Perennial Value Smaller Companies Trust

Perennial Partners

Monthly Report June 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)	-13.4	-21.1	-20.5	-20.5	7.4	3.4	7.4	9.3
S&P/ASX Small Ordinaries Accumulation Index	-13.1	-20.4	-19.5	-19.5	3.5	0.4	5.1	5.5
Value Added	**-0.3**	**-0.7**	**-1.0**	**-1.0**	**3.9**	**3.0**	**2.3**	**3.8**

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

Overview

For the month of June, the Trust was down 13.4% (net of all fees) in line with the Index which was also down 13.1%.

Markets globally were very weak as concerns around inflation and interest rate expectations increased fears of a recession in major markets. We believe our portfolio is well balanced for current conditions with a mix of defensives and cyclicals that have more robust revenue streams than is appreciated by markets (and most importantly with strong balance sheets).

Given this backdrop, we saw weakness in cyclicals and resources (where we are underweight). Some other parts of the portfolio were heavily impacted by tax loss selling as market participants looked to offset the large taxable gains from the first half of the year but they were doing so in very illiquid markets causing large share price falls.

Despite this, there were several encouraging fundamental updates across the portfolio in June which should lead to improving share prices as this is digested by the market. Across the portfolio, there were two buybacks announced and two accretive acquisitions – in each case earnings per share is boosted in future years but share prices are yet to respond. The portfolio-average PE ratio of 10.0x remains at a sizeable discount to the index which is 13.0x 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 $170 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2002

Fees
1.20% p.a. + Performance fee

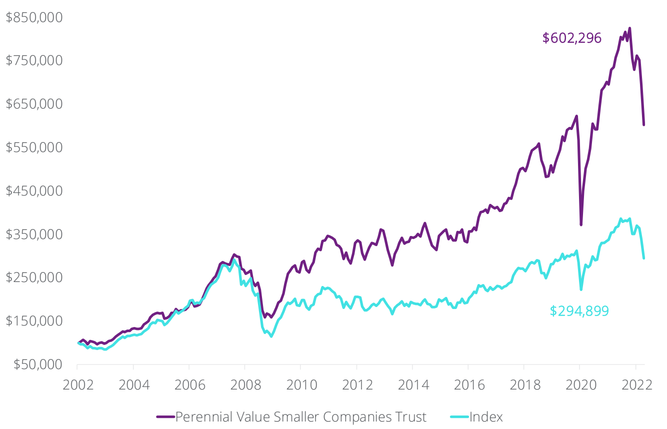
APIR Code
IOF0214AU

Portfolio Characteristics – FY24	Trust*	Index**
Price to Earnings (x)	10.0	13.0
Price to Free Cash Flow (x)	8.0	13.3
Gross Yield (%)	6.6	4.2
Price to NTA (x)	2.2	1.7

Source: *Perennial Value Management as at 30 June 2022. **FactSet forecast as at 30 June 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.

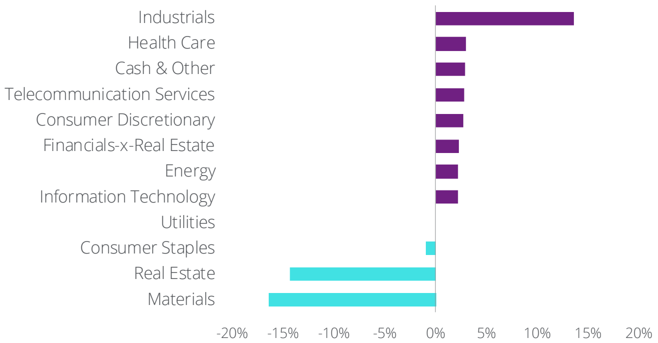
Growth of $100,000 Since Inception



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	6.4	0.0
COOPER ENERGY LTD	4.9	0.3
NAVIGATOR GLOBAL INVESTMENTS L	4.6	0.0
RPM GLOBAL HOLDINGS LTD	4.1	0.0
SUPERLOOP LTD	3.9	0.0
PEOPLEIN LTD	3.0	0.0
INTEGRAL DIAGNOSTICS LTD	2.8	0.3
SEVEN GROUP HOLDINGS LTD	2.6	1.2
ENERO GROUP LTD	2.6	0.0
GENETIC SIGNATURES LTD	2.3	0.0

