

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	0.3	11.8	11.8	19.9	6.7	6.6	10.1
S&P/ASX Small Ordinaries Accum. Index	1.5	8.5	8.5	29.2	7.1	5.3	6.0
<b>Value Added (Deducted)</b>	<b>-1.2</b>	<b>3.3</b>	<b>3.3</b>	<b>-9.3</b>	<b>-0.4</b>	<b>1.3</b>	<b>4.1</b>

\*Net performance (including performance fee). <sup>^</sup>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 September 2016):

AUD \$116 million

### Income distribution frequency:

Half yearly

### Minimum initial investment:

\$25,000

### Trust inception date:

March 2002

### APIR code:

IOF0214AU

- ▶ The Perennial Value Smaller Companies Trust (the Trust) delivered a positive return for the month, net of all fees.
- ▶ The smaller-end of the market again outperformed large caps as reflected by the S&P/ASX Small Ordinaries Accumulation Index (the Index) outperforming the S&P/ASX 100 Accumulation Index.
- ▶ Market performance was driven by rotation into cyclical stocks, away from defensives.

## Trust Performance

International markets were mixed with the S&P500 down 0.1%, Nikkei 225 down 2.6% and Shanghai Composite down 2.6%, while the FTSE 100 rallied finishing up 1.7%. Metal prices rallied, with nickel up 8.3%, copper up 5.4% and aluminium up 3.7%, while iron ore declined 1.0% over the month. The oil price closed up 7.9% and gold increased 0.5%. The Federal Reserve left rates unchanged, as did the Reserve Bank of Australia (RBA), with the cash rate remaining steady at 1.5%, while the Australian Dollar (AUD) finished the month up one cent at 77 US cents.

The Index rose 1.5% during the month. The Trust finished up 0.3%, net of all fees, thereby underperforming by a net 1.2%. For the September quarter, the Trust returned 11.8% net of all fees against a strong 8.5% total return from the benchmark, to outperform by a healthy 3.3%.

The more cyclical parts of the market outperformed, led by energy (up 7.8%) and materials (up 4.1%). By contrast, the "expensive defensives" such as utilities (down 6.0%), REITs (down 4.5%) and telecommunication services (down 4.0%) underperformed. This marks a reversal of the trends which we have seen over the past twelve months, which saw strong outperformance by these "bond proxy" sectors on the back of declining interest rates and investor risk aversion.

The best performing stocks during the month included private hospital and day surgery provider Pulse Health (up 19.3%) following an upgrade from a broker. Despite this rally off a depressed level, we are of the view that the company remains undervalued.

Following the release of their annual result in late August, information solutions provider to the after-sales parts and service sector of car dealerships Infomedia, (up 19.0%) benefitted from renewed interest from various brokers and investors as the company's roadshow gathered pace during September. The image below depicts the true global nature of this company with its software used across 39 global automakers.



Source: Infomedia investor presentation FY16 Results

With oil's near 8.0% rise following OPEC's announcement at a meeting in Algiers that it aims to remove approximately 700,000 barrels per day from the market, Sundance Energy rallied (up 17.9%) given its leverage to the oil price.

Gold producer Evolution Mining (up 15.1%) gained following the acquisition of an economic interest in Glencore's Ernest Henry gold and copper mine in Queensland, which was funded via a discounted entitlement offer. Pleasingly, the managing director invested \$1 million in the capital raise, which demonstrates conviction in the Ernest Henry transaction. The rise in the nickel price benefitted nickel producer Independence Group (up 14.4%).

Skydive the Beach (up 11.2%) announced the accretive acquisition of white water rafting company, Raging Thunder, in Cairns. Whilst within the adventure tourism space, this acquisition diversifies the company's reliance on tandem sky diving and is in line with management's longer-term strategy.

Key detractors were Fantastic Holdings (down 20.0% for the month, up 10.2% over the quarter) following the company going ex-dividend with an ordinary and special dividend that amounted to 21 cents fully franked. Prior to the stock going ex-dividend, we sold approximately 25.0% of our holdings at an average price of \$2.86 (month-end close \$2.41).

APN News & Media (down 9.3%) also weighed on the Trust's performance following the GfK radio ratings survey for the five metropolitan markets that reflected some moderation, following the previous survey which was strong.

Despite the acquisition of a retirement resort in Rockhampton coupled with directors buying shares on market, Gateway Lifestyle (down 8.5%) continued to trade lower following their annual result announced the previous month which did not meet consensus earnings.

### Trust activity

Following the unexpected announcement of the sale of their gym division, we exited Ardent Leisure Group following its share price rallying as its valuation was pushing the upper limits of our fair value.

We also took some profits in Smart Group, AVJennings, Breville Sealink, Emerchants as the gap to our valuation began to close.

Proceeds were used to add to our positions in Australian Agricultural (having taken some profits the previous month at higher prices), Evolution gold and SkyDive the Beach via their discounted entitlement offers.

The Trust ended the month with 58 stocks and cash of 2.2%.

### Outlook

With many small cap stocks trading on lofty price-to-earnings multiples (which we do not hold in the Trust as they do not meet our value process) and little margin of safety, the Trust offers value trading on 12.1 times FY17 price to earnings (P/E) and 11.6 times price/free cash flow, representing a very significant 28.0% and 33.0% discount respectively to the ex-100 market.

**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	5.7	4.0
Materials	13.4	20.2
Industrials	10.5	10.7
Consumer Discretionary	27.7	21.6
Consumer Staples	5.5	6.5
Health Care	6.9	7.1
Financials-x-Real Estate	6.7	8.0
Real Estate	11.1	11.2
Information Technology	7.9	8.8
Telecommunication Services	1.1	1.3
Utilities	1.3	0.7
Cash & Other	2.2	-

Rounding accounts for small +/- from 100%.

For all other enquiries, please contact us on 1300 730 032  
or visit [www.perennial.net.au](http://www.perennial.net.au)

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