Perennial Value Microcap Opportunities Trust

Monthly Report February 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Microcap Opportunities Trust (Net)	-5.6	-0.6	-5.1	-26.7	-20.2	-1.4	2.6	9.3
S&P/ASX Small Ordinaries Accumulation Index	-3.7	-1.2	9.8	-8.0	-1.7	4.2	3.6	6.4
Value Added	**-1.9**	**0.6**	**-14.9**	**-18.7**	**-18.5**	**-5.6**	**-1.0**	**2.9**

^Since inception: February 2017. Past performance is not a reliable indicator of future performance.

Overview

For the month of February, the Trust was down 5.6% (net of all fees), compared to the Index which was down 3.7%.

The market returned to a pessimistic and "glass half empty" approach in February which in the context of continuing rate rises makes sense at an Index level but less so for those companies reporting strong fundamental improvements - such as those in our portfolio.

There were plenty of earnings updates in February reporting season with JPMorgan reporting an average drop in earnings per share expectations for Small Cap Industrials of -1.7%. Against this the average adjustment in consensus earnings for our portfolio was +6.1%.

While this was not rewarded in the short-term, we are confident this fundamental improvement cannot be ignored for long by other investors and corporates. As Warren Buffet's mentor Benjamin Graham was reported as saying, "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

Pleasingly, post results there has been director buying in 4 of our names and a share buyback recommenced as the trading window re-opens.

The average PE ratio of the portfolio is 10.8x, a sizeable discount to the Index which is 14.1x for FY24 given the superior growth on offer.

Perennial Value Microcap Opportunities 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 and Sam Berridge

Trust FUM
AUD $164 million

Distribution Frequency
Annual

Minimum Initial Investment
$25,000

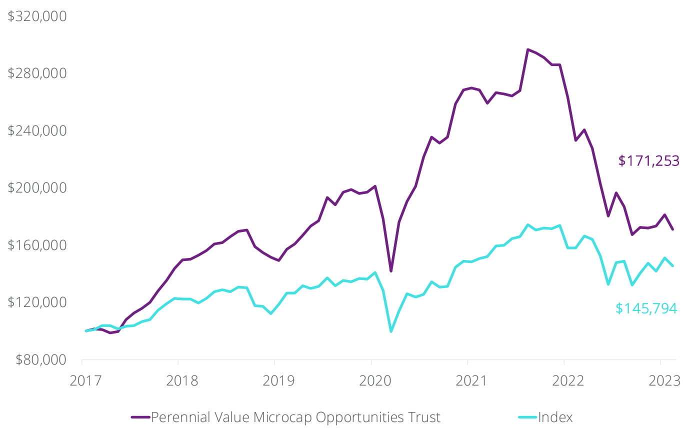
Trust Inception Date
February 2017

Fees
1.20% p.a. + Performance fee

APIR Code
WPC3982AU

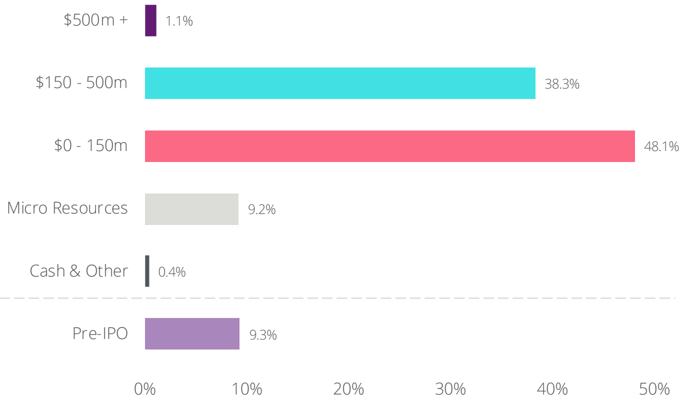
Top 5 Positions	Trust (%)	Index (%)
GOOD DRINKS AUSTRALIA LTD	5.7	0.0
NAVIGATOR GLOBAL INVESTMENTS LTD	4.7	0.0
MEDADVISOR LTD	4.6	0.0
SUPERLOOP LTD	4.0	0.0
ENVIROSUITE LTD	3.7	0.0

