# Perennial Value Smaller Companies Trust

Monthly Report September 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) | -9.7 | -3.3 | -3.3 | -27.2 | -0.9 | -0.5 | 6.1 | 9.0 |
| S&P/ASX Small Ordinaries Accumulation Index | -11.2 | -0.5 | -0.5 | -22.6 | 0.5 | -0.8 | 4.1 | 5.4 |
| **Value Added** | **1.5** | **-2.8** | **-2.8** | **-4.6** | **-1.4** | **0.3** | **2.0** | **3.6** |

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

## Overview

For the month of September, the Trust was down 9.7% (net of all fees) outperforming the Index which was down 11.2%.

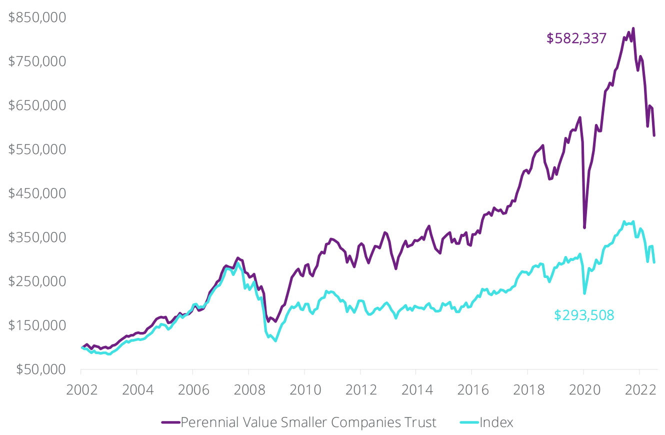
Markets sold off heavily during September with global investor sentiment adversely influenced by a hawkish Fed committed to inflation curtailment. As a result, bond rates and the US dollar moved higher – both of which impacted equity valuations. To add to the turmoil, the UK announced tax cuts and energy subsidies with no clear plan on how these would be funded, sending the Sterling down to record lows.

With macro uncertainty driving market volatility, the Trust held up well, benefiting from being underweight in Materials and Real Estate, as well as our investments in agriculture which outperformed. There was accretive acquisition activity across our holdings with announcements from Superloop, Universal Store and Viva Energy.

Several names experienced large pullbacks on no news flow, and we used the opportunity to selectively add to existing positions in Smartgroup, Event Hospitality and Credit Corp (all down >12%).

The portfolio-average PE ratio of 10.6x remains at a sizeable discount to the index which is 13.7x 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 $136 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

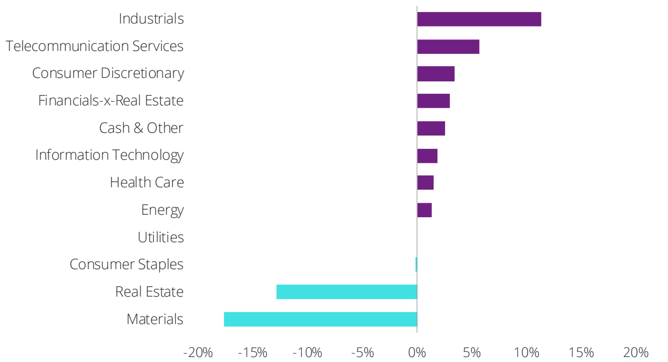
| Portfolio Characteristics – FY24 | Trust* | Index** |
|---|---|---|
| Price to Earnings (x) | 10.6 | 13.7 |
| Price to Free Cash Flow (x) | 8.5 | 15.1 |
| Gross Yield (%) | 5.2 | 4.1 |
| Price to NTA (x) | 2.0 | 2.1 |

**Source:** *Perennial Value Management as at 30 September 2022. **FactSet forecast as at 30 September 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 (%) |
|---|---|---|
| COOPER ENERGY LTD | 5.9 | 0.3 |
| NAVIGATOR GLOBAL INVESTMENTS | 4.9 | 0.0 |
| ALLIANCE AVIATION SERVICES LTD | 4.8 | 0.0 |
| RPMGLOBAL HOLDINGS LTD | 4.2 | 0.0 |
| SUPERLOOP LTD | 3.6 | 0.0 |
| ENERO GROUP LTD | 3.0 | 0.0 |
| CSR LTD | 2.9 | 1.0 |
| SEVEN GROUP HOLDINGS LTD | 2.6 | 1.2 |
| FLETCHER BUILDING LTD | 2.6 | 0.5 |
| PSC INSURANCE GROUP LTD | 2.6 | 0.0 |

