

Perennial Value Smaller Companies Trust

Quarterly Report as at 30 June 2012

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Smaller Companies Trust*	-12.6	-8.3	18.7	3.9	13.3
S&P/ASX Small Ordinaries Accum. Index	-15.3	-14.6	3.4	-8.9	5.6
Value Added (Detracted)	2.7	6.3	15.3	12.8	7.7
Net Performance	-13.4	-10.7	13.9	0.6	11.0

*Gross Performance. ^Since Inception: March 2002. Past performance is not a reliable indicator of future performance.

- The main sectors driving the fall in the Index were energy (down 31.1%) and materials (down 21.0%).
- Corporate activity remains at an elevated level among ex-100 companies.
- Industrea Limited (up 25.4%) and Alesco Corporation Limited (up 21.2%) both contributed to performance.

Global markets were weak in the June quarter as concerns over European sovereign debt, fears of a slow down in China, and anaemic economic conditions in the US reversed much of the gains experienced in the earlier part of the year.

Poor investor sentiment pushed the S&P/ASX Small Ordinaries Accumulation Index (the Index) down 15.3% for the quarter ended 30 June 2012. Over the same period the Perennial Value Smaller Companies Trust (the Trust) fell 12.6%, outperforming the Index return by 2.7%.

The main sectors driving the fall in the Index were energy (down 31.1%) and materials (down 21.0%). The best performing sectors were property trusts (up 1.4%) and information technology (down 1.1%). The relative performance of the Trust was assisted by a large underweight position in materials. Our close to Index position in energy and exposure to oil and gas services detracted from performance.

The Reserve Bank of Australia cut the cash rate by 75 basis points to 3.5% over the quarter as consumer and business sentiment measures remained weak. This led to a fall in the Australian dollar below parity with the USD, although it recovered slightly by the end of the quarter to close at USD1.024. The unemployment rate remained relatively steady at 5.1%.

Corporate activity remains at an elevated level among ex-100 companies with several stocks receiving takeover bids during the quarter. The Trust benefited from this activity with the two best performing stocks in the quarter (Industrea Limited (Indestrea) and Alesco Corporation Limited (Alesco)) receiving takeover offers during the quarter. Industrea (up 25.4%) received a bid from GE at \$1.27 per share. The approach from GE

Perennial Value Smaller Companies Trust Facts:

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

Trust FUM

(as at 30/06/12):

AUD71.6 million

Team FUM

(as at 30/06/12):

AUD7.3 billion

Trust Inception date:

March 2002

Risk Profile:

High

Income Distribution

Frequency:

Half yearly

Minimum Initial

Investment:

\$25,000

APIR code:

IOF0214AU

*Excluding performance fees.

highlighted the importance of the technology developed by Industrea, in particular the applications for collision avoidance and coal degasification – it is this technology coupled with an undemanding valuation which attracted us to invest in the stock last year.

Alesco (up 21.2%) received a \$2.00 cash bid from Dulux during the quarter. Our shareholding was sold to Dulux at \$2.00 as part of its efforts to build a 19.9% stake ahead of the formal takeover offer. The decision to sell our entire stake, despite a reasonable medium term valuation, was due to our concerns that a bid may not proceed if Dulux was unable to build a blocking stake, our view of limited interest from other parties and a

weak short term demand outlook. Alesco closed the quarter at \$1.95, with the board of Alesco rejecting Dulux's \$2.00 bid.

Other strong performers during the quarter included Ardent Leisure Group (up 19.5%), after a solid Q3 update and Pacific Energy Limited (up 6.5%), after they secured a 15 year contract to supply power to the Tropicana gold project in the Western Australian goldfields making this the longest contract won by the company to date. Nufram Limited (up 5.2%), Breville Group Limited (up 3.6%) and Abacus Property Group (up 3.0%) also performed well.

While the Trust has a large underweight to resources, performance was still impacted by the poor performance of Mirabela Nickel Limited (Mirabella) (down 51.8%) and Aquarius Platinum Limited (Aquarius Platinum) (down 51.6% to our exit price during the quarter). We have maintained our holding in Mirabela and added to it via the significant capital raising during the quarter. The extra capital coupled with efforts to reduce operating costs should help insulate the business despite weak operating conditions currently. However, in the case of Aquarius Platinum, continued labour issues and government intervention at a time of weak platinum prices has moved the balance sheet from a position of strength to a point where it may struggle to meet pending capital commitments. In light of this we exited our position at an average price of \$1.08 (versus quarter end closing price of \$0.70).

In addition to the Trust activity mentioned above, we profitably exited Virgin Australia Holdings Limited on valuation grounds and Australian Pharmaceutical Industries Limited on regulation grounds after making a 20% return in a short period. We also exited several companies exposed to the construction sector (cutting our losses in Watpac Limited and profitably selling Coventry Group Limited) given the sectors poor outlook. We sold out of several mining service companies which we believe were vulnerable to a slow down in capital expenditure (namely Coffey International Limited, Engenco Limited and Sedgmen Limited) and re-invested in companies exposed to production volumes (we added Bradken Limited following the significant fall in the share

price). We also prefer the more certain oil and gas spending outlook and added Mermaid Marine Australia Limited and Miclyn Express Offshore Limited (Miclyn) on share price weakness. We also switched our housing exposure from Alesco, via the Dulux bid, and invested the proceeds in GWA Group Limited.

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. Safety is of paramount importance in the oil and gas sector and we spent considerable time assessing Miclyn's safety performance before adding it to the Trust. As part of ongoing due diligence we visited Miclyn's Batam Indonesia shipyard and were impressed with the considerable investment in safety systems which now lead the region. As a result of this and the investment in quarantine facilities, Miclyn have been successful in winning several contracts with Chevron in the region including haulage work to Barrow Island for the Gorgon project.

At quarter end, stock numbers stood at 49 with cash at 3.0%.

Asset Allocation as at 30 June 2012

Asset Class	Trust Weight %	Index Weight %
Energy	14.9%	7.9%
Materials	14.9%	28.4%
Industrials	25.2%	23.2%
Consumer Discretionary	16.0%	14.4%
Consumer Staples	0.0%	1.7%
Health Care	0.0%	4.4%
Financials-x-Real Estate	4.5%	5.6%
Real Estate	6.3%	5.1%
Information Technology	9.0%	3.5%
Telecommunication Services	5.4%	3.3%
Utilities	0.8%	2.7%
Other	3.0%	-
Rounding accounts for small +/- from 100%.		

Signatory of:



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