

Perennial Value Smaller Companies Trust

Monthly Report as at 31 October 2013

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Smaller Companies Trust+	3.4	11.9	22.9	4.1	2.5	14.4	11.2
S&P/ASX Small Ordinaries Accum. Index	2.7	7.5	18.0	2.9	-2.7	7.5	6.0
Value Added (Deducted)	0.7	4.4	4.9	1.2	5.2	6.9	5.2

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

- For the month, the net return of the Trust was 3.4%, outperforming the Index return by 0.7%.
- FKP Property Group (up 54.2%) was a key contributor to the Trust's performance, with Sealink Travel Group and Sino Gas also performing strongly.
- We established a new position in ResMed as disappointing short term earnings provided an attractive entry point into this quality company.

US headlines continued to dominate global markets with the US Government partially shutting down until mid-month when a deal was made to avoid breaching the country's debt limit. Despite this uncertainty, the S&P500 finished up 4.5%. China recorded third quarter GDP growth of 7.8%, the Euro Area PMI reading was the highest level since mid-2011 and the US ISM in September was solid.

Against this backdrop, the S&P/Small Ordinaries Accumulation Index (the Index) was up 2.7%. The Perennial Value Smaller Companies Trust's (the Trust) performance was ahead of this, up 3.4% (net of all fees), outperforming the Index return by 0.7%.

The best performing sectors in the Index were financials (ex-property trusts) which were up 8.2% and consumer staples up 4.7%. Utilities was the worst performing sector (down 2.7%), followed by energy (down 0.9%).

Domestic data was upbeat with residential building approvals ahead 12.8% year on year, the NAB survey of business confidence for September reached a 3.5 year high and September unemployment fell 20 basis points to 5.6%. Unsurprisingly, the Reserve Bank of Australia left the cash rate unchanged and the AUD finished relatively flat at \$0.95.

A key performer for the Trust was FKP Property Group (up 54.2%) which had an eventful month. Investor interest in the stock continued to increase as FKP executed on additional assets sales at a premium to book value. During the month there was \$56.5 million in settlements, \$46 million in agreed sales and an underwritten deal to sell out of Metlifecare (which will leave the RVG vehicle, 22% owned by FKP, debt free). However, the timing of

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 31/10/13): AUD136.7 million	Income Distribution Frequency: Half yearly
Trust Inception date: March 2002	Minimum Initial Investment: \$25,000
	APIR code: IOF0214AU

*Excluding performance fees.

settlements on further asset sales created some risk on FKP meeting debt repayments in early 2014. To fund these repayments FKP undertook a deeply discounted rights issue towards the end of the month to raise \$232 million. As a major shareholder, we had previously conveyed our view to the board that they should avoid raising money at such a large discount to NTA. While disappointed with the raise, there was some encouraging news at month end. Given investor demand, Stockland was able to sell out of FKP entirely, removing what had become an overhang for the stock. This, combined with a strong 1Q14 trading update, saw the stock resume trading ahead of the theoretical ex-rights price. Looking forward, FKP is now sufficiently capitalised and well placed to close

the NTA gap (now \$2.74 versus month end price of \$1.85) with a further \$767 million in non-core asset sales identified for sale.

Another strong performer was Sealink Travel Group (up 30.9% from IPO price) which listed on the ASX during the month. We have been familiar with this business for close to a year before it listed and undertook a site visit to the company's key asset in South Australia, being the ferry to Kangaroo Island. After this visit and extensive due diligence we became a cornerstone investor, attracted to both their quality assets and also the upside to earnings from a sustained lower Australian dollar which should boost both domestic travel and attract foreign tourists.

Sino Gas (up 30.6%) was another strong performer as investors reacted to a reserve update during the month. This stock was added to the Trust in September, again after extensive due diligence and multiple meetings with management. Our comfort with this investment was further enhanced by a visit by our dedicated resource analyst to their acreage in China during the month.

Other strong performers were Hillgrove Resources (up 23.3%) following an encouraging corporate update which showed a positive response from the board to some of the issues raised by activist investors Ariadne. APN News and Media (up 22.4%) was also stronger after a decision to reduce debt via a sale of their remaining holding in APN Outdoor.

Whitehaven Coal (down 19.4%) was a key detractor during the month, as coal prices remained subdued and its margins came under pressure from the rise in the AUDUSD. Oz Minerals (down 18.3%) provided disappointing guidance, while Forge Group (down 16.2%) highlighted tough conditions at its AGM during the month.

It was a busy month in terms of Trust activity. The position in Pacific Brands was exited following a disappointing AGM update and the remaining stake in Mount Gibson was also sold on valuation grounds. Following the strong performance of APN News and Media, we took some profits and reinvested them in Fairfax Media which has underperformed the sector and the market. A position was also established in ResMed as disappointing short term earnings provided an attractive entry point into this quality company.

At month end, stock numbers stood at 56 with cash at 1.8%.

Asset Allocation as at 31 October 2013

Asset Class	Trust Weight %	Index Weight %
Energy	12.6	6.7
Materials	14.1	16.6
Industrials	20.0	18.5
Consumer Discretionary	22.5	26.7
Consumer Staples	1.5	2.4
Health Care	1.0	4.4
Financials-x-Real Estate	5.7	6.2
Real Estate	11.1	9.0
Information Technology	3.9	2.5
Telecommunication Services	4.6	5.3
Utilities	1.1	1.7
Other	1.8	-

Rounding accounts for small +/- from 100%.

Signatory of:



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