Perennial Value Smaller Companies Trust

Monthly Report February 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Smaller Companies Trust (Net)	-3.3	-8.3	-3.6	4.0	12.7	12.2	10.5
S&P/ASX Small Ordinaries Accumulation Index	0.0	-7.7	-4.0	5.0	7.7	9.4	6.5
Value Added	**-3.3**	**-0.6**	**0.4**	**-1.0**	**5.0**	**2.8**	**4.0**

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

Overview

The Trust was down 3.3% (net of all fees) compared to the Index which was flat.

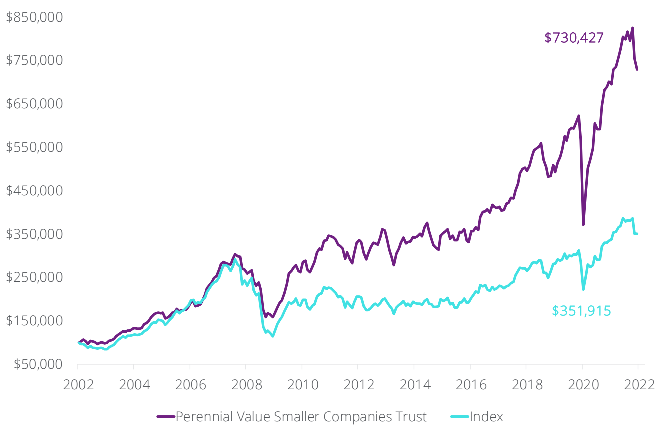
The significant market weakness seen from January, reflecting expectations of rising interest rates, continued to impact stocks perceived as 'growth' but this was compounded by increased uncertainty from Russia's invasion of Ukraine which impacted broader risk appetite.

In such an environment, investors rushed for liquidity and at times ignored the fundamental news delivered in reporting season.

As mentioned last month, this creates an exciting set up for returns over CY22 as we seek out both value stocks ignored by the market and oversold growth-orientated stocks with the potential for better-than-expected cashflow outcomes.

The portfolio-average PE ratio of 13.5x remains at a sizeable discount to the index which is 17.1x for FY23.

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.

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 Australian companies that are either listed or unlisted companies found 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, Julian Guido & Marco Correia

Trust FUM
AUD $207 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

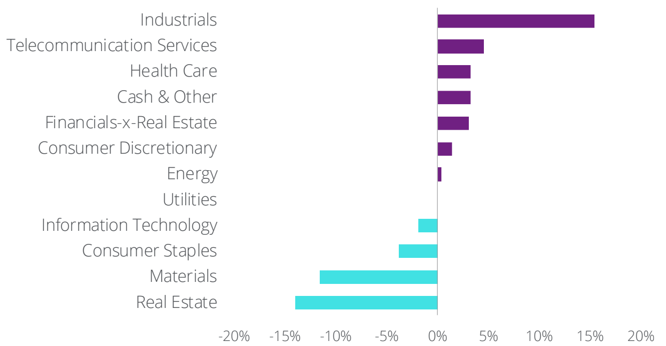
Portfolio Characteristics – FY23	Trust*	Index**
Price to Earnings (x)	13.5	17.1
Price to Free Cash Flow (x)	10.3	17.2
Gross Yield (%)	4.4	3.3
Price to NTA (x)	2.5	2.2

Source: *Perennial Value Management as at 28 February 2022. **FactSet forecast as at 28 February 2022

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.

Top 10 Positions	Trust (%)	Index (%)
ALLIANCE AVIATION SERVICES LTD	4.9	0.0
SRG GLOBAL LTD	4.3	0.0
COOPER ENERGY LTD	4.3	0.2
NAVIGATOR GLOBAL INVESTMENTS L	3.5	0.0
SEVEN GROUP HOLDINGS LTD	3.4	1.3
FLETCHER BUILDING LTD	2.7	0.8
INTEGRAL DIAGNOSTICS LTD	2.9	0.3
SUPERLOOP LTD	2.7	0.0
CSR LTD	2.3	1.1
VIVA LEISURE LTD	2.3	0.0

Sector Active Exposure vs Index



Trust Review

With such a weak market backdrop, many fundamental positives were ignored by the market, especially in less liquid names.

