Perennial Value Smaller Companies Trust

Quarterly Report as at 31 December 2013

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Smaller Companies Trust+	0.2	-3.7	-0.3	14.7	10.7
S&P/ASX Small Ordinaries Accum. Index	-0.2	-0.8	-6.0	8.1	5.6
Value Added (Detracted)	0.4	-2.9	5.7	6.6	5.1

+Net performance (including performance fee). ^Since inception: March 2002. **Past performance is not a reliable indicator of future performance.**

- The Trust has delivered a net return of 19.1% for the financial year to date, outperforming the Index return by 4.4%.
- For the quarter, the best performing stock in the Trust was Aveo Group (up 71.3%).
- In the latter part of the quarter, analysing the barrage of IPOs that came to market and selecting the better investment opportunities was a key focus of our activity.

The S&P/ASX Small Ordinaries Accumulation Index (the Index) ended the December quarter down 0.2%. During this period, the Perennial Value Smaller Companies Trust (the Trust) outperformed by 0.4%, with a return, net of all fees, of 0.2%.

For the financial year to date, the Trust has returned 19.1% net of all fees against the Index return of 14.7%, thereby outperforming by a net 4.4%.

During the December quarter, investors had to contend with the US Government partially shutting down until a deal was struck between their political parties to avoid breaching the country's debt limit. Economic data emanating from the Eurozone showed an overall improvement in that region as it emerged from a protracted recession. China recorded third quarter GDP growth of 7.8%, while policymakers continued their efforts to slow down credit growth and housing activity in favour of accelerating the rotation to domestic consumer spending. With an improving US economy, the US Federal Reserve announced in December that it would begin tapering its bond buying program, effectively reducing purchases by USD10 billion to USD75 billion per month from January.

Amidst all of these macroeconomic factors, investors exposed to the smaller end of the Australian market had to contend with a number of companies downgrading their earnings around annual general meeting (AGM) time. Additionally, initial public offering (IPO) activity accelerated with 28 new IPOs, the highest quarterly number since 4Q10, creating a flood of new equity issuance, mainly at the smaller end, which the market had to digest.

Perennial Value Smaller Companies Trust Facts:

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 31/12/13): AUD135.6 million	**Income Distribution Frequency:** Half yearly
Trust Inception date: March 2002	**Minimum Initial Investment:** $25,000
	APIR code: IOF0214AU

*Excluding performance fees.

Domestically, economic data was mixed, with the unemployment rate ticking up to 5.8% and both consumer sentiment and business confidence lower after a post-election spike. On the positive side, housing approvals increased and retail sales growth improved. The Reserve Bank of Australia (RBA) held cash rates at a record low of 2.5% albeit the RBA Governor used verbal intervention to jawbone the Australian dollar lower, which by quarter end had fallen 4 cents to close at USD0.89 - the first time since August 2010.

Financials (up 3.3%), telecommunications (up 2.6%) and real estate (up 1.0%) were the better performing sectors, while materials (down 10.4%), information technology (down 8.9%) and energy (down 8.6%) lagged.

The best performing stock in the Trust was Aveo Group (formerly FKP) (up 71.3%) following a positive trading update on its residential portfolio and some asset sales above book value. The company also announced a rights issue at $1.30, which the Trust participated in (quarter end price $2.06) to assist the company in expediting its strategy to become a pure-play retirement business. One of Aveo's largest shareholders, Stockland, sold out of its entire holding, thereby removing a perceived overhang, given their comments earlier in the year that at some point they would look to exit, which had since weighed on Aveo's share price.

BT Investments (up 35.7%) delivered a strong annual result during the quarter, with a strong contribution from JO Hambro, a UK-based fund manager acquired in 2011. With the majority of BT's earnings now being derived from offshore, this company stands to benefit from the falling Australian dollar.

TPG Telecom (up 23.5%) delivered a strong annual result followed by a positive AGM update in addition to an astute purchase of AAPT from Telecom New Zealand. This earnings accretive acquisition provides TPG with fibre infrastructure and will assist the company in expanding into the lucrative SME market. While we view this deal very favourably, we took some profits during the quarter following stellar share price gains, in line with our investment process given the company's valuation metrics.

Despite a weak performance from the materials sector (which the Trust is underweight) as noted above, Hillgrove Resources (up 23.3%) reported an improved 3rd quarter production report which reflected early signs of improvement in operating metrics. The company also announced positive changes to its Board composition, of which Perennial Value was a catalyst.

Other strong performers during the quarter included Hansen Technologies (up 20.8%), Transpacific Industries (up 19.4%), APN News & Media (up 18.4%), Rungepincockminarco (up 16.7%), Funtastic (up 16.1%) and iSelect (up 14.7%).

Detracting from performance was Ausenco (down 56.4%) after its earnings downgrade and capital raising in late November. The only comfort we could take in light of this negative situation was Ausenco's managing director personally investing a further $1.5 million in taking up his entitlement offer.

A weaker gold price coupled with political and economic issues in Argentina resulting in significant inflation, resulted in a sharp sell-off in Troy Resources (down 48.0%). In light of these events outside the control of this company and given the impact they are having on operations with no certainty as to when they will be resolved and what the outcome may be, we cut our losses to preserve any further capital destruction.

Crowe Horwath (down 45.7%) announced a significant earnings downgrade due to weak demand for discretionary business advisory services in both Australia and New Zealand. We continue to monitor this position closely, mindful it was only in February 2013 that this company received a takeover offer.

The Trust remained active during the quarter, selling out of the remainder of our iron ore exposure by exiting Mount Gibson given our concerns over an increase in iron ore supply this year from increased production out of the majors and the impact that this will have on the iron ore price. It appears we are not alone in our view, given comments from the RBA regarding their concerns over the trade balance in 2014 due to their expectations of a weaker iron price and the effect it will have on Australian iron ore exports.

We have been active for the latter two months of the quarter analysing the barrage of IPOs that came to market, being very selective in our participation. Registered training and education provider Vocation (issue price $1.89, quarter end price $2.05) was one of the IPOs the Trust invested in given our positive outlook for this growing, fragmented sector aided by changes to the government's funding for TAFE providers, which is key to providing a source of demand for the likes of Vocation.

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. Tourism and transport provider Sealink does not formally have a diversity policy, given its recent IPO, but has committed to having this formally in place by 30 June 2014, ahead of its inaugural publicly released set of accounts. Nonetheless, as at October 2013, of the Group's 646 employees, 41% are women as is 17% of the Group's key executive team, which is a promising start ahead of the formalisation of its diversity policy.

At quarter end, stock numbers stood at 57 with cash at 2.3%.

Asset Allocation as at 31 December 2013

Asset Class	Trust Weight %	Index Weight %
Energy	12.8	7.2
Materials	11.3	17.5
Industrials	14.7	16.7
Consumer Discretionary	27.6	26.6
Consumer Staples	1.4	2.4
Health Care	2.6	4.4
Financials-x-Real Estate	4.9	6.3
Real Estate	13.7	9.5
Information Technology	3.9	2.3
Telecommunication Services	2.6	5.5
Utilities	1.6	1.6
Other	2.7	0.0

Rounding accounts for small +/- from 100%.