Perennial Value Microcap Opportunities Trust

Monthly Report August 2022

	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)	-4.8	-7.9	3.8	-37.0	-10.9	-0.2	10.1	11.9
S&P/ASX Small Ordinaries Accumulation Index	0.6	-2.6	12.1	-14.7	5.1	4.1	6.9	7.4
Value Added	**-5.4**	**-5.3**	**-8.3**	**-22.3**	**-16.0**	**-4.3**	**3.2**	**4.5**

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

Overview

For the month of August, the Trust was down 4.8% (net of all fees) compared to the Index which was up 0.6%.

The main drag on performance was one of our larger private assets which was priced lower during the period to match the current funding round and set the company up for an IPO or exit event in CY23. Importantly, the new value is still 2x our initial entry point.

The month started positively with a better-than-feared domestic reporting season, but it then began to fall with macro concerns post the hawkish commentary from the Fed at the Jackson Hole summit.

We were pleased with the strong fundamentals delivered in the August full year results from our portfolio companies.

Given the mood of the market, there were many cases where these fundamental improvements were ignored – Navigator (down 15.6%) was a case in point after beating earnings expectations and demonstrating inflows and positive absolute performance (a rarity amongst its funds management peers).

Pleasingly, the market did begin to notice the improved earnings outlook at DUG Technology (up 30.1%) and Aerometrex (up 26.8%).

The portfolio-average PE ratio of 9.7x remains at a sizeable discount to the index which is 15.2x for FY24.

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 $188 million

Distribution Frequency
Annual

Minimum Initial Investment
$25,000

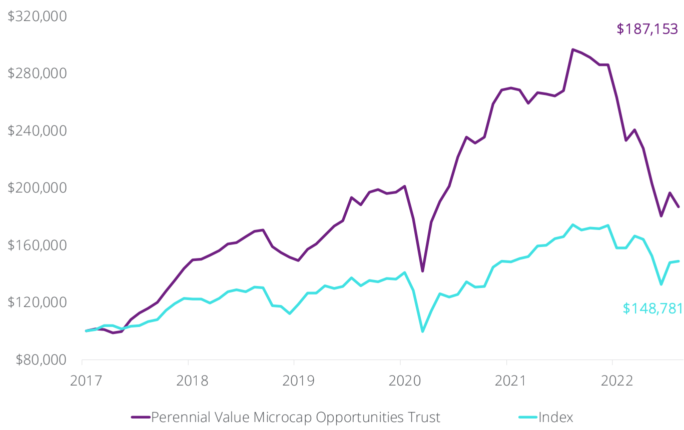
Trust Inception Date
February 2017

Fees
1.20% p.a. + Performance fee

APIR Code
WPC3982AU

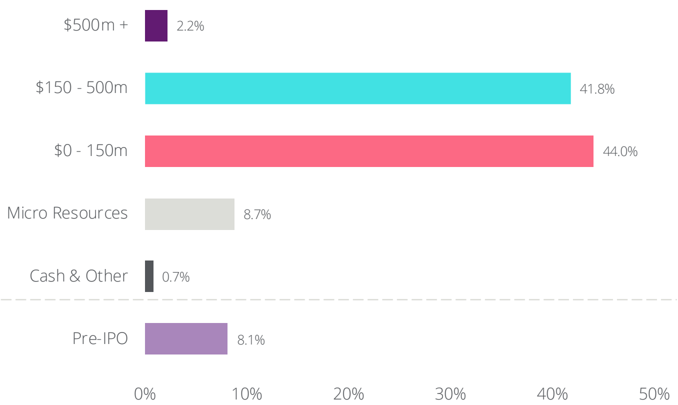
Top 5 Positions	Trust (%)	Index (%)
GOOD DRINKS AUSTRALIA LTD	6.0	0.0
ENVIROSUITE LTD	5.5	0.0
SUPERLOOP LTD	5.0	0.0
LARK DISTILLING CO. LTD	4.8	0.0
NAVIGATOR GLOBAL INVESTMENTS LTD	4.7	0.0

