# Perennial Value Smaller Companies Trust

Monthly Report March 2022

| | Month (%) | Quarter (%) | FYTD (%) | 1 Year (%) | 2 Years (% p.a.) | 3 Years (% p.a.) | 5 Years (% p.a.) | Since inception^ (% p.a.) |
|---|---|---|---|---|---|---|---|---|
| Perennial Value Smaller Companies Trust (Net) | 4.5 | -7.6 | 0.7 | 9.6 | 43.2 | 15.7 | 13.1 | 10.7 |
| S&P/ASX Small Ordinaries Accumulation Index | 5.3 | -4.2 | 1.1 | 9.7 | 29.2 | 9.6 | 9.9 | 6.8 |
| **Value Added** | **-0.8** | **-3.4** | **-0.4** | **-0.1** | **14.0** | **6.1** | **3.2** | **3.9** |

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

## Overview

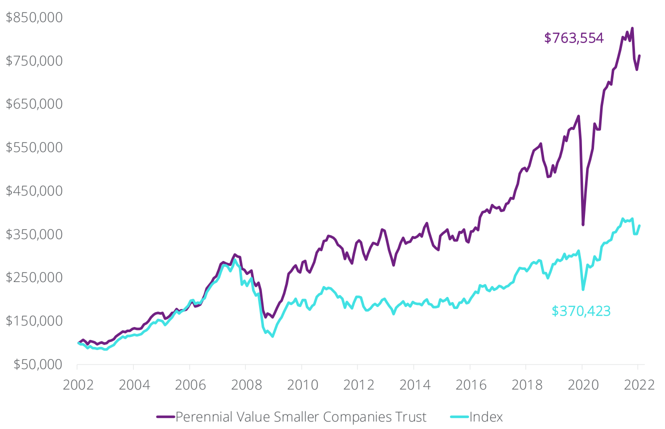
The Trust was up 4.5% (net of all fees) compared to the Index which was up 5.3%. The market recovery from the weak start to the year was driven by Small Resources (+12.7%) with a more modest increase in Small Industrials (+3.0%).

We remain bullish on the medium-term outlook for most commodities but still prefer producers over developers given high spot prices deliver strong cashflow to the former but encourage increased supply competition for later. Hence our sector underweight is driven by a lack of quality developers in the Small Ords, so to gain exposure we have looked to Industrials tied to the same theme (e.g. SRG Global (+18.3%) and Alliance Aviation (+17.1%)) and have just started adding again to Mid-Cap Resources.

We were pleased to see the start of what we think will be a strong M&A cycle in Small and Microcaps with the competitive bid process for Uniti Group (+43.8%) during the month. We view many other names in our portfolio as attractive takeover targets.

The portfolio-average PE ratio of 14.1x remains at a sizeable discount to the index which is 18.0x 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 $216 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

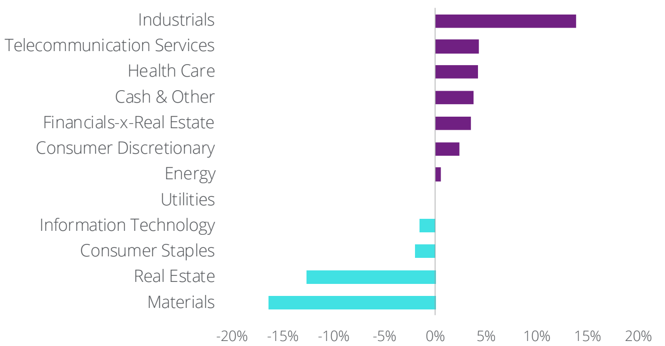
| Portfolio Characteristics – FY23 | Trust* | Index** |
|---|---|---|
| Price to Earnings (x) | 14.1 | 18.0 |
| Price to Free Cash Flow (x) | 10.8 | 20.3 |
| Gross Yield (%) | 4.4 | 3.1 |
| Price to NTA (x) | 2.7 | 2.4 |

**Source:** *Perennial Value Management as at 31 March 2022. **FactSet forecast as at 31 March 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 | 5.3 | 0.0 |
| COOPER ENERGY LTD | 4.3 | 0.2 |
| NAVIGATOR GLOBAL INVESTMENTS L | 3.9 | 0.0 |
| INTEGRAL DIAGNOSTICS LTD | 3.5 | 0.3 |
| SEVEN GROUP HOLDINGS LTD | 3.1 | 1.2 |
| SUPERLOOP LTD | 2.9 | 0.0 |
| RPM GLOBAL HOLDINGS LTD | 2.5 | 0.0 |
| SRG GLOBAL LTD | 2.5 | 0.0 |
| CSR LTD | 2.4 | 1.1 |
| FLETCHER BUILDING LTD | 2.4 | 0.6 |

## Sector Active Exposure vs Index



## Trust Review

The shift in market sentiment towards Resources is clearly shown by the change in leadership of the Small Ords with 4 of the top 5 Index weights being resources companies – while the fifth, Seven Group (which we own) also heavily exposed to the sector via the Westrac division and oil & gas holdings.

