Perennial Value Smaller Companies Trust

Quarterly Report
30 June 2015

	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-3.7	-1.5	-1.5	5.2	5.3	9.7
S&P/ASX Small Ordinaries Accum. Index	-4.0	0.4	0.4	2.5	1.3	4.9
Value Added (Detracted)	**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 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 2015):
AUD120.5 million

Income distribution frequency:
Half yearly

Minimum initial investment:
$25,000

Trust inception date:
March 2002

APIR code:
IOF0214AU

- **Globally, data was mixed over the quarter.**
- **The one constant in Australia throughout the June quarter was the strength in Sydney's housing market.**
- **The best performer for the Trust during the quarter was Citadel Group, Smartgroup Corporation, and Sandfire Resources.**

During the quarter, the Perennial Value Smaller Companies Trust (the Trust) generated a return (net of all fees) of -3.7%, outperforming the S&P/ASX Small Ordinaries Accumulation Index (the Index) return of -4.0%, by 0.3%.

Globally, data was mixed over the quarter. The major markets were mixed, with the S&P 500 down 1.1% and the FTSE 100 down 5.4%, while the Nikkei rose 4.3% and the Shanghai Composite rose 13.0%. Debate about the timing of the US Federal Reserve's monetary tightening policy continued, with the market shifting its expectations from June to September as the quarter progressed. Negotiations with Greece captured the market's attention as the 30 June deadline for payment to the International Monetary Fund approached. Europe and Japan each reported solid activity outcomes through April and May, only for momentum to fade as the quarter ended, particularly in Japan. Policy easing was a theme over the quarter, with the People's Bank of China cutting benchmark 1 year lending and deposit rates by 0.25% and the bank's reserve requirement ratio by 0.5%. Oil prices rose over the quarter, as did most commodity prices, which contributed to a mild increase in inflation.

The one constant in Australia throughout the June quarter was the exceptional strength in Sydney's housing market. The regulators increased pressure on the banks to curb lending to residential investors, although the impact was not clear in the credit data. The employment figures were solid with unemployment falling to 6.0% in May. Retail sales results were somewhat disappointing, as consumer confidence stayed low and faded after an initial increase post the Federal budget. The Reserve Bank of Australia trimmed the cash rate by another 25 basis points in May to 2.0% and the Australian dollar (AUD) closed the month at 77 US cents, up 1 cent over the quarter.

The key drag on the Index from a sector point of view was Consumer Discretionary (down 9.9%) and Health Care (down 6.9%) which was impacted by the poor performance of fertility clinic stocks Virtus Health and Monash IVF (neither of which is held in the Trust) due to pricing pressure and low demand. Energy (up 3.3%) and Utilities (up 2.8%) were the strongest sectors in the quarter.

The best performer for the Trust during the quarter was Citadel Group (up 68.7%) following the highly accretive acquisition of PJA Solutions in the ehealth sector. The Trust invested in Citadel at the IPO and has used weakness in the share price to build a meaningful position in this well run IT and education provider. Smartgroup Corporation (up 41.0%) provided strong guidance for the first half of the quarter and then towards the end of the quarter renewed the contract with the Department of Defence, their biggest customer. This stock was also an IPO which the Trust invested in last year and we had been buying on market since that time.

Sandfire Resources (up 30.1%) had an eventful quarter, delivering a solid production update followed by the selldown of shares from POSCO - opening up the register and improving liquidity. Later in the quarter, Sandfire announced very encouraging exploration results which could boost mine life meaningfully.

Other strong performers were Hansen Technologies (up 15.4%) which announced the acquisition of European-based billing system provider TeleBilling on an attractive 6x EV/EBITDA multiple and Fantastic Furniture (up 14.6%) with the market focusing on the sales opportunities for furniture in the strong housing market.

Detractors from performance included Energy Action (down 48.9%) which delivered a profit downgrade during the quarter. This was clearly disappointing but seems to be more related to poor cost control and forecasting rather than issues with revenue or structural issues in the market. We have engaged repeatedly with management and the board to emphasis our desire for better cost control and board depth. We have taken some comfort from the board renewal process which started late in the quarter.

Hillgrove Resources (down 36.9%) was another poor performer after announcing a deeply discounted rights issue. While this is a disappointing outcome, the reprieve here is that the Board finally listened to long-suffering shareholders and announced leadership changes, which we approve of, in addition to a significant reduction in overheads by relocating the head office from Sydney to Adelaide, combined with a reduction in Board members. Towards the end of the quarter it was encouraging to see heavy director buying both in the rights issue and on-market.

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.)
Perennial Value Smaller Companies Trust**	10.4	9.6	5.9	1.1	26.9	23.9
Market Average Ex-100*	13.9	12.1	5.2	1.7	8.8	15.6
Premium/ (Discount) to Market	(25%)	(21%)	14%	(35%)	206%	53%

Source: * Macquarie Securities, Goldman Sachs and UBS as at 1 July 2015. ** Perennial as at 26 June 2015.

During the quarter we exited poorly performing stocks WDS limited and Ashley Services where we saw little prospect of an imminent turnaround. IPH was sold on valuation grounds after a stellar run from IPO (up 123.8% to our exit price). iiNet and PanAust were also sold following takeover bids. Profits were used to build a position in Pulse Health a private hospital and day surgery provider. The Trust also participated in the IPO of Gateway Lifestyle and QMS Media.

Perennial Value Management remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. Sandfire Resources has engaged with Juwi Renewable Energy to build the largest off-grid solar array in the Southern Hemisphere. The project, subject to final approvals, will materially reduce Sandfire Resources' diesel consumption, something of a first for the mining industry. Assuming the project goes ahead, the solar array should be operational in 1Q16.

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
Other	3.3	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032 or visit www.perennial.net.au.