Perennial Value Smaller Companies Trust

Monthly Report February 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Smaller Companies Trust (Net)	-4.9	-1.5	-2.4	-19.5	-8.5	1.2	3.1	8.5	5.1	8.8
S&P/ASX Small Ordinaries Accumulation Index	-3.7	-1.2	9.8	-8.0	-1.7	4.2	3.6	7.7	4.9	5.8
Value Added	**-1.2**	**-0.3**	**-12.2**	**-11.5**	**-6.8**	**-3.0**	**-0.5**	**0.8**	**0.2**	**3.0**

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

Overview

For the month of February, the Trust was down 4.9% (net of all fees), compared to the Index which was down 3.7%.

The market returned to a pessimistic and "glass half empty" approach in February, which in the context of continuing rate rises makes sense at an Index level but less so for those companies reporting strong fundamental improvements - such as those in our portfolio.

There were plenty of earnings updates in the February reporting season with JPMorgan reporting an average drop in earnings per share expectations for Small Cap Industrials of -1.7%. Against this, the average adjustment in consensus earnings for our portfolio was +1.0% and encouragingly +4.6% for sales.

While this was not rewarded in the short-term, we are confident this fundamental improvement cannot be ignored for long by other investors and corporates. As Warren Buffet's mentor Benjamin Graham was reported as saying, "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

Pleasingly, post results there has been director buying in 8 of our names and 2 share buybacks recommenced. The portfolio-average PE ratio of 9.7x remains at a sizeable discount to the index which is 14.1x for FY24.

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 $118 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2002

Fees
1.20% p.a. + Performance fee

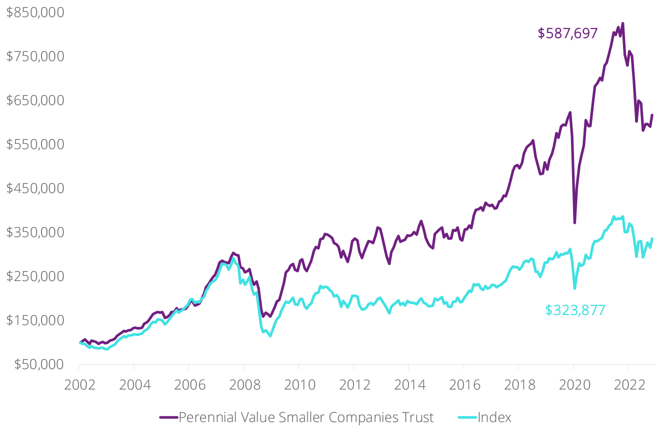
APIR Code
IOF0214AU

Portfolio Characteristics – FY24	Trust*	Index**
Price to Earnings (x)	9.7	14.1
Price to Free Cash Flow (x)	7.9	13.0
Gross Yield (%)	4.9	4.8
Price to NTA (x)	1.9	1.6

Source: *Perennial Value Management as at 28 February 2023. **FactSet, Goldman Sachs, Macquarie Securities and UBS forecast as at 28 February 2023

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.

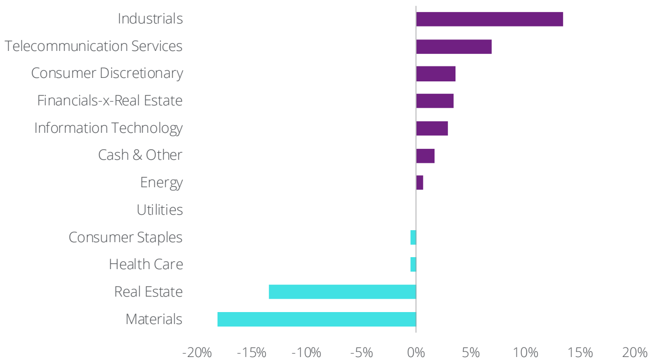
Growth of $100,000 Since Inception



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 LTD	5.5	0.0
NAVIGATOR GLOBAL INVESTMENTS LTD	5.1	0.0
RPMGLOBAL HOLDINGS LTD	4.9	0.0
COOPER ENERGY LTD	3.8	0.2
SEVEN GROUP HOLDINGS LTD	3.8	1.6
EXPERIENCE CO LTD	3.6	0.0
SUPERLOOP LTD	3.2	0.0
ENERO GROUP LTD	3.1	0.0
GTN LTD	3.0	0.0
PEOPLEIN LTD	3.0	0.0

Sector Active Exposure vs Index



Trust Review

February was a volatile month, with a mix of logical reactions to earnings results but also plenty of head scratchers as fundamental improvements were ignored by pessimistic and time-poor small cap investors.

