

Perennial Value Smaller Companies Trust

Monthly Report as at 31 August 2010

	1 Month %	3 Months %	Financial YTD %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Smaller Companies Trust*	5.2	8.9	11.1	28.7	4.0	13.5	15.3
S&P/ASX Small Ordinaries Accum. Index	1.8	3.1	7.1	2.7	-10.7	2.5	7.8
Value Added (Detracted)	3.4	5.8	4.0	26.0	14.7	11.0	7.5
Net Performance	4.0	6.9	9.3	21.7	0.8	11.0	13.3

[^]March 2002 *Gross Performance

- The smaller end of the Australian equity market delivered a positive return, outperforming the broader equity market, both domestically and offshore.
- The Trust delivered a return of 5.2% in August, outperforming the Index return of 1.8%, by 3.4%.
- For the 12 months ended 31 July 2010, the Trust ranked first in the Mercer Australian Small Companies survey, delivering 35.0% against the median return of 19.8% and the Index's 7.3%.

Despite negative news flow from offshore and talk of a 'double dip' recession emerging in the USA; the smaller end of the Australian equity market delivered a positive return, outperforming the broader equity market, both domestically and offshore.

The S&P/ASX Small Ordinaries Accumulation Index (the Index) finished August up 1.8%. The Perennial Value Smaller Companies Trust (the Trust) delivered a return of 5.2% for the month, outperforming the Index return by 3.4%. Similar to last month, this was a pleasing outcome given the Index's strong gains from several large constituents, namely Lynas Corporation (up 29.0%) and Aquila Resources (up 14.9%), neither of which are held in the Trust on valuation grounds.

Investors will be pleased to know that for the 12 months ended 31 July 2010, the Trust ranked first in the Mercer Australian Small Companies survey, delivering 35.0% against the median return of 19.8% and the Index's 7.3%.

During August, investors focussed on companies reporting their results for the period ended 30 June 2010. Headline numbers broadly met analysts' expectations, but stock prices reacted to the outlook statements or lack thereof. In general terms, most companies were guarded when it came to providing guidance, with the majority preferring to provide an update at the upcoming annual general meeting season.

In economic news, the Reserve Bank of Australia kept rates unchanged at 4.5% for the third consecutive month.

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 Manager:

Grant Oshry

Trust FUM

(as at 31/08/10):

AUD \$259.7 million

Team FUM

(as at 31/08/10):

AUD \$8.8 billion

Fund Inception date:

March 2002

Risk Profile:

High

Income Distribution

Frequency:

Half yearly

Minimum Initial

Investment:

\$25,000

APIR code:

IOF0214AU

*Excluding performance fees.

Did you know?

In August, the Trust increased its exposure to Fantastic Holdings Ltd. Fantastic Holdings are Australia's largest sofa manufacturer and operate five retail chains including the well known Fantastic Furniture, Plush and Dare Gallery. The Fantastic Lounge Factory has the capacity to produce over 155,000 lounges each year.

Employment continued to grow and by July had recorded a rise of 1.6% from the start of the year. Consumer confidence gained as did retail sales, while credit growth was more tepid. The Federal election left Australia with its first hung parliament in 60 years and at the time of writing neither of the two major parties had won an outright majority of seats in the House of Representatives.

The Consumer Staple sector was the standout (up 25.6%) during August. It was largely driven by M&A activity, with Graincorp (up 21.6%) making an all-scrip bid for AWB (up 46.0%). This was succeeded by Canada's Agrium making a higher all-cash bid for AWB, which the board then accepted. Other strong sectors included Materials (up 3.1%) and Industrials (up 1.6%), while Consumer Discretionary (down 3.1%) was the worst performing sector.

The best performing stocks in the Trust during August included Matrix (up 57.2%), following a better than expected annual result which subsequently saw analysts make significant earnings upgrades. Aevum (up 54.1%) received a \$1.50 cash offer from Stockland, which Aevum's board rejected as undervaluing the company. Perennial Value share the same view, given the net tangible asset value is closer to \$2.05 (month-end closing price \$1.68). Other strong performers included AWB (up 46.0%) and Graincorp (up 21.6%) for reasons mentioned above.

Stocks which detracted from performance included Prime Media Group (down 24.8%), following a messy result which was weaker than expected. Mirabella Nickel (down 20.4%) reported their quarterly result, which highlighted a potential need for further capital as the company ramps up its production.

During the month, the Team took profits and exited its holdings in linet, SAI Global and AWB Limited and used the proceeds to establish positions in Gloucester Coal and Austin Engineering. Some profits were taken in Thorn Group, Matrix and Adelaide Brighton following strong share price gains, while Perennial Value increased its exposure in Fantastic Holdings and Tox Free Solutions, given their attractive valuations and growth opportunities.

At month end, cash stood at 2.0% and stock numbers 53.

Asset Allocation as at 31 August 2010

Asset Class	Trust Weight %	Index Weight %
Energy	7.3	11.4
Materials	21.1	31.4
Industrials	21.2	16.4
Consumer Discretionary	21.0	11.7
Consumer Staples	2.2	3.7
Health Care	3.0	3.9
Financials-x-Real Estate	7.8	4.7
Real Estate	4.6	7.1
Information Technology	3.7	3.3
Telecommunication Services	6.1	1.8
Utilities	0.0	4.6
Other	2.0	-

Rounding accounts for small +/- from 100%.

Top 10 Holdings as at 31 August 2010

Stock	Trust Weight %	Index Weight %
Adelaide Brighton	4.8	1.7
Fantastic Holdings	4.1	0.0
Thorn Group Limited	3.9	0.0
Tox Free Solutions	3.5	0.2
Tpg Telecom Limited	3.4	0.5
Aevum Limited	3.0	0.0
Emeco Holdings	2.9	0.5
Clough Limited	2.7	0.3
Amcom Telecomm.	2.6	0.0
Amalgamated Holdings	2.6	0.0