Growth of $100,000 Since Inception



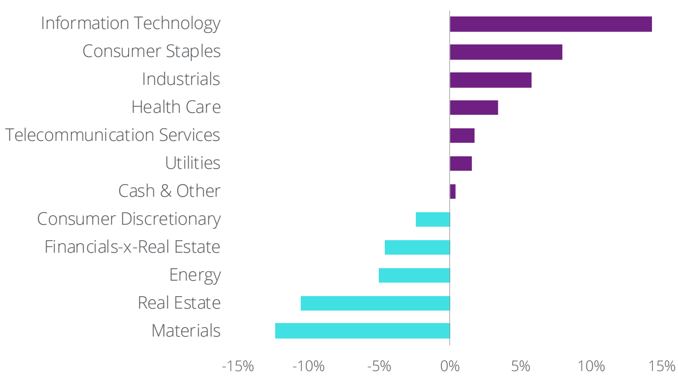
Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Market Capitalisation Exposure



Please note, the above table may add to more than 100% as Pre-IPO equity positions will be double counted

Sector Active Exposure vs Index



Trust Review

February was a volatile month, with a mix of logical reactions to earnings results but also plenty of head scratchers as fundamental improvements were ignored by pessimistic and time-poor small and micro cap investors.

Those stocks with logical reactions to an improving outlook included:

- Viva Leisure (+19.4%) provided a simple message to the market with an earnings beat and strong guidance but more importantly highlighting strong organic cashflow which can internally fund further M&A ambitions
- SRG (+8.3%) beat consensus estimates and raised capital for a logical acquisition – we topped up in the raise
- Experience Co (+7.1%) after a strong 1H23 result which beat consensus estimates. Despite this we believe the market is underestimating the speed of the return of the important international student market as well as international tourists
- DUG Technology (+7.1%) upon delivering a strong set of first half financial resources, in line with its quarterly disclosures but also disclosing a strong start to this current period

However, there were more results where we think investors have missed some good news and taken a "glass half full approach":

- Superloop (down 9.0%) provided a strong set of half year results, with all segments growing nicely. Management continues to deliver strong organic growth, supplemented by innovative and strategic M&A. We see SLC's discernible earnings trajectory, clean balance sheet and undemanding valuation multiples as a highly attractive investment proposition.
- Envirosuite (down 16.0%) despite a result that was hard to fault, with clear progress to cashflow positive in the near term and lower costs which lead to an increase in consensus EBITDA
- Navigator (down 11.3%) despite being one of the few listed asset managers to deliver growth in FUM, positive absolute performance and an in-line result. We suspect the complexity of the corporate structure continues to deter investors, and hence positives like the increased contribution from the Dyal transaction and conservative guidance is missed.
- RPM Global (down 12.3%) despite confirming full year guidance of $14.2m, up from $3.5m in the pcp (which was already beaten with a half year result of $5.3m). The market may have focused on a write back of $0.7m which is included in the guidance; however, they have missed that more valuable software sales also now make up a higher proportion of earnings and subscription wins to date significantly de-risk what is required for the full year.
- SciDev and Synertec were down 18.3% and 7.0% respectively despite delivering only positive news this calendar year with the drawdown more reflective of a lack of liquidity in both names
- Enero (down 34.1%) following a mixed result which was inline at a headline level (EPS estimates only changed by 2.4%) but divisionally had an unexpected miss from Agency. We believe the share price overreacted and used this weakness to add to our holding. This more positive view reflected the continued strength of OB Media and cost cutting initiatives in Agency.

Progress continues amongst our basket of companies moving towards cash positive and we continue to shift our capital in this bucket towards those companies with better medium-term prospects – divesting another two names in February and using this capital to support capital raisings in Cluey and Family Zone in early March. In both cases this helps de-risk the path to cash positive over the next 12mths with a prudent additional cash buffer.

At month end, the Trust finished with 43 positions and cash of 0.4%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	-3.7
Energy	-6.5
Materials	-9.3
Industrials	-4.1
Consumer Discretionary	-1.8
Consumer Staples	-3.7
Health Care	-6.8
Financials	-4.5
Real Estate	-3.8
Information Technology	-0.3
Telecommunication Services	-2.5

Portfolio Managers: Sam Berridge (left) and Andrew Smith (right).

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