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## Small company valuations underpin the case for a disciplined, value process

Investors in small company stocks must work harder and smarter to find value during periods of relatively full market pricing and low consumer sentiment, according to the portfolio managers guiding leading small cap fund, the Perennial Value Smaller Companies Trust (the Trust).

Co-portfolio managers Grant Oshry and Andrew Smith today said while the small cap sector has experienced a reasonable 'bounce' and valuations in some sectors remain stretched, the team has assembled a portfolio currently trading on a one year forward average P/E multiple of only 12 times' earnings.

"This represents good value relative to history and a large discount to the present market," said Mr Smith.

"To construct a portfolio in this manner takes time, specialist resources and a disciplined investment process including robust risk limits that pre-determine when to move out of a stock," he said.

By contrast the price to earnings multiple for the (S&P/ASX Small Ordinaries Accumulation) Index is currently trading at 16.8 times, representing an overall challenging picture for investors.

"Research depth is critical - we have seen high numbers of new market entrants, in fact 59 eligible new small caps listing in the past 20 months. Of these 59 stocks, the Trust participated in just 18, following extensive due diligence on the majority of the new opportunities. A further two stocks were bought on market at more attractive valuations after falling below the issue price."

### **Growth Outlook**

Mr Oshry said a number of key themes mark potential future growth opportunities.

"We see some near-term growth emerging for companies with exposure to the Australian housing construction sector, our ageing population (retirement and aged care) and various organisations that would benefit from a falling Australian dollar.

"Additionally, there are a handful of Australian-based mining companies we like. In the medium term, infrastructure spending could also deliver a potential fillip," Mr Oshry said.

"The absolute key in the current market is to remain committed to research and our value investment approach – including being highly proactive with our calls on stocks. The small caps sector in Australia is under researched, another key factor we believe helps Perennial Value Smaller Companies maintain an edge in the pursuit of excess returns."

**ENDS**



## **Background information**

### **The Perennial Value Smaller Companies Trust**

The Perennial Value Smaller Companies Trust provides actively managed exposure to a portfolio of Australian smaller company shares, employing a value style investment process. The Trusts invests outside the top 100 Australian listed companies with a market capitalisation greater than \$50 million.

### **About Perennial Value**

Perennial Value Management Limited (Perennial Value) is a specialist, active investment management firm, offering four Australian Share investment capabilities, Perennial Value Australian Shares, Perennial Value Shares for Income, Perennial Value Smaller Companies and Perennial Value Australian Shares Wealth Defender.

Established in 2000, Perennial Value currently invests \$8.1 billion (as at 31 August 2014) in Australian shares on behalf of institutional and retail clients in Australia and offshore.

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