Perennial Value Microcap Opportunities Trust

Monthly Report June 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)	1.0	-3.2	-12.9	-12.9	-22.9	-7.9	-0.6	7.3
S&P/ASX Small Ordinaries Accumulation Index	0.0	-0.5	8.4	8.4	-6.6	5.2	2.3	5.8
Value Added	**1.0**	**-2.7**	**-21.3**	**-21.3**	**-16.3**	**-13.1**	**-2.9**	**1.5**

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

Overview

For the month of June, the Trust was up 1.0% (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.

As evidence of the first point, we were very pleased with the takeover of Limeade at $0.425 per share – a 254% premium to the prior month close. This is clear evidence the market is not accurately pricing stocks at the micro end of the market. This under pricing of many microcaps has caused recent poor performance but also highlights the potential upside from future takeovers.

Navigator (+34.3%) benefited after a strategic shareholder agreed to a placement at a significant premium to simplify the acquisition structure. Stocks below $500m that have defensive and growing revenue streams are beginning to attract market attention such as Qoria (+40.0%) and Envirosuite (+11.1%).

Despite these positives a significant part of the portfolio continued to be impacted by tax loss selling. Logically this ended on the 30th June, and we have seen a strong bounce in many names post month end.

The average PE ratio of the portfolio is 8.5x, a sizeable discount to the Index which is 13.8x for FY25. This is despite a higher portion of our holdings with low balance sheet risk (80% have net cash) and a superior growth profile to the Index.

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 $144 million

Distribution Frequency
Annual

Minimum Initial Investment
$25,000

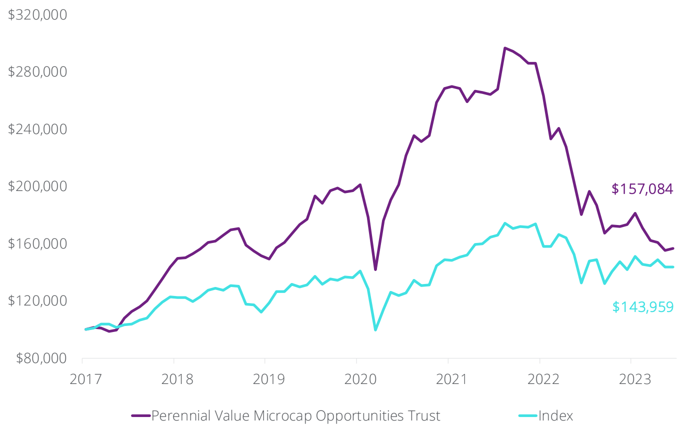
Trust Inception Date
February 2017

Fees
1.20% p.a. + Performance fee

APIR Code
WPC3982AU

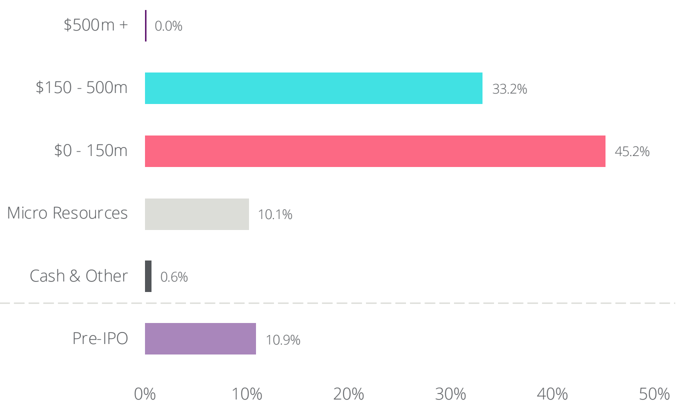
Top 5 Positions	Trust (%)	Index (%)
GOOD DRINKS AUSTRALIA LTD	5.5	0.0
RPMGLOBAL HOLDINGS LTD	5.0	0.0
NAVIGATOR GLOBAL INVESTMENTS LTD	4.6	0.0
SUPERLOOP LTD	4.5	0.0
DUG TECHNOLOGY LTD	4.4	0.0

Growth of $100,000 Since Inception



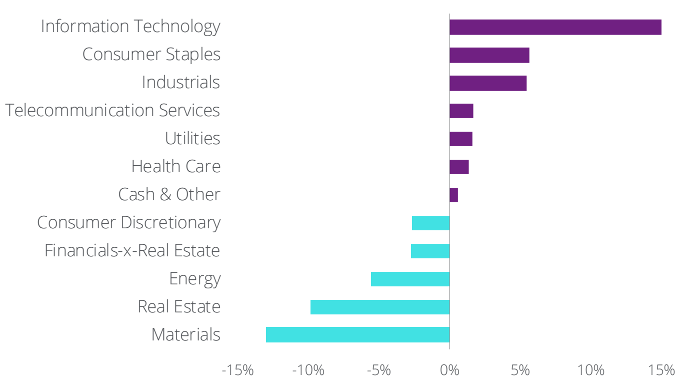
Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Market Capitalisation Exposure



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

Sector Active Exposure vs Index



Trust Review

We were of the view that **Limeade** was significantly undervalued as compared to transactions we were seeing in the private markets and in the US. This view was vindicated with the bid at a substantial 325% premium to last (or 254% to the prior month close).

Such a large premium is clear evidence that the stock market is not accurately pricing stocks at the microcap end. This both frustrates us (given the contribution to recent poor performance as a result) and excites us - given the prospects for outsized returns in the future from further takeovers.

To this end we used the proceeds to add two new positions to the portfolio that we assessed as solid and growing businesses but also with obvious takeover appeal.

Another positive corporate result was **Navigator Global Investments** (+34.3%). We have been engaging with management and the board 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 as part of the restructure. NGI also upgraded earnings and existing shareholders like ourselves can now participate in a discounted rights issue post shareholder approval in September/October - further enhancing potential returns.

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
- **Envirosuite** (+11.1%) with several directors disclosing buying
- **MedAdvisor** (+2.0%) post a trading update (revenue +40-43% to $95-$97m) and cost-cutting to bring forward profitability in FY24

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

Perhaps the clearest example of mispricing during the month due to year end fund raising and tax loss selling was the reaction to the following good news in:

- **Veem** (down 13%) announcing what we view as their best update since their IPO in 2016 with a minimum contract of USD$5.6m with Strategic Marine for supply of the gyro technology in the crew transfer market. They also announced that revenue and earnings will both be ahead of market expectations
- **Aerometrex** (down 3.2%) disclosing a material off-the-shelf sale to the Australian Government, further proving the value of their data set

Tax loss selling put significant pressure on several other names as they combined with 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, **Maggie Beer** (down 7.7%) after higher costs but solid sales and **Enero** (down 13.9%) based on lowered FY23 guidance.

There was strong director buying and/or active buybacks in each name post these updates suggesting boards remain comfortable in each case. The best evidence that tax loss selling played a part was the moves over the first three days of July in these stocks – they were up between 4-29% over that period providing a good start to the fund in July.

We have often seen the market overestimate the downside from a CEO change and then underestimate the impact new management teams can bring if they have relevant industry skills and strong strategic direction. For example, MedAdvisor announced the CEO change in February of 2022 and despite a clear and significant improvement in all earnings metrics and depth of the business since it is only now recovering towards the share price at that time.

We expect a similar path for Maggie Beer and Lark as the market warms to the new and more experienced management teams now in place.

At month end, the Trust finished with 47 positions and cash of 0.6%.

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

Invest Online Now

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au