

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	0.9	6.0	6.0	8.9	2.0	9.4
S&P/ASX Small Ordinaries Accum. Index	5.8	14.4	14.4	9.1	1.0	5.5
Value Added (Detracted)	-4.9	-8.4	-8.4	-0.2	1.0	3.9

*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 30 June 2016):

AUD \$110 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ In the quarter, the Perennial Value Smaller Companies Trust (the Trust) delivered a net return of 0.9%, underperforming the S&P/ASX Small Ordinaries Index (the Index) by 4.9%.
- ▶ The Trust's underweight position in gold was a large detractor, with the spot gold price up 7.5% and many gold equities up more than 40.0%.
- ▶ The Trust trades on an FY17 price to earnings ratio of 11.1 times, being a 27.0% discount to the ex-100 market.

Market Activity

Globally markets were volatile, with fears for Chinese growth and the impact of the unexpected outcome of the Brexit referendum. The S&P500 finished the quarter up 1.9% and the FTSE100 up 5.3% while the Shanghai Composite closed down 2.8% and the Nikkei 225 was very weak, down 9.6%. The Federal Reserve left rates unchanged. Iron ore finished up 3.0%, though 21.0% below April peaks, oil remained strong up 24.0% and the Australian Dollar (AUD) closed weaker down 2.7% at 74.5 US cents.

The best performing sector over the quarter was materials up 24.8%, led by the 7.5% move in the spot gold price and a much larger move in gold equities. For example index heavyweights Northern Star up 41.5%, St Barbara up 42.5% and Regis Resources up 37.3% all dragged the Index higher. The underweight position in gold was reduced to a degree by adding a position in Evolution Mining early in the quarter at \$1.69 (compared to quarter end price of \$2.33). Despite this, overall the Trust is underweight gold (on valuation grounds) which has clearly impacted relative performance in the short term.

Utilities (up 15.6%) and energy (up 14.2%) were the next best sectors. The largest negative moves came from the consumer staple sector (down 3.3%) followed by health care (down 2.7%) and consumer discretionary (down 2.0%).

In addition to the underweight gold position; performance was also impacted by large share price falls in Pulse Health (down 47.7%) and Sundance Energy (down 41.2%).

Pulse Health downgraded earnings expectations largely due to a loss of volume at their Westmead rehab hospital. This facility had previously operated at high occupancy, but was impacted by referrals lost to a new facility which had opened in competition. While Pulse have been implementing measures to combat this, they were unable to offset the earnings drag during the current period, a task made more difficult by the generally weak surgical environment at present. Late in the quarter management also made the prudent decision to not proceed with an acquisition in WA after those assets underperformed during the due diligence process.

Sundance Energy conducted a discounted equity raising in order to build a working capital buffer and allow the company to begin growing production again. The fresh capital will also allow the company to take advantage of small acquisition opportunities near their existing Eagleford acreage were they have reported internal rate of return (IRR) of up to 45.0%. Thus while the dilution from the raising is disappointing it will result in Sundance being at the forefront of an oil supply response as prices increase.

Other weak stocks during the quarter were Simonds Group (down 27.6%) post significant management changes as well as Thorn Group (down 20.6%) and Tower Limited (down 17.6%) after both announced profit downgrades. Global Construction (down 19.2%) also drifted lower on no news.

The strongest positive performance for the quarter came from Skydive The Beach (up 37.8%) after the accretive acquisition of Skydive Wanaka in New Zealand. The acquisition was funded by a placement at \$0.42 which the Trust participated in. The acquisition cements the leading position of the company in the key tourism market of Queenstown, New Zealand. Encouragingly the previous earnings guidance for FY16 was also reaffirmed.

Australian Agricultural Company (up 35.8%) re-rated significantly during the quarter after delivering a strong result which showed positive cash flow for the first time in several years. Capral (up 33.3%) was also re-rated after upgrading earnings guidance for the 2016 calendar year reflecting increasing share in a growing domestic Aluminium extrusion market.

Other strong performers were GUD Holdings up 30.9%, Sino Gas Energy up 26.9% and Fantastic Holdings up 20.0%.

Trust Activity

In terms of Trust activity, we participated in several rights issues and placements for existing holdings – APN News and Media, Skydive The Beach and Emerchants. New positions were added in Galaxy Resources (an emerging Lithium producer), Evolution Mining and Nufarm.

These positions were funded by reducing exposure to Tower Limited, Tox Free Solutions and Washington H Soul Pattinson as well as exiting Sandfire Resources.

Finally the position in Murray Goulburn Unit Trust was exited at an average of \$1.33 (compared to a quarter end price of \$1.09). This decision was made given the significant drop in earnings expectations as well as the resignation of the CEO and CFO at a time when the balance sheet was stretched further to provide additional farmer support.

The Trust ended the month with 54 stocks and cash of 4.5%.

Environmental, Social & Corporate Governance (ESG)

Perennial Value remains alert to Environmental, Social and Corporate Governance issues in the Trust. During the quarter, Sino Gas and Energy was awarded the 2016 Eco Environmental Contribution Award by the Chinese Ministry of Commerce for their natural gas project. This project supports the Chinese government's long term goal of increasing the contribution from cleaner energy sources.

Outlook

The Trust offers good value trading on 11.1 times FY17 price to earnings (P/E) (a 27.0% discount to the ex-100 market) with a gross yield of 5.9% (23.0% ahead of the yield for the ex-100 market). The Trust characteristics are shown below.

Prospective FY17	Price to Earnings (times)	Price to free cashflow (times)	Gross Yield (%)	Price to NTA (times)	Net Interest Cover (times)	3yr EPS growth (%p.a.)
Perennial Value Smaller Companies Trust**	11.1	10.6	5.9	1.6	22.3	18.3
Market Average Ex-100*	15.1	14.8	4.8	2.3	10.0	15.9
Premium/ (Discount) to Market	(27%)	(29%)	23%	(30%)	123%	15%

Source. *Macquarie Securities, Goldman Sachs and UBS forecast as at 4 July 2016. **Perennial forecast as at 30 June 2016

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	4.8	3.8
Materials	9.0	20.3
Industrials	8.7	10.9
Consumer Discretionary	34.3	21.9
Consumer Staples	6.5	6.7
Health Care	4.0	7.0
Financials-x-Real Estate	7.6	7.4
Real Estate	10.7	12.3
Information Technology	7.7	7.5
Telecommunication Services	1.1	1.3
Utilities	1.2	0.8
Other	4.5	-

Rounding accounts for small +/- from 100%.

Signatory of:



Issued by: The Investment Manager, Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 271501. 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.