

Perennial Value Smaller Companies Trust

Monthly Report as at 31 December 2012

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Smaller Companies Trust ⁺	5.6	4.4	18.1	21.3	7.2	3.0	12.2
S&P/ASX Small Ordinaries Accum. Index	3.2	2.0	9.4	6.6	-1.8	-6.9	6.2
Value Added (Deducted)	2.4	2.4	8.7	14.7	9.0	9.9	6.0

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

- The Trust finished the month up 5.6%, outperforming the Index return by 2.4%.
- The better performing stocks included Forge Group (up 34.7%), Clough Engineering (up 13.4%), Mount Gibson (up 29.5%) and Northern Iron (up 21.4%).
- Funtastic and Lifestyle Communities were added to the Trust during the month.

International politics dominated headlines, particularly with the US fiscal cliff negotiations (plan to deal with the US fiscal deficit by raising taxes and reducing government expenditure) weighing down sentiment surveys. Despite this and Treasurer Wayne Swan abandoning efforts to achieve a budget surplus in Australia's fiscal 2013, the S&P/ASX Small Ordinaries Accumulation Index (the Index) gained 3.2% (almost half of its annual gains in the month of December alone). It is very pleasing to report that in such a strong equity market environment, the Perennial Value Smaller Companies Trust's (the Trust) net return for the month was 5.6%, outperforming the Index return by 2.4%.

For the 2012 calendar year, the Trust's net return was 21.3%, outperforming the Index return of 6.6%, by a healthy 14.7%.

The best performing sectors were industrials (up 10.4%), financials (up 6.7%) and property trusts (up 4.6%). The worst performing sectors included consumer staples (down 7.5%), information technology (down 3.7%) and materials (down 1.4%).

Despite the Reserve Bank of Australia reducing the cash rate by 25 basis points to 3.0%, a level reached in April 2009 during the global financial crisis, overall economic data was muted. Third quarter 2012 gross domestic product growth was less than expected with the government sector being the main drag and reflected the weakest rate of expansion since Q1 2011. The Westpac-Melbourne Institute's consumer confidence index fell sharply as did the NAB business confidence survey for November. October retail sales came in flat, following an increase in September. The Australian dollar finished fractionally weaker at USD1.04.

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

Trust FUM

(as at 31/12/12):

AUD114.9 million

Team FUM

(as at 31/12/12):

AUD7.4 billion

Trust Inception date:

March 2002

Risk Profile:

High

Income Distribution

Frequency:

Half yearly

Minimum Initial

Investment:

\$25,000

APIR code:

IOF0214AU

*Excluding performance fees.

The best performing stock held in the Trust was mining services contractor Forge Group (up 34.7%) following an earnings upgrade announcement by the company. A week later, the company won a contract from BHP Billiton to develop its Yarnima, WA power station. This also benefited Clough Engineering (up 13.4%), given they own almost 36% of Forge. Additionally, Clough announced a profit upgrade due to an increase in its own revenue and operating margins. The ongoing recovery in the iron ore price led to strong gains by iron ore producers Mount Gibson (up 29.5%) and Northern Iron (up 21.4%). Matrix Engineering (up 21.4%) announced various new contract

wins, resulting in a share price recovery after a period of underperformance. Other strong contributors included Whitehaven Coal (up 17.8%), Bradken (up 17.6%), Mineral Resources (up 16.0%) and Neon Energy (up 13.3%). Each of our telecommunications exposures added to performance, with strong gains from Amcom Telecom (up 12.4%) and TPG Telecom (up 11.6%).

FKP Property (down 17.2%) detracted from performance despite recent positive asset sale announcements within 10% of net tangible asset value (NTA), thereby highlighting the steep 70% discount that this stock currently trades at. Should this trend of asset sales continue, coupled with an improved residential housing market driven by lower borrowing rates, we believe that this discount to NTA will start to close. Troy Resources (down 13.0%) was softer largely due to sovereign issues surrounding its exposure to Argentina. Given Troy has a relatively small to moderate amount of cash exposed to Argentina at any one point in time, we viewed this weakness as a buying opportunity.

In terms of Trust activity, following very strong share price performances we exited our long standing holdings in Technology One and NIB Holdings on valuation grounds. Additionally, we sold out of Abacus Holdings and Mermaid Marine following strong share price gains, with the discount to NTA narrowing to a single digit in the case of Abacus, while the latter was sold on valuation grounds coupled with the Managing Director selling 40% of his holding.

Post strong share price gains, profits were also taken in Mount Gibson, Amcom Telecom, TPG Telecom, Oroton, Horizon Oil, Forge and Clough.

We added Funtastic to the Trust given the stock trades at a significant discount to the Small Industrials Index and its profitability under the new management team has improved with dividends flagged as resuming in FY13, thereby placing this stock on an attractive dividend yield. Given we acquired this position on-market at a discount, we banked some profits intra-month.

Lifestyle Communities was another new position added to the Trust this month, given our positive view on the retirement sector, which, as in the case of FKP, should improve with an improving residential housing market

given retirees generally sell their primary residence prior to moving into a retirement village.

At month end, stock numbers stood at 57 with cash at 3.5%.

Asset Allocation as at 31 December 2012

Asset Class	Trust Weight %	Index Weight %
Energy	20.0%	9.6%
Materials	15.5%	26.7%
Industrials	20.8%	22.7%
Consumer Discretionary	16.8%	15.6%
Consumer Staples	0.0%	1.4%
Health Care	0.0%	4.2%
Financials-x-Real Estate	4.1%	6.7%
Real Estate	2.7%	6.5%
Information Technology	6.9%	1.8%
Telecommunication Services	3.2%	3.6%
Utilities	1.1%	1.4%
Other	8.8%	-

Rounding accounts for small +/- from 100%.

Signatory of:



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