Perennial Value Smaller Companies Trust

MONTHLY REPORT NOVEMBER 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (%p.a.)
Perennial Value Smaller Companies Trust (Net)	8.9	6.5	23.6	8.7	11.4	12.8	10.5
S&P/ASX Small Ordinaries Accumulation Index	10.3	7.7	17.1	6.0	6.7	10.7	6.5
Value Added	**-1.4**	**-1.2**	**6.5**	**2.7**	**4.7**	**2.1**	**4.0**

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

Overview

Markets were very strong in November with the Index up 10.3% and the Trust up 8.9% after fees. The strong bounce was fuelled by encouraging progress for three leading COVID vaccines and a more balanced political landscape in the US post the election. There was a significant shift towards cyclical stocks and deeply out of favour sectors – for Australian small caps that means shopping centre REITs, Travel, Lithium and Aged Care - while the more defensive sectors of Healthcare and Gold sold off.

Going into November, the Trust had a bar-bell strategy – part of the portfolio was in cyclicals and part of the portfolio in defensives, like Gold and Healthcare. We quickly began to rebalance more towards cyclicals adding some mid-cap resources and oil for liquidity and selling some defensive names. We had minimal holdings in the most out of favour sectors, but did have a solid presence in building materials and mining services which performed well. Our preference remains domestic cyclicals and we remain under weight travel names given the uncertain timing of international borders reopening.

The Trust remains positioned in stocks providing a mix of strong earnings growth but with an average valuation at a discount to the market. The portfolio average PE ratio of 14.6x remains at a sizeable discount to the Index which is 18.5x for FY22.

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 listed Australian companies predominantly 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 and Julian Guido

Trust FUM
AUD $158 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2002

Fees
1.20% p.a. + Performance fee

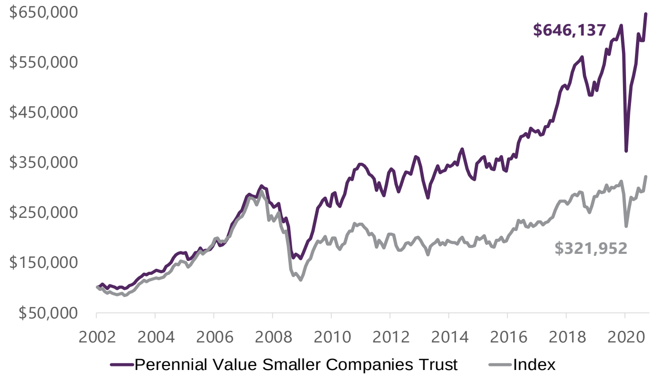
APIR Code
IOF0214AU

Portfolio Characteristics – FY22	Trust*	Index**
Price to Earnings (x)	14.6	18.5
Price to Free Cash Flow (x)	10.7	19.2
Gross Yield (%)	3.7	2.9
Price to NTA (x)	2.4	2.3

Source: *Perennial Value Management as at 30 November 2020. **FACTSET forecast as at 30 November 2020.

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.

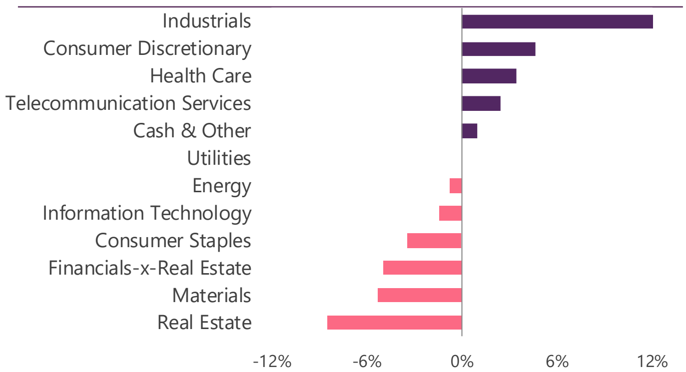
Growth of $100,000 Since Inception



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 L	5.9	0.0
SEVEN GROUP HOLDINGS LTD	3.4	1.2
UNITI GROUP LTD	3.3	0.3
INGENIA COMMUNITIES GROUP	2.9	0.6
INTEGRAL DIAGNOSTICS LTD	2.9	0.3
MARLEY SPOON AG	2.8	0.0
SRG GLOBAL LTD	2.8	0.0
GENETIC SIGNATURES LTD	2.5	0.0
LIMEADE INC	2.5	0.0
BAPCOR LTD	2.4	1.0

Sector Active Exposure vs Index



Trust Review

We had been building our exposure in Mining Services for some time given the robust cashflows being generated by Resource companies and the cheap valuation of those companies that service them. Thus, it was pleasing to see the strong performance in these names as the market began to look for more cyclical exposures – we benefited from holdings in **Emeco** (+36.8%), **Perenti** (+24.9%) and **NRW Holdings** (+21.6%).

