Perennial Partners

Perennial Value Smaller Companies Trust

Monthly Report June 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)	0.8	-1.5	-7.8	-7.8	-14.4	2.0	0.4	6.4	7.1	8.4
S&P/ASX Small Ordinaries Accumulation Index	0.0	-0.5	8.4	8.4	-6.6	5.2	2.3	5.8	6.8	5.6
Value Added	**0.8**	**-1.0**	**-16.2**	**-16.2**	**-7.8**	**-3.2**	**-1.9**	**0.6**	**0.3**	**2.8**

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

Overview

For the month of June, the Trust was up 0.8% (net of all fees), outperforming a flat Index. We continue to expect two themes to come to the fore over the balance of the calendar year, namely:

- Corporate activity/strategic interest in undervalued names; and
- Renewed investor interest in stocks below $500m market cap

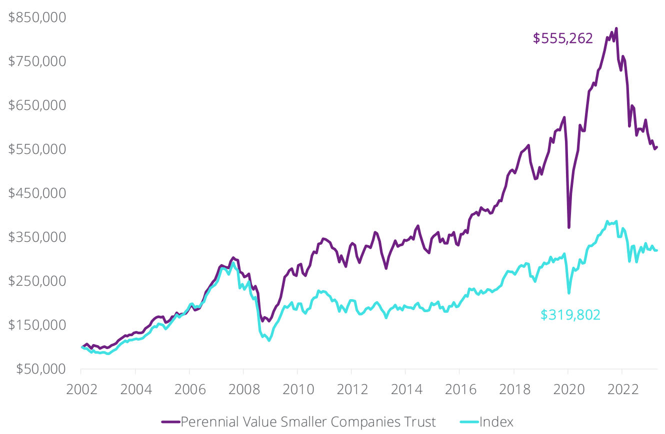
Pleasingly there were signs of both in June.

As evidence of the first point the major shareholder in Navigator agreed to a placement at a significant premium to bring forward previously announced (but highly structured) acquisitions. The premium paid and now simplified structure grabbed investor interest pushing the stock up 34.3%.

Smaller stocks below $500m such as Qoria (+40.0%) and Envirosuite (+11.1%) began to appear on the broader investment radar given they offer defensive and growing revenue streams – a hard combination to find in this market. Others in this group continued to be impacted by tax loss selling. Logically this ended on 30th June, as a result we have seen a strong bounce in many names post.

The portfolio-average PE ratio of 10.0x remains at a sizeable discount to the index which is 16.2x for FY24.

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 $106 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

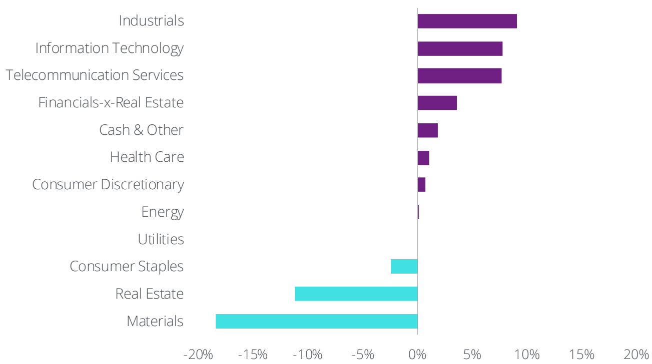
Portfolio Characteristics – FY24	Trust*	Index**
Price to Earnings (x)	10.0	16.2
Price to Free Cash Flow (x)	7.2	13.4
Gross Yield (%)	5.1	3.9
Price to NTA (x)	2.0	1.7

Source: *Perennial Value Management as at 30 June 2023. **FactSet, Goldman Sachs, Macquarie Securities and UBS forecast as at 30 June 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.

Top 10 Positions	Trust (%)	Index (%)
RPMGLOBAL HOLDINGS LTD	5.1	0.0
NAVIGATOR GLOBAL INVESTMENTS LTD	4.8	0.0
ALLIANCE AVIATION LTD	4.6	0.0
COOPER ENERGY LTD	4.4	0.2
EXPERIENCE CO LTD	3.8	0.0
SUPERLOOP LTD	3.3	0.0
QORIA LTD	3.1	0.0
PEOPLEIN LTD	2.7	0.0
GTN LTD	2.6	0.0
ENERO GROUP LTD	2.5	0.0

Sector Active Exposure vs Index



Trust Review

We have been engaging with management and the board at **Navigator Global Investments** (+34.3%) since late last year. We suggested ways to simplify the structure and bring forward the large earnings stream from previously announced (but highly structured) acquisitions. We were very encouraged by the outcome announced during the month which saw major shareholder Dyal Capital (a division of US listed Blue Owl Capital, market cap ~US$16bn) take a placement at $1.40 (versus a share price closer to $1 in recent months) as part of the restructure. NGI also upgraded earnings and existing shareholders like ourselves can participate in a discounted rights issue post shareholder approval in September/October further enhancing potential returns.