Growth of $100,000 Since Inception



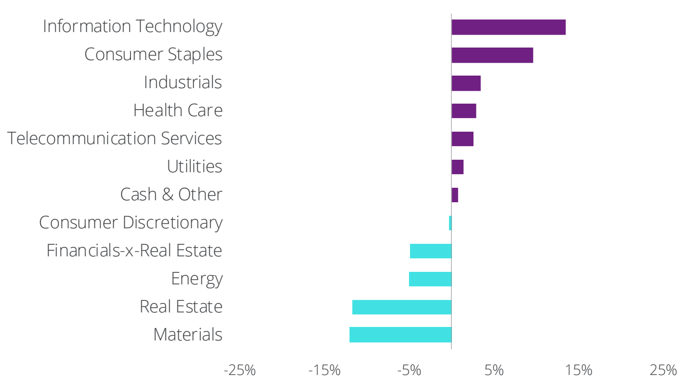
Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

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

There were many pleasing updates during August, namely:

- Synertec Corporation (up 70.8%) after providing a further update on their Powerhouse solar trial with Santos as well as growth in their engineering business
- DUG Technology (up 30.1%) on improved earnings and cash generation in the 2H of FY22
- Family Zone Cyber Safety (up 17.6%) announced August recurring revenue growth ahead of expectations, setting them up well for their near-term target of transitioning to positive cash flows
- Acrow Formwork (up 14.6%) delivered on FY22 guidance and provided a very strong outlook and guidance for FY23 earnings
- Envirosuite (up 9.4%) after demonstrating strong operational leverage from additional revenues and outlining "a clear pathway towards adjusted EBITDA profitability during FY23"
- PeopleIN (up 9.1%) delivered strong FY22 results and EBITDA guidance for FY23 which indicates ~10% organic growth as well as a positive contribution from recent acquisitions

Positions which disclosed significant progress, but which to date have been ignored by the market include:

- RPM Global (down 3.2%) provided one of the strongest outlook statements from our coverage, with guidance for FY23 of $14.2m EBITDA from the $4.5m delivered in FY22. This solid growth reflects the impact of strong software sales already made late in FY22 and flat development costs for FY23 after years of heavy investment – hence this earnings growth is relatively low risk.
- MedAdvisor (down 2.9%) announced the acquisition of GuildLink, a competing software provider in the Australian market. The combined business has a highly dominant market share (>90%) but also introduced the Pharmacy Guild as a strategic and supportive shareholder. As a result, the Australian business is transformed to profitability while the new US based CEO looks well placed to better leverage the large revenue base already in the US market.

Clearly situations like the above excite us as long-term investors and is exactly where we look to deploy additional capital.

The short-term focus of markets was seen in the response to results that beat expectations for FY22 but included further investment in growth initiatives for FY23 that boosts medium-term growth, but at a cost to FY23 expectations. In these cases, the market was disappointed with the lack of a sugar hit in FY23 and ignored the improved growth prospects in future years from this investment. This was seen in:

- Superloop (down 12.4%) beat market expectations in FY22. However, management flagged further investment in marketing spend in FY23 to continue the healthy organic growth profile, leading to consensus earnings being lowered in FY23 and FY24. We remain supportive of management and the broader business, with good underlying growth, improving earnings quality and a net cash balance sheet providing good upside for investors.
- Navigator Global Investments (down 15.6%) delivered a 6% beat to expectations as well as strong absolute performance and positive flows. Prudently, the dividend payout was reduced so that the group can fully fund the deferred consideration for recent acquisitions which have enhanced the future EPS growth profile.
- Good Drinks Australia (down 2.0%) confirmed EBITDA of $8.4m for FY22 and strong growth for FY23, albeit they are investing a further $3m in marketing given the large product suite (Magners, Molson and Stomping Ground are all new for FY23). While the market may have missed these developments, directors and staff have not (they disclosed $3.2m of buying on market post month end).

Corporate interest continues to build in the microcap sector with several new deals announced in the universe. Doctor Care Anywhere (down 50.0%) announced several approaches but these may have cooled given disclosure that their platform was struggling to scale further given the strong revenue growth, hence further investment is needed before they can grow above the current levels.

The Micro Resources Trust holding returned 4.9% in August, slightly underperforming the resources benchmark return of 5.6%.

At month end, the Trust finished with 48 positions and cash of 0.7%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	+0.6
Energy	+14.1
Materials	+1.1
Industrials	-0.7
Consumer Discretionary	-1.5
Consumer Staples	+0.4
Health Care	-6.3
Financials	-0.4
Real Estate	-5.0
Information Technology	-3.4
Telecommunication Services	+0.0

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

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