

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	6.0	2.5	4.9	5.6	2.7	2.3	9.8
S&P/ASX Small Ordinaries Accum. Index	7.1	1.4	2.9	2.4	0.6	-1.8	5.0
<b>Value Added (Detracted)</b>	<b>-1.1</b>	<b>1.1</b>	<b>2.0</b>	<b>3.2</b>	<b>2.1</b>	<b>4.1</b>	<b>4.8</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 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 October 2015):

AUD 120 million

### Income distribution frequency:

Half yearly

### Minimum initial investment:

\$25,000

### Trust inception date:

March 2002

### APIR code:

IOF0214AU

- ▶ **The S&P/ASX Small Ordinaries Accumulation Index gained 7.1%. This is the third consecutive month that the Index has outperformed the S&P/ASX Top 100 Accumulation Index.**
- ▶ **In Australia, all four major banks raised the interest rate on variable rate residential mortgages by between 15 and 20 basis points.**
- ▶ **The top performing stock in the Trust was oil & gas services provider Matrix Composites & Engineering (up 67.4%).**

Ever since 1929 and 1987, October is usually associated with equity market sell-offs. This was not the case this month, with the S&P/ASX Small Ordinaries Accumulation Index (the Index) gaining 7.1%. The Perennial Value Smaller Companies Trust (the Trust) performed strongly rising 6.0% after all fees, but could not beat its index, which benefitted from expensive index-heavy constituents such as Blackmores and Sirtex (neither of which are held in the Trust as they do not meet our value criteria), thereby underperforming by a net 1.1%.

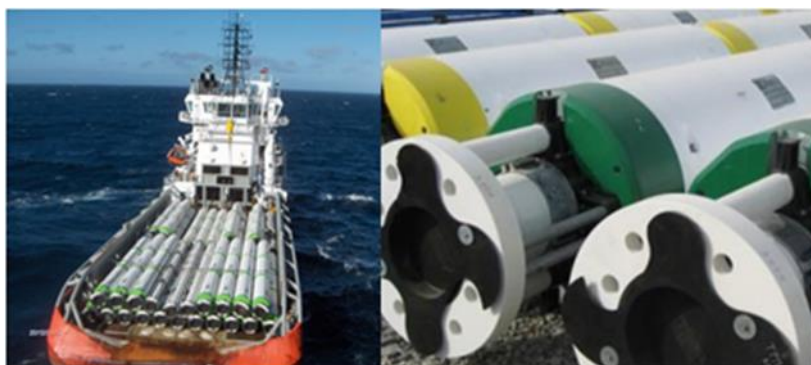
It is worth noting that this is the third consecutive month that the Index has outperformed the S&P/ASX Top 100 Accumulation Index.

Markets were strong globally with S&P500 up 8.3%, FTSE up 4.9%, Nikkei up 9.8% and Shanghai Composite up 10.8%. This was against a backdrop of generally deteriorating economic data in most major economies, which saw the Federal Reserve Fed (the Fed) hold off on raising rates, the People's Bank of China cut rates and rising speculation of further easing from the European Central Bank (ECB) and the Bank of Japan.

In Australia, all four major banks raised the interest rate on variable rate residential mortgages by between 15 and 20 basis points. In general, commodity prices were stable. The Reserve Bank of Australia (RBA) left the cash rate unchanged and the Australian Dollar (AUD) increased by 1 cent to 71 US cents.

The best performing sector was energy (up 19.9%), followed by materials (up 11.9%). All sectors finished on a positive note, except for information technology (down 0.4%).

The top performing stock in the Trust was oil & gas services provider Matrix Composites & Engineering (up 67.4%), following presentations delivered by the company to two microcap conferences during the month, one of which was held in Asia. This re-rate highlights the deeply depressed multiple the company was trading on prior to this move.



Source: Matrix Composites & Engineering- riser buoyancy product

Payments solutions provider Emerchants (up 37.3%) delivered a strong quarterly result. Additionally, the company benefitted from a broker initiating coverage during the month.

Tandem jumping provider Skydive The Beach (up 25.2%) announced the accretive acquisition of Skydive Queenstown, which is New Zealand's leading tandem skydiving company.

Copper producer Sandfire Resources (up 17.6%) announced a pleasing quarterly result coupled with more positive exploration results.

Other strong performers included salary packaging provider SmartGroup (up 16.3%), Aveo Group (up 14.9%), Sealink Travel Group (up 14.4%) and Whitehaven Coal (up 14.0%).

The main detractor during the month was marine logistics provider MMA Offshore (down 18.4%) despite no new news announcements. Day rates continue to weaken and the market is becoming concerned around the state of the company's balance sheet and the need for new equity. We are of the opinion that superfluous assets will be sold to bolster cash rather than the issue of new equity.

Homebuilder Simonds Group (down 13.5%) announced the resignation of their managing director. Whilst senior executive resignations are disruptive, we are encouraged by the strong level of divisional management. We are also encouraged by the company's on-market buyback, which we view as an effective allocation of capital, given where the share price currently trades.

During the month we reduced our housing exposure by exiting our holding in Brickworks, which has returned good results for the Trust, both in dividends and capital gains. We also exited our position in Washington H. Soul Pattinson & Co, having initially invested in March 2015 at an average price of \$14.46 given the stock was trading at a 19% discount to its Net Tangible Assets (NTA) (we are of the view that a 10% discount is appropriate for a holding-company type structure). In light of this discount narrowing and our views on the housing sector (a third of this company's exposure is to Brickworks), we exited at an average of \$15.21, having also received a 20 cents per share interim dividend in April.

Having received an indicative takeover offer from Providence Private Equity last month at the time when the managing director resigned, we exited iSelect during October at an average price of \$1.65, following the resignation of their Chief Financial Officer (CFO) coupled with talk of senior sales people leaving to join rival Compare the Market. Additionally, the Victorian Government is planning to launch their own energy comparison website which will be further competition for iSelect's budding Energy vertical.

Proceeds were used to establish a position in regional free-to-air television provider and owner of 78 radio licences, Southern Cross Media Group at an average price of 97 cents. We also increased our exposure in Fantastic Holdings, following their 1Q16 sales update which reflected a comparable sales increase of 16.9%

At month end, stock numbers were 49 and cash was 3.7%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.7	3.4
Materials	7.1	15.0
Industrials	9.4	12.9
Consumer Discretionary	33.6	21.6
Consumer Staples	2.7	7.1
Health Care	4.0	8.9
Financials-x-Real Estate	9.8	9.1
Real Estate	13.8	12.2
Information Technology	5.0	5.9
Telecommunication Services	3.1	3.4
Utilities	1.1	0.6
Cash & Other	3.7	0.0

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)

Signatory of:



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