Perennial Value Smaller Companies Trust

MONTHLY REPORT FEBRUARY 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (%p.a.)
Perennial Value Smaller Companies Trust (Net)	1.6	8.7	34.3	23.8	11.7	16.1	10.9
S&P/ASX Small Ordinaries Accumulation Index	1.5	4.1	21.8	17.2	7.2	11.7	6.6
Value Added	**0.1**	**4.6**	**12.5**	**6.6**	**4.5**	**4.4**	**4.3**

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

Overview

In a similar pattern to January, the Index moved higher for most of the month before a late sell-off reduced the Index to a more modest rise of 1.5%. Against this backdrop, the Trust outperformed to deliver a 1.6% positive return (net of all fees). Pleasingly, this brings the one-year Trust performance to 23.8% (net of all fees) compared to the Index return of 17.2%.

Reporting season was one of the best for many years as measured by upward revisions to FY21 estimates (albeit much of it appeared to already be priced in). The focus of the market, and our analytical team, was on estimating what the sustainable earnings growth is for each company once government stimulus and stay-at-home benefits reverse.

We continued to rotate the portfolio away from COVID beneficiaries and towards those in the portfolio that we think can deliver sustainable earnings growth in FY22. We also added some new re-opening trades we think are overlooked by the market.

The portfolio-average PE ratio of 14.7x remains at a sizeable discount to the Index which is 19.3x for FY22.

Perennial Value Smaller Companies Trust

The aim of the Trust is to grow the value of your investment over the long term by investing in a portfolio of listed Australian companies predominantly outside the S&P/ASX Top 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
Andrew Smith and Julian Guido

Trust FUM
AUD $182 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2002

Fees
1.20% p.a. + Performance fee

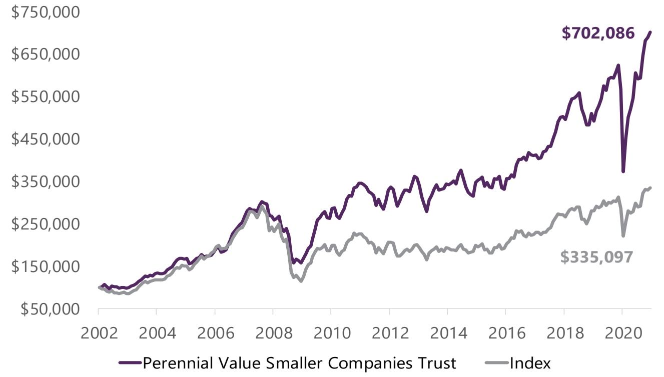
APIR Code
IOF0214AU

Portfolio Characteristics – FY22	Trust*	Index**
Price to Earnings (x)	14.7	19.3
Price to Free Cash Flow (x)	11.8	21.1
Gross Yield (%)	3.7	2.9
Price to NTA (x)	2.2	2.6

Source: *Perennial Value Management as at 28 February 2021. **FACTSET forecast as at 28 February 2021.

The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

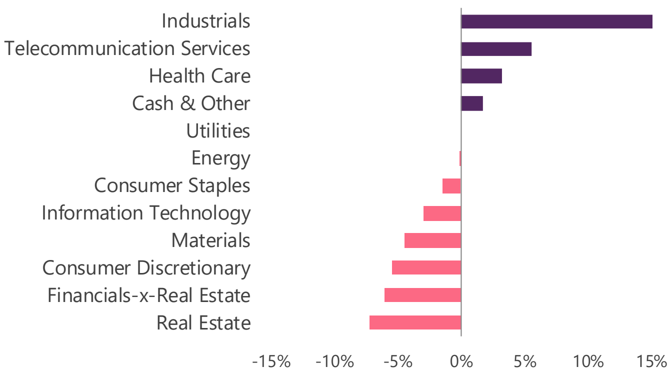
Growth of $100,000 Since Inception



Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 10 Positions	Trust (%)	Index (%)
ALLIANCE AVIATION SERVICES L	6.5	0.0
UNITI GROUP LTD	3.4	0.5
SRG GLOBAL LTD	3.1	0.0
INTEGRAL DIAGNOSTICS LTD	3.1	0.3
SEVEN GROUP HOLDINGS LTD	3.0	1.2
GENETIC SIGNATURES LTD	2.5	0.0
CALIX LTD	2.4	0.0
EMECO HOLDINGS LTD	2.3	0.2
MONEYME LTD	2.3	0.0
FRONTIER DIGITAL VENTURES L	2.2	0.0