Unfortunately, many of the names in the Index are not forecast to go into production for many years and thus high spot prices are of little value and indeed inspire more competition for when their assets will come into production (pushing prices down).

Hence, to get exposure we are increasingly looking to Mid-Caps where we see better value in resource names that are producing strong cash now given elevated prices.

While some of the Industrial stocks we hold that are linked to a stronger resource cycle began to perform (e.g. SRG Global +18.3% and Alliance Aviation +17.1%) others seemed to have not been noticed by the market yet (RPM Global +2.5%, DDH1 +1.5% and Seven Group -4.4%).

Agricultural conditions are also strong with Elders (+14.9%) after a strong trading update, driven by good weather and strong soft commodity pricing. The stock was a new position going into the month as we gained conviction that positive domestic agricultural tailwinds would continue for longer than expected, adding to our other exposure Ridley (+17.4%).

In addition to a strong resource and agriculture market, another thematic we have been expecting for some time is increased M&A activity in the small and microcap space. Thus, we were pleased to see Uniti Group (+43.8%) received an indicative proposal from Morrison & Co and Brookfield during the month, with the offer being recently revised upwards to A$5 per share in response to other potential acquirers emerging. Uniti's predominately strategic and monopolistic fibre network made it a likely takeover target for infrastructure funds, which has now eventuated. We expect this to shine the light on Superloop (+9.3%, which has partially recovered from recent weakness). We also believe many other names in the portfolio have strong takeover appeal with increased activity likely this year. Another benefitting from M&A in the sector is Monash IVF (+13.9%) which rallied after listed peer Virtus (not held) signed a Transaction Implementation Deed, 3 months after receiving its original takeover offer in December. Since then, Virtus received 6 competing proposals from 2 Private Equity buyers with the final $8.25 price representing a FY23 PE of 20x representing a premium to Monash at 17x.

There was a patchy recovery in the technology sector with:

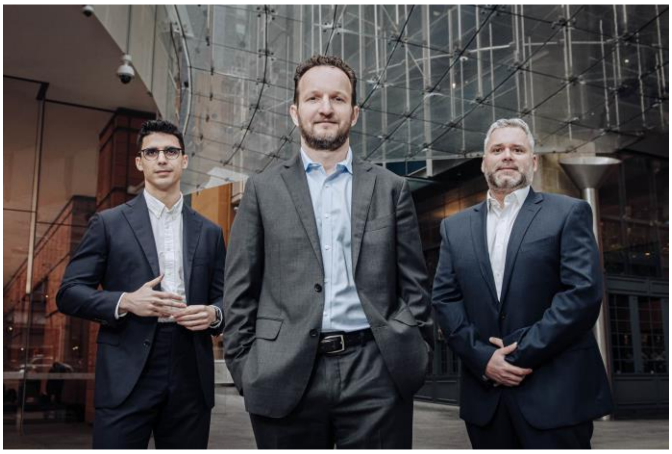
- Hansen Technologies (+17.1%) signed a software/digital implementation agreement with a large US-based energy corporation for around US$25m over an initial seven-year period. While the contract is not overly material, it does provide comfort the company can continue to grow organically while concurrently pursuing its M&A strategy.
- Limeade (+27.9%) following its FY22 results release (calendar year end), with management finally being able to travel to Australia from their Seattle headquarters after a two-year covid-related hiatus. While still nascent, we are encouraged to see green shoots emerging within Limeade's core wellbeing product suite.
- EnviroSuite (down 18.9%) by contrast remains shunned by the market, with the March quarterly report in April a potential catalyst for renewed interest.

MAAS Group (+7.2%) completed two previously announced (albeit delayed) acquisitions. Contributions from these acquisitions represent upside to existing FY22 EBITDA guidance with a full contribution next year increasing the FY23 earnings growth profile.

At month end, the Trust finished with 60 positions and cash of 3.8%.

## Market Review – Australia (%)

| | |
|---|---|
| S&P/ASX Small Ordinaries Index | +5.3 |
| Energy | +9.7 |
| Materials | +10.6 |
| Industrials | +5.3 |
| Consumer Discretionary | +2.3 |
| Consumer Staples | +3.5 |
| Health Care | +3.2 |
| Financials | +2.3 |
| Real Estate | +2.3 |
| Information Technology | +6.8 |
| Telecommunication Services | +12.5 |



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

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