

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	10.3	7.1	0.6	0.9	1.7	5.8	10.1
S&P/ASX Small Ordinaries Accum. Index	8.4	9.9	6.7	3.1	-1.0	1.4	5.5
Value Added (Detracted)	1.9	-2.8	-6.1	-2.2	-2.7	4.4	4.6

*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 28 February 2015):

AUD112.6 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ **The smaller end of the Australian equity market performed very strongly during the month of February, outpacing the broader equity market. The Trust outperformed the Index by 1.9%.**
- ▶ **Reporting season dominated the local equity market, with results overall slightly better than what the market was expecting.**
- ▶ **The best attributor during the month was Sino Gas (up 48.1%), which more than reversed last month's decline.**

The smaller end of the Australian equity market performed very strongly during the month of February, outpacing the broader equity market. The benchmark S&P/ASX Small Ordinaries Accumulation Index (the Index) rose 8.4%. Pleasingly, the Perennial Value Smaller Companies Trust (the Trust) gained 10.3% after all fees, thereby outperforming by a net 1.9%.

Reporting season dominated the local equity market, with results overall slightly better than what the market was expecting. Capital management announcements were a sub-feature with Matrix Engineering and Fairfax Media announcing on-market buybacks, while Fantastic Holdings announced a special dividend. Key drivers of the Index included a strong performance from resources and stellar performance from selected industrials.

Globally, markets ended the month higher, with the Nikkei 225 (up 6.4%), S&P500 (up 5.5%), Shanghai Composite (up 3.1%) and FTSE (up 2.9%) all stronger. In Europe, Greece's new Government secured a bailout extension and the German economy gained momentum as 4Q14 GDP rose 0.7%. The Japanese economy also grew at an annual rate of 2.2% q/q. The US continues to recover with the January job increase the highest since November 2008. This resulted in the longest consecutive months where new jobs exceeded 200,000 since 1994. In China, the People's Bank of China cut the reserve requirement ratio by 50 basis points and benchmark interest rates by 25 basis points.

Domestically, data was mixed. The Westpac Melbourne Index of Consumer Sentiment increased by 8% in February, the highest level of the index since January last year. The index is now 1% above the last reading prior to the May budget. The NAB Monthly Business Survey Confidence Index was up slightly to +3 points, however still below long run averages. The Reserve Bank of Australia (RBA) lowered the cash rate by 25 basis points to 2.25% during February and the AUD was steady at 78 US cents.

All sectors ended in positive territory with the strongest being Energy (up 15.2%) and Materials (up 11.0%). The weakest sector was Telecommunications (up 2.3%).

The best attributor during the month was Sino Gas (up 48.1%), which more than reversed last month's decline, as concerns regarding the oil impact on the China domestic gas price subsided. Subsequent to month end, the Chinese regulator (NDRC) confirmed domestic gas prices would remain at elevated levels, consistent with pre-existing policy for incentivising growth in domestic supply. The company has guided to an updated reserve in March, which we anticipate to be positive.

Despite the nickel price falling 5% over the month, Panoramic Resources rallied 31.9% on the back of investor anticipation of further positive results from Savannah North once an exploration decline is completed in late March. Even though the nickel price was down, Chinese nickel pig iron production data suggests that low prices are having an impact on production and the nickel market is close to a floor.

After a strong set of financials released on 30 January, Whitehaven Coal (up 29.8%) benefitted from the thermal coal price rallying 17% in February at the same time as its flagship Mauls Creek operation ramps up to 6 million tonnes per annum (Mtpa) of high quality thermal coal. These factors have meant that any concerns regarding Whitehaven's ability to refinance its debt have subsided materially.

Comparison website iSelect (up 20.1%) reported a respectable result with a substantial improvement in their revenue and earnings. Additionally, their lead-to-conversion rate improved driven by their Energy vertical which contributed 19% of the Group's revenue. This year's health insurance premium increase ranges from 4 to 7.9% and bodes well for iSelect as policyholders look for a better deal. A favourable outcome on NIA (Health.com.au) is expected by 31 July which may see iSelect's net cash balance rise further from the current \$59m, paving the way for possible capital management.

Aluminium product manufacturer Capral (up 20.0%) reported a good operating result with strong guidance for the full year. A weaker Australian dollar is supportive of their local manufacture as foreign imports become dearer. Additionally, Capral were successful in their anti-dumping case against one of their main competitors, an importer that represents 9% of Australian extrusion supply, which will see them face a significant rise in import duties, thereby placing Capral in a more competitive pricing position.

APN News & Media (up 19.1%) delivered a solid result, highlighting the strength of their radio assets. Post their acquisition of 96FM in Perth, they are now able to offer their customers exposure to a national audience. APN's growing outdoor business, Adshel, is another asset we view favourably and looking ahead we see this as a source of growth.



Perennial Value's analyst alongside one of APN's Adshel displays at Martin Place train station, Sydney - February 2015

The main detractor in February was energy procurement business Energy Action (down 28.9%) after the company downgraded their earnings. Part of the reason is attributed to the company entering into longer-dated contracts, the result being that revenue previously expected to be booked in FY15, will now be booked in FY16.

In terms of portfolio activity, we exited our position in Boom Logistics given their level of gearing coupled with a lack of significant new contract tenders on the horizon. Profits were taken in each of Aveo Group, APN News & Media, M2 Telecommunications, Tox Free Solutions, Sino Gas and Panoramic Resources following strong share price gains during the month.

iiNet was sold off aggressively during the month after reporting their interim results, which created an opportunity for the Trust to establish a position in this telecommunications company.

At month end, stock numbers were 52 and cash was 4.8%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	7.8	5.3
Materials	10.2	15.2
Industrials	15.7	14.1
Consumer Discretionary	29.7	24.5
Consumer Staples	0.0	4.0
Health Care	2.0	7.0
Financials-x-Real Estate	10.3	8.1
Real Estate	13.0	11.4
Information Technology	2.7	4.7
Telecommunication Services	2.5	4.9
Utilities	1.3	0.7
Other	4.8	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
or visit www.perennial.net.au.

Signatory of:



Issued by: The Investment Manager, Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Manager: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial's website www.perennial.net.au.