Sector Active Exposure vs Index

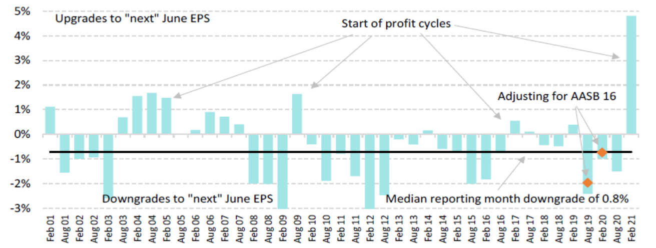


Trust Review

The chart below from MST summarises reporting season well; clearly it was very strong if purely looking at changes for earnings expectations for FY21. However, the strong run in share prices in recent months suggests some of this was already anticipated and priced in. In addition, many stocks benefited from government stimulus directly or from a consumer that was "cashed up" and unable to spend on travel – boosting retail sales growth to levels not seen in decades.

Figure 1: The strongest reporting season in over 20 years

ASX 200 reporting season aggregate EPS upgrades/downgrades for the 12 months to June



Source: Company Data, Factset. MST Marquee

The market began to look through some of these one-off drivers with a noticeable rotation to stocks and sectors which had a poor CY20 but are well positioned for a recovery in CY21 – media and travel are two obvious sectors.

We also rotated the portfolio towards those benefiting from a re-opening of the economy, but prefer the attractive valuation of less obvious names outside of media and travel – with new names added from the Industrial and Financial sectors. These new names were funded by reducing **Marley Spoon** (+23.5%) after a strong result.

We added to holdings which are set to benefit from increased Infrastructure spending – such as **SRG Global** (+8.9%) which rallied after earnings beat 1H guidance and avoided COVID related disruptions evident for other contractors. SRG appears to have turned itself around over the last 12 months, having now increased full year guidance on three occasions.

Several stocks delivered genuine earnings surprises and were rewarded by the market, namely:

- **Calix** (+30.6%) which continued to gain investor interest after delivering a strong first-half result and interest from potential global clients in the company's calcination technology. This allows mineral and chemical processes to be conducted using renewable energy rather than traditional energy sources.
- **Veem** (+29.9%) bounced after reporting on better-than-expected 1H earnings and a strong outlook for its marine gyrostabilisation product. After an extended period of product development and commercialisation, Veem appears to be entering a period of accelerating growth, supporting recent and future share price appreciation.
- **Fleetwood** (+22.7%) rallied after delivering on upgraded EBITA guidance (+21% to A$15-16m). Strong cashflow has resulted in net cash of $64m and allowed management to lift the dividend payout ratio to 100%. The 27% increase in the Building Solutions orderbook highlights a growing backlog of work and improving visibility.
- **Event Hospitality & Entertainment** (+18.6%) showed results heavily impacted by COVID. Importantly, operating trends in 2H21 have improved and the new non-core asset disposal plan is a reminder on a unique but significant asset backing (~$2bn).

Our preferred exposures in retail are those with tailwinds beyond COVID – such as **Adairs** (+5.0%) which should benefit from a recovering housing sector and **Baby Bunting** (+5.9%) which should benefit from a coming baby boom as evidenced by recent Medicare pregnancy scan data.

Unfortunately, there were also some negative surprises with **NRW Holdings** (down 29.7%) highlighting costs and delays (blamed on COVID) impacting 1H21 margins. **EcoFibre** (down 23.4%) also lowered 2H21 earnings expectations as COVID impacted US pharmacy traffic. We had already reduced our gold exposure but our remaining positions were still a drag on performance (**Ramelius** was down 16.7% and **Capricorn** was down 11.5%).

At month end, the Trust finished with 66 positions and cash of 1.7%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	+1.5
Energy	+3.8
Materials	+6.6
Industrials	-1.9
Consumer Discretionary	+0.3
Consumer Staples	+3.8
Health Care	-0.8
Financials-x-Real Estate	+5.5
Real Estate	-3.5
Information Technology	-3.5
Telecommunication Services	+8.0
Utilities	-7.3

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Small Cap Portfolio Managers: Andrew Smith (left) and Julian Guido (right)

Contact Us

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Signatory of: PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant