Perennial Value Microcap Opportunities Trust

Monthly Report January 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	Since inception^ (% p.a.)	Since Inception^ Cumulative (%)
Perennial Value Microcap Opportunities Trust (Net)	-8.0	-9.6	-0.3	-2.4	20.8	21.4	163.6
S&P/ASX Small Ordinaries Accumulation Index	-9.0	-8.0	-4.0	6.7	10.1	9.6	58.4
Value Added	**1.0**	**-1.6**	**3.7**	**-9.1**	**10.7**	**11.8**	**105.2**

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

Overview

For the month of January, the Trust was down 8.0%, outperforming the Index which was down 9.0%.

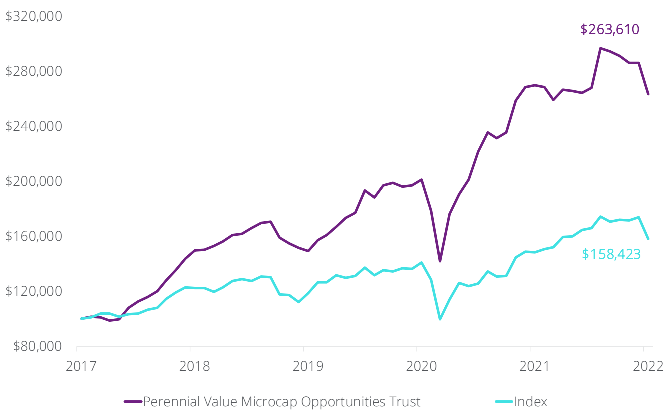
The market focused on commentary from the Federal Reserve (and other central banks) that rate rises may be needed earlier to deal with high levels of observed inflation. This impacted longer term rates and thus the valuation for companies where forecasts for substantial cashflow are long dated and thus more sensitive to higher discount rates (simplistically growth stocks) compared to companies with near term cashflow (simplistically value stocks).

Growth stocks in the US responded appropriately selling off more than value stocks. In Australia, the small caps market was less discerning (and micro caps even less so) with a wide spread sell-off.

This creates an exciting set up for returns over CY22 as we seek out value stocks ignored by the market and those stocks labelled as growth where we actually see stronger and positive cashflow near-term.

The portfolio-average PE ratio of 11.8x remains at a sizeable discount to the index which is 16.8x for FY23.

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 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 $280 million