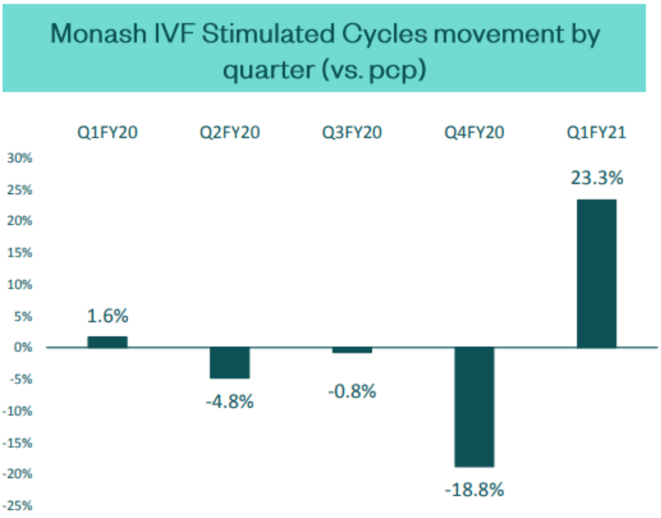
Lithium stocks bounced hard in the month on the back of Biden's victory in the US election, and the expectation that future stimulus measures are likely to buoy electrical vehicle demand. **Orocobre** (+61.3%) was a beneficiary of this positive sentiment, albeit we were overall underweight the sector given poor balance sheets elsewhere. We reduced this underweight via the Galaxy Resources raising at $1.70 vs month end price of $2.16. **Calix** also performed well, (+38.4%) perhaps reflecting an increased environmental focus under Biden.

By contrast, gold names were weaker following both the gold price lower but also being used as a funding source in a 'risk-on' market. We exited our lowest conviction name, **St Barbara**, but retained **Capricorn** (down 5.5%) and **Ramelius** (down 12.7%). We were active in resources adding a mid-cap oil and a mid-cap copper name during the month.

Atomos (+58.3%) provided a succession of positive trading updates during the month. It's become apparent that demand for Atomos' video recording products remained reasonably resilient through the worst of the COVID period and the impacts the company felt were more reflective of retailer destocking, rather than any softness in end consumer demand. We look forward to the launching of the Ninja Stream towards the Christmas period.

Fletcher Building (+39.5%) moved materially higher on the back of strong earnings guidance with a combination of better than expected revenue and a successful cost out program delivering strong earnings growth vs previously low market expectations.

We added further to our construction exposure with the IPO of **MAAS Group** in December (providing a rare exposure to the regional infrastructure boom funded by government stimulus) and maintained our position in **SRG Global** (+14.8%) which is winning a considerable amount of contract recently.



Source: MVF AGM Presentation 26 November 2020

A cyclical that has been flying under the radar of the broader market is **Monash IVF** (+27.8%). This month's AGM confirming a solid recovery in demand as seen in accompanying chart.

We still expect solid earnings and cashflow from **Marley Spoon** (down 18.7%) and **Genetic Signatures** (down 6.1%), however we have not added to our position in the selloff as sentiment could remain against them for some time given both benefited from COVID.

We removed downside protection in the portfolio just before the US election however post the very strong market performance we reintroduced a modest amount of downside protection again at month end.

At month end, the Trust finished with 69 positions and cash/derivatives of 0.5%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	+10.3
Energy	+30.0
Materials	+11.2
Industrials	+12.6
Consumer Discretionary	+9.9
Consumer Staples	+6.0
Health Care	+10.3
Financials-x-Real Estate	+16.5
Real Estate	+7.6
Information Technology	-1.6
Telecommunication Services	+10.6
Utilities	+5.3

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Small Cap Portfolio Managers: Andrew Smith (left) and Julian Guido (right)

Contact Us

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