## Sector Active Exposure vs Index



## Trust Review

M&A activity picked up across the portfolio, with announcements from:

- Superloop (down 10.8%) announced the acquisition of VostroNet, a network owner and provider of wholesale fibre-to-the-premise (FTTP) and student WiFi broadband services. The acquisition will provide Superloop with additional on-net broadband services and builds capability in the FTTP build-to-rent, multi-dwelling, and other closed network end markets.
- Universal Store (down 4.1%) outperformed the benchmark after announcing the $50m acquisition of THRILLS – a designer, wholesaler and retailer of casual youth fashion apparel. The acquisition ticks a lot of boxes for us; 1) It is well known to UNI as the largest 3rd party supplier for over 8 years, 2) A cheap price of 6.8x FY22 EBIT and 18% EPS accretion and 3) A very favourable deal structure with only $17.5m in upfront cash, $17.5m in shares (escrowed) and $15m in deferred consideration subject to performance hurdles over FY23/24/25.
- Viva Energy (down 12.4%) announced the acquisition of Coles Express for $300m or $143m when adjusting for existing liabilities and working capital benefits. We think the deal makes sense from financial, operational and strategic viewpoints however we used share price strength intra-month to reduce our position size.
- Peter Warren Automotive (down 0.8%) held steady after a 9% stake (and perceived overhang) held by Private Equity was sold to another Automotive dealer group at a 25% premium to the last trade.

Our agriculture investments held up well during the broad sell-off in September, with Elders (+2.3%), Ridley (down 1.9%) and Nufarm (down 6.4%) all outperforming the broader index. While we remain constructive on the sector, we have become more selective as broad tailwinds start to normalise. We continue to have minimal exposure in agricultural companies we deem to have heightened earnings risk. To date, this has helped the portfolio avoid recent earnings downgrades sweeping through the sector.

Other notable developments across the portfolio include:

- Codan (down 22.1%) fell further than the broader index during the month. The stock now trades on very attractive valuation metrics, even when allowing for a wider possible range of earnings outcomes in financial year 2023. We remain constructive on the name and believe at these price levels the risk/reward trade-off to be heavily skewed to the upside for the patient investor.
- EBOS (down 3.8%) benefited versus the market as listed competitor Sigma (not held) reported weak results which support further market share gains for EBOS.
- OFX (down 4.6%) outperformed the broader index with a few larger international peers commenting on a healthy trading environment for cross-border payments. Increased FX volatility is typically a positive tailwind for OFX, and the company should also start benefitting from higher interest income derived from cash held in client accounts.

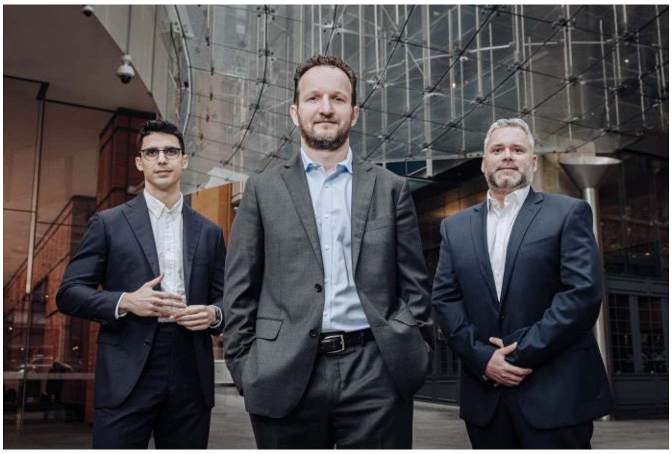
There were several examples of large pullbacks in stocks with no news flow during the month and we used the opportunity to selectively add to existing positions in Smartgroup, Event Hospitality and Credit Corp (all down >12%).

It was also pleasing to see buyback activity continuing across our portfolio, with 8 companies actively in the market buying back their stock during the month.

At month end, the Trust finished with 52 positions and cash of 2.5%.

## Market Review – Australia (%)

| | |
|---|---|
| S&P/ASX Small Ordinaries Index | -11.2 |
| Energy | +0.3 |
| Materials | -14.1 |
| Industrials | -8.6 |
| Consumer Discretionary | -11.1 |
| Consumer Staples | -6.3 |
| Health Care | -11.2 |
| Financials | -10.5 |
| Real Estate | -11.7 |
| Information Technology | -12.1 |
| Telecommunication Services | -12.4 |



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



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