Distribution Frequency
Annual

Minimum Initial Investment
$25,000

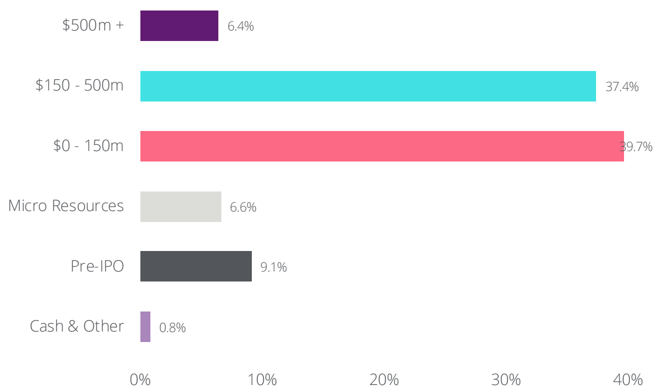
Trust Inception Date
February 2017

Fees
1.20% p.a. + Performance fee

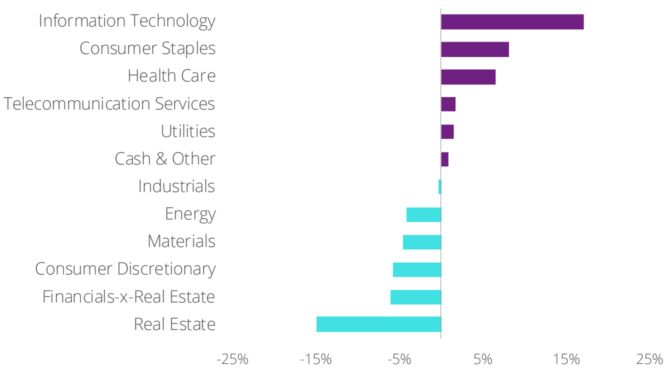
APIR Code
WPC3982AU

Top 5 Positions	Trust (%)	Index (%)
LARK DISTILLING CO. LTD	4.5	0.0
REVASUM INC	4.4	0.0
ENVIROSUITE LTD	4.3	0.0
GOOD DRINKS AUSTRALIA LTD	3.9	0.0
MAGGIE BEER HOLDINGS LTD	3.7	0.0

Market Capitalisation Exposure



Sector Active Exposure vs Index



Trust Review

As discussed in the prior month, a key strategy we have successfully deployed for several years is identifying stocks where growth is underappreciated by the market and where the coming inflection to positive cashflow will be a genuine surprise and near-term share price driver.

January was a great demonstration of both sides of this argument.

Those stocks perceived as growth by the market (near term cash burners) were severely punished but we think the market is missing a coming inflection to a cashflow positive position this calendar year or earlier– we see this as likely for Betmakers Technology, Doctor Care Anywhere, Family Zone, FirstWave and Marley Spoon (all down 15-30% in the month). If these companies deliver on our expected cashflow improvement forecast we believe this could be a strong driver of the share price and move them firmly back into the 'value' camp and onto more investors radars.

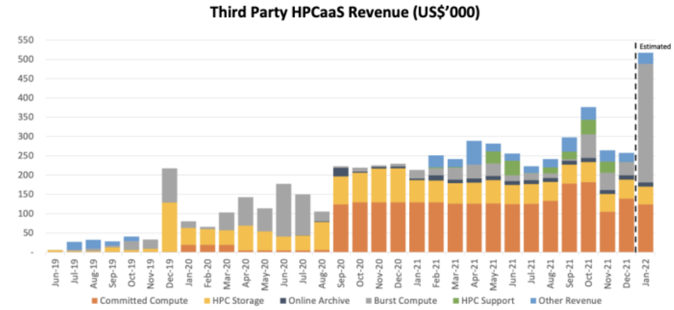
One company that did deliver on this and was significantly rewarded was Revasum (up 57.1%). Readers will recall this has been a significant drag on the portfolio for several years but we maintained the investment as we believed that as new products moved from commercialisation and were taken up, it would lead to a rapid turnaround in cashflow. Pleasingly, this was demonstrated in the December quarter (with the month of December itself actually delivering positive USD$300k).

Other positions which were down 10-13% where we have high conviction but whose positive attributes remain ignored by the market are SciDev, RPM Global, Aerometrex, Cluey and Lark Distilling. We are optimistic that results in February and throughout the year will demonstrate the quality of these businesses and lead to a re-rating.

This process may have already begun as sales updates late in the month for both SciDev (revenue up 32% on pcp) and Lark (sales up 78% despite COVID impacts at their venues) were encouraging and led to a partial recovery in the share price.

Stocks we hold that have previously been banished by the market but which have begun to respond to improving fundamentals include:

- Maggie Beer (+6.5%) as investors anticipate continued strong performance after a posting a positive update in November
- DUG technology (+6.4%) after reporting strong revenue growth in January. The uptick in revenue (captured below) was from the oil and gas sector, which had been detracting from group performance up until recently.



Source: DUG Technology January 2022 Update

The investment in the Microcap Resources Trust was a positive contributor, up 1.4% for the month, a pleasing performance given the weak backdrop. Performance was driven by Lithium names; Green Technology Metals and Jindalee Resources.

At month end, the Trust finished with 52 positions and cash of 0.8%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	-9.0
Energy	+0.0
Materials	-7.8
Industrials	-10.6
Consumer Discretionary	-12.6
Consumer Staples	-8.7
Health Care	-14.5
Financials	-11.6
Real Estate	-9.9
Information Technology	-14.1
Telecommunication Services	-11.4

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

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