

| | Month | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception [^] |
|--|------------|-------------|------------|------------|-------------|------------|------------------------------|
| | % | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Smaller Companies Trust* | 0.4 | -1.3 | 12.7 | 10.7 | 5.0 | 5.7 | 9.7 |
| S&P/ASX Small Ordinaries Accum. Index | -2.1 | 0.3 | 4.9 | 3.5 | 6.0 | 4.2 | 5.5 |
| Value Added (Detracted) | 2.5 | -1.6 | 7.8 | 7.2 | -1.0 | 1.5 | 4.2 |

*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 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

AUD \$107 million

Distribution frequency

Half yearly

Minimum initial investment

\$25,000

Trust inception date

March 2002

APIR code

IOF0214AU

Contact us

1300 730 032

invest@perennial.net.au

www.perennial.net.au

- ▶ **The Perennial Value Smaller Companies Trust (the Trust) finished the month up 0.4% (net of fees) outperforming the S&P/ASX Small Ordinaries Accumulation Index (the Index) by 2.5%.**
- ▶ **Financial year to date, the Trust has delivered a net return of 12.7%.**
- ▶ **Based on our FY18 assumptions, the Trust represents considerable value with a price to free cash flow per share of 8.5 times, being a 42.0% discount to the ex-100 market.**

Market Review

Global markets were generally stronger in May, with the S&P500 up 1.2%, Nikkei 225 up 2.4% and FTSE100 up 4.4%, while the Shanghai Composite declined 1.2%. Commodity prices were softer, moving back to more sustainable levels as generally expected, with oil down 3.0%, iron ore down 17.0%, coking coal down 39.0% as cyclone supply disruptions reversed, thermal coal down 12.0% and copper down 1.0%, while gold was flat. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar (AUD) finished the month down one cent at 74 US cents.

During May, the best performing sectors were information technology (up 5.0%), telecommunication services (up 4.6%) and industrials (up 3.0%). The worst performing sectors were healthcare (down 13.7%), utilities (down 6.4%) and consumer discretionary (down 4.5%).

Trust Review

The Trust ended up 0.4%, net of all fees, outperforming the Index (which closed down 2.1%) by 2.5%.

The strongest attributor to Trust performance was **EML Payments** (up 18.7%) following a detailed quarterly update that confirmed strong growth across all divisions and continued strong cash flow. The update also provided more detailed insights into the key drivers for each division and region, something which was poorly understood by the market previously.

Alliance Aviation (up 31.9%) announced a significant wet leasing deal with Virgin covering regional routes in Queensland. This will increase the fleet of Alliance by 11.0%, flying activity by 45.0% and begin to utilise the surplus aircraft previously purchased by Alliance from Austrian Air. Separately the ACCC also approved their strategic alliance with Virgin to jointly grow their fly-in-fly-out operations and share maintenance costs.

Melbourne IT (up 19.0%) announced an accretive acquisition of WME Group, which is expected to lift earnings per share by between 12.0% to 18.0%. WME significantly enhances the web design capability of Melbourne IT as well as providing digital marketing solutions.

Emerging Western Australian gold producer **Dacian Gold** (up 14.9%) commenced underground mining during the month and released positive drill results highlighting upside at their Mt Morgans mine.

The main detractor from performance was global hedge fund-of-fund manager **HFA** (down 10.0%) giving up all of the previous month's gains. There hasn't been any news flow since April's Funds Under Management update which reflected strong growth of 8.6% to US\$9.5 billion post two new international mandate wins. HFA will benefit from a weaker AUD expected over the coming 12 months.

At the month-end closing price of \$2.15, the stock is cheap on FY18 EV/EBIT of 5.1 times and a cash dividend yield of 10.7% and stands out when compared to funds management peers, the industrial sector and the market.

| Quarter ended 31 March 2017 | | | | |
|---|-----------------------|----------------------|----------------------|-------------------------------|
| USD | 31 December 2014 AUMA | Net flows | Performance | 31 March 2017 AUMA (Estimate) |
| | | Note 1 | Note 2 & 3 | Note 3 |
| Lighthouse Commingled Funds | USD 4.33 bn | ↑ USD 0.02 bn | ↑ USD 0.12 bn | USD 4.47 bn |
| Lighthouse Single Investor Customised Solutions | USD 4.40 bn | ↑ USD 0.55 bn | ↑ USD 0.06 bn | USD 5.01 bn |
| Total AUMA | USD 8.73 bn | ↑ USD 0.57 bn | ↑ USD 0.18 bn | USD 9.48 bn |

Source: HFA Holdings March Update

Other weak performers included **Capral Aluminium** (down 23.5%) after providing a negative trading update citing continued tough conditions in the Western Australian housing market, stronger aluminium prices and the temporary drag on volumes from poor weather on the east coast.

Trust activity

Having sold two thirds of our position in **Automotive Holdings** during March and April, at an average price of \$4.02 following two consecutive months of weaker new car sales data, we exited the remainder of the position during May, taking our average exit price to \$3.47 (month end closing price \$2.94). This was following a weak trading update that not only reflected the impact from weaker car sales, but a disappointing update on the progress of their troubled Logistics division that was supposedly meant to show significant improvement under new management during 2H17.

We also exited residential land developer **AV Jennings** given our view of the current housing cycle maturing and decided to take advantage of a liquidity event that presented for this relatively less liquid stock.

Proceeds were used to acquire a position in travel company **Helloworld** at an average price of \$3.79 (month end closing price \$4.01) which we view as an attractive valuation combined with our positive view on the tourism thematic.

At month end the Trust held 56 stocks and cash of 6.5%.

Outlook

The Trust offers considerable value trading on an FY18 price to earnings ratio of 10.7 times (29.0% discount to the ex-100 market) and a gross yield of 5.5% (14.0% premium to the ex-100 market).

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations.

Signatory of:



Issued by: The Investment Manager, Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 275101. 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, additional information booklet and application forms can be found on Perennial's website www.perennial.net.au.

| Asset Allocation | | |
|----------------------------|----------------|----------------|
| Sector | Trust weight % | Index weight % |
| Energy | 3.6 | 5.8 |
| Materials | 15.2 | 16.3 |
| Industrials | 12.3 | 9.4 |
| Consumer Discretionary | 21.0 | 20.0 |
| Consumer Staples | 1.2 | 8.7 |
| Health Care | 6.8 | 6.6 |
| Financials-x-Real Estate | 11.6 | 8.6 |
| Real Estate | 5.9 | 15.3 |
| Information Technology | 7.6 | 6.4 |
| Telecommunication Services | 4.9 | 2.1 |
| Utilities | 3.4 | 0.7 |
| Cash & Other | 6.5 | - |

Rounding accounts for small +/- from 100%.