have been encouraging management to increase the experience at the board level and increase the cost focus. The board renewal process announced during the month is the first step in this direction and we look forward to reviewing the quality of the new director candidates when announced.

Sino Gas was also weaker (down 26.5%) after announcing the ramp up in gas production was one month behind schedule, largely due to delays in associated infrastructure supplied by third parties. Given the minimal impact on the long term value of the project, the share market response looks to be an over-reaction and we used this weakness to add to the position.

Finally the general weakness in the media sector impacted our holdings in Fairfax (down 20.9%) and Prime Media (down 20.7%). In both cases we viewed this weakness as a buying opportunity.

In addition to buying these stocks, we optimised the market weakness to add to our positions in Thorn Group, Regis Resources, Simonds Homes and HFA Holdings. Profits were taken in AMA Group and GDI Property Group. We exited the positions in Hansen Technology and iiNet on valuation grounds. We also exited our position in Peet Limited given concerns on their exposure to weak Perth markets.

At month end, stock numbers were 50 and cash was 3.3%.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	9.2	6.2
Materials	12.1	14.0
Industrials	12.0	15.9
Consumer Discretionary	31.1	21.8
Consumer Staples	0.7	3.2
Health Care	4.1	8.6
Financials-x-Real Estate	11.1	7.3
Real Estate	12.1	12.1
Information Technology	3.0	5.3
Telecommunication Services	0.0	4.8
Utilities	1.1	0.8
Cash and other	3.3	-

Rounding accounts for small +/- from 100%.