

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	2.3	-2.9	2.3	-5.0	4.4	4.7	9.8
S&P/ASX Small Ordinaries Accum. Index	1.6	-4.1	1.6	-2.8	3.1	0.6	5.0
Value Added (Detracted)	0.7	1.2	0.7	-2.2	1.3	4.1	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 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 July 2015):

AUD119.5 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ **Globally, despite the ongoing drama in Greece and China, major markets were up.**
- ▶ **Retail spending and consumer confidence remained weak while business confidence found fresh highs.**
- ▶ **The top performing stock in the Trust was payment solutions provider Emerchants (up 24.6%) following the announcement that they have partnered with Bancorp Inc.**

The benchmark S&P/ASX Small Ordinaries Accumulation Index (the Index) had a good start to the new financial year rising 1.6%. Pleasingly, the Perennial Value Smaller Companies Trust (the Trust) gained 2.3% after all fees, thereby outperforming by a net 0.7%.

Unit holders received a final distribution of 3.84c per unit for FY15, which was paid in early July. Together with the 1.01c per unit interim distribution that was paid in early January, the total FY15 distribution amounted to 4.85c per unit, equivalent to a cash distribution yield of 5.73%, based on the redemption price on 1 July 2014.

Globally, despite the ongoing drama in Greece and China, major markets were up with the S&P 500 up 2.0%, FTSE up 2.7% and Nikkei 225 up 1.7%. In China, share prices fell with the Shanghai Composite down 14% despite the efforts of the authorities to stem the fall. China's economic data had improved, continuing the apparent dislocation between activity and markets albeit the Shanghai Composite is still up over 60% in the last year. Elsewhere, the US Federal Reserve edged closer to the first tightening as the economy continued to heal, and Europe's data remained solid, despite the tremors emanating from Greece.

In Australia, the economic data was mixed with another upbeat reading on employment, which means the jobless rate is now actually below its level of a year ago. Retail spending and consumer confidence though, remained weak while business confidence found fresh highs. The housing markets in Sydney and Melbourne continued to strengthen. At the behest of regulators, the Australian banks introduced further measures towards month end to curb lending to investors in an effort to restrain the strong housing markets. Commodity prices were extremely weak with the Brent oil price down 17.9%, copper down 8.8% and iron ore down 11.5%. There was a flow-on impact on the Australian dollar which fell from US\$0.77 to US\$0.73 over the month. The Reserve Bank of Australia (RBA) left interest rates unchanged.

The best performing small cap sectors were mainly defensives with Consumer Staples (up 8.7%), Healthcare (up 6.4%) and Property Trusts (up 4.9%). Utilities was the weakest sector (down 11.5%), followed by Energy (down 8.5%) and Materials (down 6.1%).

The top performing stock in the Trust was payment solutions provider Emerchants (up 24.6%) following the announcement that they have partnered with Bancorp Inc., which will allow the company to offer their products through all European Union member states. Emerchants also released their June quarterly cash flow statement, which reflected positive operating cash flow during the quarter.

iSelect (up 22.2%) announced the sale of Health.com.au for \$42 million to GMHBA, a not-for-profit organisation. Additionally, GMHBA will join iSelect's health insurance panel, which sees Health.com.au remain on this panel, but on a 100% up-front cash commission basis, which is a very positive outcome.

It was not all doom and gloom in the Resources sector with Regis Resources (up 20.4%) bucking the trend despite a softer gold price. The company made a number of positive announcements, including the re-commencement of dividends. Regis delivered a strong cash flow during the June quarter, announced a mine life extension and also confirmed a \$25 million share buy-back for FY16. This was followed by a non-executive director buying shares on market.



Perennial Value's small cap resources analyst talking to Regis Resource's Chief Operating Officer, Paul Thomas (right), at the August 2015 Diggers & Dealers conference being held in Kalgoorlie, WA

The main detractor during the month was Austex Oil (down 24.8%) despite 80% of their production hedged above US\$80/barrel (versus spot of approximately US\$50/barrel), thereby providing support to their revenue line and a valuable hedge book in the process. Unfortunately the market ignored this as the stock sold-off on the oil price weakness.

Following a surge in Australian residential property prices (Sydney median house prices are now 40% above their previous cycle peak, according to the August 2015 RPDData-Riskmark release), housing affordability has again come into question. This combined with Australian Prudential Regulation Authority (APRA) macro-prudential changes to limit bank's loan growth to investors to a maximum rate of 10% p.a. led us to profitably exit our long-standing position in Mortgage Choice. Our average exit price was \$2.28, having acquired our stake at \$1.24 in January 2010, during which time we derived a handsome dividend yield in excess of 10% p.a.

Some profits were taken in resi-land developer AVJennings, with the proceeds being redeployed to add to our Super Retail position.

At month end, stock numbers were 50 and cash was 5.3%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	8.7	5.5
Materials	11.3	12.9
Industrials	9.6	15.7
Consumer Discretionary	31.8	22.4
Consumer Staples	1.0	3.4
Health Care	3.7	9.1
Financials-x-Real Estate	9.2	7.5
Real Estate	12.7	12.5
Information Technology	5.7	5.5
Telecommunication Services	0.0	4.9
Utilities	1.1	0.7
Cash and other	5.3	-

Rounding accounts for small +/- from 100%.

Signatory of:



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