Other positive news flow items during the month:

- **Fleetwood** (+25.7%) announced the take-up of an additional 250 rooms at its Searipple Village in Karratha, by Rio Tinto. This is a significant contract worth $100-120m in revenue over April 2024 to April 2027 and provides increased visibility on higher utilisation and earnings over the next 3 years.
- **Collins Food** (+17.0%) delivered a solid FY23 result with sales trends demonstrating some market share gains and reasonable margins. While they have navigated the tougher consumer conditions well, we have subsequently reduced the position size given a lower upside risk/reward.

Smaller stocks below $500m that have defensive and growing revenue streams are beginning to attract market attention – particularly as they approach the mainstream investor hurdle of positive cashflow and earnings. The following stocks are now at this important inflexion point something we have been building our positions in anticipation of:

- **Qoria** (+40.0%) with a market update outlining the power of the combined platform of online child safety products and path to positive cashflow in the near term
- **FINEOS** (+28.3%) announced a large contract win with Guardian Life, a leading provider of employee benefits in the US market. We are encouraged by the size, nature, and additional upside opportunities embedded within the contract win, with Guardian taking all four of Fineos' platform capabilities.
- **Envirosuite** (+11.1%) with several directors disclosing buying
- **MedAdvisor** (+2.0%) post a trading update (revenue +40-43% to $95-$97m) and announcing cost-cutting to bring forward profitability in FY24

Fletcher Building (+7.8%) updated its FY23 EBIT guidance to the lower end of its previous range of NZ$800-855m, primarily driven by lower house sales in 2h24. Interestingly, given consensus expectations were already below the range, this represented a mild upgrade.

Several stocks were down despite no news and recent confirmation of earnings guidance e.g. **Superloop** (down 12.1%).

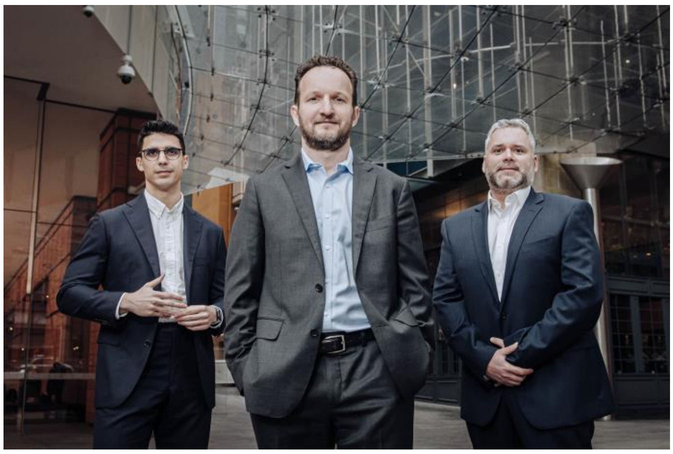
We exited four positions where we felt there was elevated earnings risk going into August reporting season and a crowded register. The latter can amplify potential downside if earnings disappoint – hence we sold.

Tax loss selling put significant pressure on several names despite only marginally negative news e.g. **Lark** (down 23.5%) after one-off restructuring costs under the new CEO, **People Infrastructure** (down 18.7%) with no outcome from the strategic review and **Enero** (down 13.9%) based on FY23 guidance. Encouragingly, there was strong director buying or active buybacks in each name post these updates and as evidence of the tax loss selling impact, these stocks are up between 4-28% in the first three days of July.

The Trust finished with 57 positions and cash of 1.9%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	0.0
Energy	5.4
Materials	-1.3
Industrials	2.7
Consumer Discretionary	-2.3
Consumer Staples	0.0
Health Care	0.5
Financials	4.9
Real Estate	-1.1
Information Technology	-2.6
Telecommunication Services	3.1



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

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