

Perennial Value Smaller Companies Trust

Monthly Report as at 31 December 2011

	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	-2.9	-12.6	-11.7	24.0	6.4	13.5
S&P/ASX Small Ordinaries Accum. Index	-4.3	-0.6	-12.3	-21.4	11.8	-5.2	6.2
Value Added (Detracted)	0.9	-2.3	-0.3	9.7	12.2	11.6	7.3
Net Performance	-3.4	-3.2	-13.0	-15.2	19.3	3.4	11.3

*Gross Performance. ^Since inception: March 2002. Past performance is not a reliable indicator of future performance.

- The Trust outperformed the Index return by 0.9%.
- Domestic economic data releases were mixed.
- The Team exited its position in Billabong, prior to its material downgrade.

News on the European debt crisis continued to dominate equity market sentiment. This weighed down on the smaller end of the domestic market with the S&P/ASX Small Ordinaries Accumulation Index (the Index) closing down 4.3%. The Perennial Value Smaller Companies Trust (the Trust) finished down 3.4%, outperforming the Index return by 0.9%.

The only sector in the S&P/ASX Small Ordinaries Accumulation Index to end on a positive note was telecommunication services (up 0.5%). The Trust remains overweight this sector. All other sectors finished in negative territory with the worst being materials (down 7.1%), consumer discretionary (down 5.9%) and financials-x-property trusts (down 5.8%).

Domestic economic data releases were mixed with the NAB business confidence index remaining stable while the Westpac consumer confidence index fell 8.3%, more than reversing November's gains. Home loan approval values grew, while building approvals and housing stats fell sharply. The Reserve Bank of Australia reduced the cash rate for the second consecutive month, cutting the cash rate by 25 basis points to 4.25%. The bond market continues to price in further cuts in the cash rate. Despite the increase in risk aversion and the cut in the cash rate, the Australian dollar (AUD) finished the month in line with its November close at USD1.02.

The best performing stock in the Trust was Coffey International (up 9.0%), following the conclusion of the company's strategic review and sale of its non-core rail consultancy business, Coffey Rail, with proceeds used to further repay debt. Under new management, the company is now focussed on its core businesses, with Geosciences

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 31/12/11):

AUD57.1 million

Team FUM

(as at 31/12/11):

AUD8.5 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.

being the major contributor. Late in December, our Portfolio Managers met up with the Managing Director and CFO to receive an update on operations and strategy which were both encouraging. Gerard Lighting (up 7.1%) announced a negative market update, given the current operating conditions. However, it also announced that the Board will be maintaining the dividend in line with last year, which is pleasing. Gerard Lighting later announced an on-market share buy back, given the Board's (and our) view that the current share price does not represent the true value of the company.

Other strong performers included Engenco (up 7.0%), Swick Mining (up 5.2%) and Tox Free Solutions (up 3.8%). Tox Free Solutions is currently in the process of acquiring the businesses of ASX-listed Dolomatrix (focus on hazardous waste treatment), which will be voted on by its shareholders in late January 2012.

The stock that detracted most from performance during the month was IT consulting services firm Oakton (down 15.1%), due to project delays during the first six months which have impacted utilisation. Management contact has indicated that some of these key projects have recently begun, with revenue to flow in the second half of this financial year commensurate with an increase in staff utilisation rates. Mirabella Nickel (down 24.3%) was sold off, along with the resources sector in general, given concerns over slowing global growth. Despite reporting sound passenger numbers for the month of November (latest available) and gaining approval from the ACCC for its alliance with Singapore Airlines during December, Virgin Australia (down 16.2%) ended the month lower.

Other weak performers included Independence Group (down 14.1%), Industrea (down 14.0%), Clough (down 13.8%) and Nufarm (down 12.4%).

During the month, we took some profits in Coffey International and used share price weakness in Oakton to add to our position. Given the volatility in the equity market, we took some profits in Swick earlier in the month at average 33.8 cents and bought back later in the month at an average 28.8 cents. Similarly, we acquired Qube Logistics at \$1.33 and took profits at an average \$1.43. We also took some profits in Amcom at 88 cents and bought back later in the month at an average of 80 cents. Following a downgrade by respected retailer JB HI-FI (not held) two weeks ahead of the most crucial retail trade of the year, we immediately took profits in Oroton, given its premium valuation to market and reduced our exposure in Premier Investments. We also exited our position in Billabong International, prior to its material downgrade, which we then used as an opportunity to re-establish a new position - nearly 50% lower from where we had sold.

At month end, cash stood at 3.7% (pre the interim distribution which unit holders can expect to receive approximately 1.9 cents per unit in the early part of January 2012) and stock numbers at 54.

Asset Allocation as at 31 December 2011

Asset Class	Trust Weight %	Index Weight %
Energy	9.6%	11.3%
Materials	16.0%	32.2%
Industrials	29.6%	18.7%
Consumer Discretionary	18.5%	13.5%
Consumer Staples	0.0%	0.7%
Health Care	0.0%	3.7%
Financials-x-Real Estate	3.3%	4.5%
Real Estate	5.3%	5.0%
Information Technology	6.1%	2.9%
Telecommunication Services	7.0%	3.4%
Utilities	0.9%	4.3%
Other	3.7%	-

Rounding accounts for small +/- from 100%.