Those stocks with logical reactions to an improving outlook included:

- GUD Holdings (+23.3%) posted an inline result with resilient earnings in the core Automotive business and improvement in the APG acquisition. These 2 features offset low expectations and a cheap valuation which resulted into a strong share price rally
- Ridley (+13.7%) provided a clean and healthy set of 1H23 results. Encouragingly, strong earnings momentum continues to be achieved by Ridley's high calibre management team
- Kelsian, a recent addition back to the portfolio, was up 12.5% after announcing another meaningful bus contract tender win during the month, alongside a good set of half-year results
- SRG (+8.3%) beat consensus estimates and raised capital for a logical acquisition – we topped up in the raise
- Experience Co (+7.1%) after a strong 1H23 result which beat consensus estimates. Despite this, we believe the market is underestimating the speed of the return of the important international student market as well as international tourists
- PSC Insurance (+5.9%) delivered on upgraded 1H23 guidance issued in December. Guidance for FY23 was also lifted 3% however still looks conservative in our view. Formalisation of the Tysers JV represents a short-term positive catalyst

Results where we think investors have missed some good news:

- Alliance Aviation (+4.8%) announced it expects to meet consensus of $77m pre-tax profit for FY24. However, the market seemed to miss subsequent announcements of an expanded contract with Qantas' overall expansion of the fleet with the purchase of 30 E190 aircraft from North America
- Superloop (down 9.0%) provided a strong set of half year results, with all segments growing nicely. Management continues to deliver strong organic growth, supplemented by innovative and strategic M&A. We see SLC's discernible earnings trajectory, clean balance sheet and undemanding valuation multiples as a highly attractive investment proposition
- Navigator (down 11.3%) despite being one of the few listed asset managers to deliver growth in FUM, positive absolute performance and an in-line result. We suspect the complexity of the corporate structure continues to deter investors, and hence positives like the increased contribution from the Dyal transaction and conservative guidance is missed
- RPM Global (down 12.3%) despite confirming full year guidance of $14.2m, up from $3.5m in the pcp (which was already beaten with a half year result of $5.3m). The market may have focused on a write back of $0.7m which is included in the guidance; however, they have missed that more valuable software sales also now make up a higher proportion of earnings and subscription wins to date significantly de-risk what is required for the full year

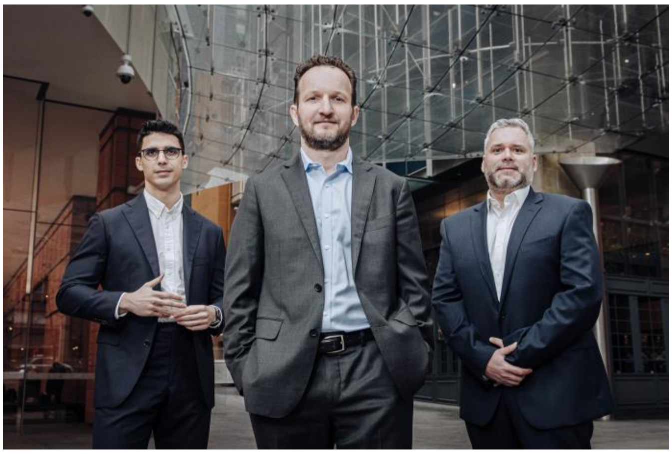
The Trust finished with 56 positions and cash of 1.7%.

Detractors included:

- MoneyMe (down 57.6%) delivered a result well ahead of expectations but this was overshadowed by uncertainty on re-financing the PEP debt facility
- Enero (down 34.1%) following a mixed result which was inline at a headline level (EPS estimates only changed by 2.4%) but divisionally had an unexpected miss from Agency. We believe the share price overreacted and used the weakness to add to our holding. This more positive view reflected the continued strength of OB Media and cost cutting initiatives in Agency.
- Hansen, down 12.8% during the month, as 1H23 margins came in lower than expectations, coupled with a reduction in licence revenue. Positively, management maintained full year guidance. We are encouraged with management's patient and thoughtful M&A process, which we think will ultimately maximise value for shareholders

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	-3.7
Energy	-6.5
Materials	-9.3
Industrials	-4.1
Consumer Discretionary	-1.8
Consumer Staples	-3.7
Health Care	-6.8
Financials	-4.5
Real Estate	-3.8
Information Technology	-0.3
Telecommunication Services	-2.5



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

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