- Superloop (down 19.2%) with the new CEO and CFO not winning points for investor relations after a perceived cashflow miss, which after our investigation was clearly explained by the acquired Exetel working capital position. However, when the corrected underlying cash conversion of 97.5% was ultimately announced to the market, attention had moved elsewhere. Positively, the sale of their Hong Kong and Singapore assets is due to settle in March. Sale proceeds will provide growth capital of $110m to pursue organic and inorganic growth.
- Doctor Care Anywhere (down 39.0%) raised A$11m (taking cash to A$42m) meaning they are now fully funded to their stated target of cashflow positive by 1HCY23. Given the market carnage, this was not picked up by the market but is very comforting to long term investors.

And we were able to add some new names as result of the weakness:

- Enero (down 5.5%) produced operating cash for the half of $25.3m, ending with net cash of $47.0m. Revenue growth was 15.1% translating to EBTIDA growth of 23.3%.
- Envirosuite (down 14.0%) beat expectations with 14% revenue growth and 17% gross profit growth despite the drag from COVID. Envirosuite looks attractive with annual recurring revenue of $49m and $24m of cash, compared to a market cap of $232m. The sales momentum remains strong with positive tailwinds from increased ESG awareness in their client base.

More liquid names which did capture market attention were:

- Smartgroup (+17.2%) which delivered a solid CY21 result and dismissed fears of a potential earnings miss. Margin expansion, successful client renewals, strong cashflow and a material 30cps special dividend were the features. Early traction on the internal SmartFuture efficiency programme and increasing forward orders leave Smartgroup well positioned to benefit as industry conditions rebound post Covid.
- Viva Energy (+14.0%) posted an inline result supported by resilience in the commercial business and better refining margins. Investors responded to an improving outlook for retail volumes post COVID and an undergeared balance sheet with several investment options under consideration.
- PSC Insurance (+8.0%) upgraded FY22 NPATA guidance by 5% after posting a better-than-expected result. Pleasingly, 1H22 EBITDA growth of 42% was evenly split between organic and acquisition growth. Investors were reminded of a strong operating outlook and the potential for further EPS accretive acquisitions.

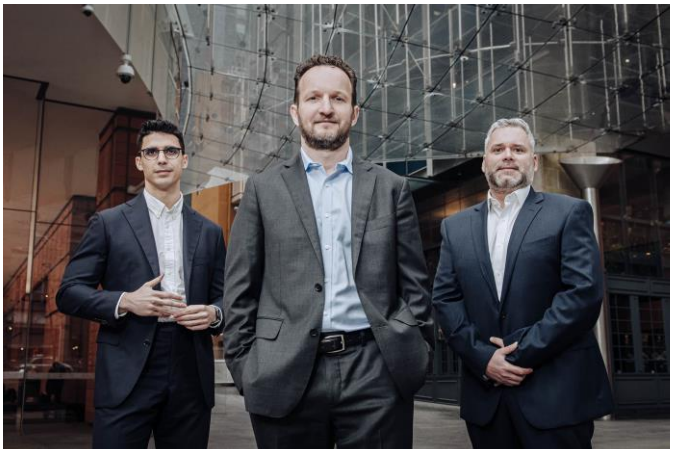
Our long-held position in infrastructure and mining services play, SRG Global (+21.1%), continued its strong momentum, recently upgrading EBITDA guidance. The company is clearly showing they are handling wage inflation much better than peers and delivering a four-fold increase in the net cash position over 12 months.

Dacian Gold (+20.0%) proved a useful hedge with macroeconomic uncertainty, and we used transition selling to significantly add to Cooper Energy (down 10.0%) as the operational turnaround continues and the east coast gas thematic looks even more positive.

At month end, the Trust finished with 56 positions and cash of 3.6%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	+0.0
Energy	+8.0
Materials	+3.7
Industrials	-1.3
Consumer Discretionary	-1.7
Consumer Staples	+0.8
Health Care	-10.2
Financials	+1.2
Real Estate	+0.8
Information Technology	-11.1
Telecommunication Services	-2.8



Portfolio Managers: Marco Correia, Andrew Smith and Julian Guido (left to right)

Invest Online Now

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au