Sector Active Exposure vs Index



Trust Review

It was pleasing to see two companies announce buybacks in our portfolio (and another in early July) reminding the market of both the balance sheet strength and the board's view that the shares are undervalued. Buybacks increase earnings per share in future years (which is the ultimate driver of value) and thus, while these seem to have been ignored in June (most likely given tax related selling), it clearly enhances future value. The companies in question were:

- Betmakers Technology (down 30.6%) utilising some of the $107.8m of cash on balance sheet at the end of March to buy shares
- RPM Global (down 4.1%) utilising some of the $32.4m of cash on balance sheet at the end of December to buy shares

Two companies announced earnings accretive acquisitions in the period (and another has been announced already in July):

- Cooper Energy (down 3.1%) raised $244m to purchase the Orbus Gas Processing Plant which provides accretive vertical integration and flexibility going forward as they look to develop other gas assets. The subdued share price response reflects the difficulty of a large raise in weak markets.
- PeopleIn (down 10.8%) announced the acquisition of Food Industry People (FIP) and the reaffirmation of FY22 earnings guidance. FIP provides workers from the Pacific Labour Mobility (PALM) Scheme, helping alleviate the tight labour environment within the food and agricultural sectors.

Positive trading updates came from:

- Collins Food (+7.5%), delivering a robust FY22 result on both sales and margins. Importantly, sales trends post balance date remain positive with guidance on FY23 margin outcomes better than expected.
- Enero Group (down 3.3%) with 20% growth in revenue and 34-36% growth in EBITDA
- Family Zone (down 25.0%) with an expected increase in ARR to $75m for FY22 and +80% gross margins
- Viva Leisure (down 30.4%) achieving their FY22 monthly revenue target of $10m in May, and 2H margins expected to reach the upper end of guidance

Negative trading updates came from:

- Smartgroup (down 27.2%) announcing the loss of a Top 20 client which will decrease CY2023 revenues by ~5%, this is a rare loss given >90% customer retention historically
- Fleetwood, down 28.1%, as execution and cost issues on one specific project within Building Solutions has driven a downgrade in FY22 EBITA to a loss of $3-4m (vs +$5m previously). While disappointing, there was positive news delivered after month end, with a $52-70m contract for its Searipple Village.
- GUD Holdings, down 30.4%, after downgrading FY22 EBITA to $147m (-7% vs previous guidance). Delays in new vehicle supply has impacted the APG business while the consumables segment has been performing well and to expectations.

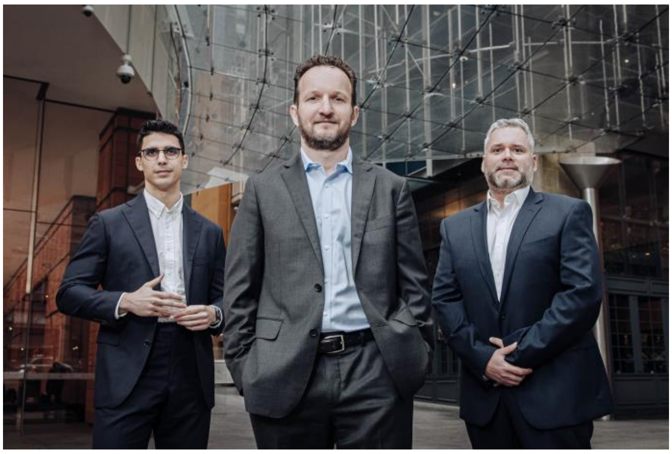
Resources was the weakest sector during the period, and we moved further underweight while we wait for positive signs of demand recovery in China balanced against potential demand destruction elsewhere from higher interest rates.

Finally, many other share prices were down >30% (despite no news flow) reflecting the large tax loss selling pressure. Pleasingly, we have already seen a partial recovery in these names in early July.

At month end, the Trust finished with 54 positions and cash of 2.9%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	-13.1
Energy	-7.7
Materials	-20.7
Industrials	-10.7
Consumer Discretionary	-11.0
Consumer Staples	-5.3
Health Care	-12.4
Financials	-9.4
Real Estate	-6.8
Information Technology	-10.7
Telecommunication Services	-9.2



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

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