

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	3.0	9.6	11.5	19.1	8.2	4.8	10.1
S&P/ASX Small Ordinaries Accum. Index	-1.6	5.5	6.9	26.5	7.1	2.6	5.9
<b>Value Added (Detracted)</b>	<b>4.6</b>	<b>4.1</b>	<b>4.6</b>	<b>-7.5</b>	<b>1.1</b>	<b>2.2</b>	<b>4.2</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 31 August 2016):

AUD \$117 million

### Income distribution frequency:

Half yearly

### Minimum initial investment:

\$25,000

### Trust inception date:

March 2002

### APIR code:

IOF0214AU

- ▶ **Markets were weaker during August, with the S&P/ASX Small Ordinaries Index (the Index) down 1.6%.**
- ▶ **Reporting season dominated domestically, with mixed results at the Index level but value clearly outperforming.**
- ▶ **Against the backdrop the Perennial Value Smaller Companies Trust (the Trust) performed strongly up 3.0% net of fees, outperforming by 4.6%.**

## Market Roundup

The international markets were mixed with the S&P500 down 0.1%, FTSE100 up 0.9%, Nikkei 225 up 1.9% and the Shanghai Composite up 3.6%. Metal prices eased post their recent rallies, with nickel down 8.6%, copper down 5.2%, gold down 3.4% and iron ore down 2.8% over the month.

The oil price closed up 8.4%, having rallied 21.0% intra-month. The Federal Reserve left rates unchanged and the Reserve Bank of Australia (RBA) reduced rates by 25 basis points to 1.5%, with the Australian Dollar (AUD) finishing the month down 0.5 cents at 75 US cents.

Sector performance was mixed with utilities down 19.2% followed by materials down 6.0% and healthcare down 5.9%. Industrials was the strongest performer up 2.8% followed by information technology and energy both up 1.7%.

## Trust Performance

The Index fell 1.6% with the Trust finishing up 3.0%, net of all fees, thereby outperforming by 4.6%. The outperformance was driven by overall solid results from companies in the Trust as well as mergers and acquisitions (M&A) and a general trend towards value stocks.

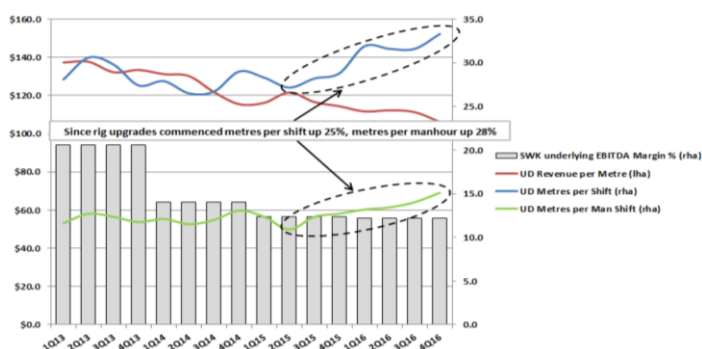
The bulk of companies in our Trust reported results that were in-line or ahead of market expectations, in stark contrast to the Index as a whole, which saw downward revisions for 37.0% of constituents with upward revisions for only 22.4%, according to research by JPMorgan.

Fantastic Furniture (up 29.2%) delivered earnings before interest and tax growth of 58.0% with very strong sales growth and cash generation. Given their strong balance sheet, they also rewarded shareholders with a 15.0 cent special dividend as well as a 40.0% increase in the final dividend.

National Vet (up 19.3%) delivered their maiden full year result as a listed company and came in 5.0% ahead of prospectus with excellent cash conversion. The outlook statement was also strong with 10.0% revenue growth forecast and consistent margins.

Skydive the Beach (up 16.8%) demonstrated growth in all their regions as well as strong performance from recent acquisitions – revenue and earnings before interest, tax, depreciation and amortisation were both up over 122.0%.

The best performing stock was Swick Mining up 62.5% for the month as the recent strength in the gold price begins to translate into increased work for their drilling rigs. The improvement was also evident in the FY16 result announced during the month, which showed an improvement in most metrics for the fourth quarter of 2016 and tangible evidence that the recent Research & Development initiatives aimed at improving productivity are beginning to gain traction. We still see considerable value in Swick given net tangle assets (NTA) of 38 cents versus 26 cents closing price and the early stage in the recovery cycle.



Our small cap resource analyst Sam Berridge inspecting Swick's rig at IGO's Nova Nickel Mine – 3 August 2016. Source: Perennial Value Management. Graph from Swick's FY16 result presentation.

The Trust also benefited from M&A activity with Intecq (up 28.3%) and Vitaco (up 18.9%) receiving bids during the period.

Disappointing earnings results were limited for the Trust with Gateway (down 18.5%) the only substantial miss to market consensus. The main drag on the result and FY17 guidance was the decision to bring forward the conversion of four tourist parks to higher yielding retirement parks – with the benefit of this initiative not seen in earnings until FY18. Clearly this could have been communicated to the market more effectively. However, we were encouraged by the underlying performance of the retirement rental stream and village costs and, thus, used weakness to add to our position.

### Trust activity

Trust activity picked up during the month with results presenting several opportunities. We used the strength in the Energy Action share price to exit this position given we have some concerns

about the likely expense growth in FY17. We also sold out of Vocus Communications after heavy director selling. Given renewed activity in the exploration sector, we added Imdex Limited to the Trust given their high Intellectual Property and encouraging signs of improvement in their rental fleet. We also added Adairs to the Trust, diversifying our retail exposure, using the proceeds from selling down a portion of Fantastic Furniture post a solid run.

During the month, we also took some profits in AVJennings, Ardent Leisure, GUD Holdings Limited, Sealink and Emerchants as the gap to our valuation began to close.

The Trust ended the month with 57 stocks and cash of 3.6%.

### 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 criteria) and little margin of safety, the Trust offers value trading on 12.2 times FY17 price to earnings (P/E) and 11.7 times price/free cash flow, representing a very significant 29.0% 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	5.5	3.9
Materials	8.9	18.0
Industrials	10.1	12.2
Consumer Discretionary	30.3	22.4
Consumer Staples	6.0	6.7
Health Care	6.6	7.1
Financials-x-Real Estate	7.6	8.1
Real Estate	11.3	11.8
Information Technology	7.7	7.6
Telecommunication Services	1.0	1.4
Utilities	1.4	0.7
Cash & Other	3.6	-

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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