

# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

2016 ANNUAL  
GENERAL MEETING

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**ADDRESSES TO SHAREHOLDERS**

Perpetual 

# **FY16 PIC ANNUAL GENERAL MEETING**

## **Chairman's Address**

### **Peter Scott**

The Perpetual Equity Investment Company, or PIC by its ASX code, is one month short of its second birthday. The Company listed on 18 December 2014, with shareholders investing more than \$250 million.

PIC offers investors access to a portfolio of high-quality Australian and global listed securities, selected by Perpetual Investments – one of Australia's most experienced fund managers. The Company is managed to provide a growing income stream and long-term capital growth over a minimum five-year investment period.

### **FY16 results**

This year the company finished its first full financial year of operation, where it announced a net profit after tax of \$7.6m - a 106% increase compared to FY15. The Company also announced an increased fully franked final dividend of 2 cents per share. This brought the total dividends declared for FY16 to 2.8 cents per share - a significant increase from the dividend of 0.5 cents per share declared in the 2015 financial year.

The Board has an objective to pay a regular and growing dividend and remains focused on achieving this for shareholders.

### **Market conditions**

In FY16 PIC produced a strong result in difficult market conditions. Investors faced an exceptional number of global events resulting in uncertainty and heightened market volatility. There is little sign of this easing.

During these times it's important the Company maintains its investment philosophy. The Manager uses a disciplined investment process focused on value and quality, and has remained true-to-label throughout the year.

The Company's investment strategy is to hold an actively managed portfolio of typically 20-40 quality securities, underpinned by the Manager's fundamental, in- depth, bottom-up active investment process.

Up to 25% of the portfolio's net asset value can be allocated to global listed securities. The portfolio structure also offers the flexibility to manage potential equity market risk by moving up to 25% into cash. The remaining 50-100% can be invested in Australian listed securities, typically with a mid-cap bias.

### **Opportunities in a difficult market**

Challenging markets create opportunities to purchase assets at prices below their true value. Perpetual has a long track record of outperforming the share market when it is down, which has benefitted investors for many years.

The second half of FY16 was the first six months where the portfolio was fully invested, improving the capacity to deliver an increased dividend. The Manager did not immediately buy into an overvalued market, protecting investors' capital, and demonstrating a disciplined investment approach.

Shareholders have been rewarded by the Manager's patience in waiting for the right opportunities. The portfolio had returned 6.4% per annum since inception, as at the end of September this year.

### **Investor insights**

Investors are increasingly seeking transparent and liquid investments as part of a diversified portfolio. The structure of the Company provides investors with direct access to Perpetual's expert investment team - a team with a consistent track record of superior performance in Australian and global equities.

When investors buy into PIC they have ultimate control in buying and selling their shares.

### **NTA**

Currently, the Company is trading at a discount to its Net Tangible Assets, or NTA. NTA is one of the best measures to reflect the skill of the Manager and pleasingly, PIC's NTA has grown 9.3% over the year to the end of September.

There are many reasons why the share price for a LIC may trade at a discount, including market sentiment, transparency and engagement with shareholders, demand and supply of shares or performance.

While it is not unusual for many Listed Investment Companies to trade at a discount, the Board is focused on closing the gap and Geoff will talk more about this shortly.

### **Options**

Shareholders who acquired shares in the Company under the Initial Public Offer received one option for every one share exercisable at \$1.00. The listed options on offer expired on 10 June 2016 and 1,714,000 were exercised.

### **Accolades**

We are pleased to have been rated “Recommended” by Zenith Investment Partners in their 2016 Listed Investment Companies Report, we are one of only 11 LICs out of an initial universe of 71, to receive either a “Highly Recommended” or “Recommended” rating.

### **Board Matters**

This year there have been changes to the composition of the Board. Michael Gordon officially stepped down from his role as Executive Director of PIC due to his retirement from the role of Group Executive, Perpetual Investments, at the end of the 2015 calendar year.

Further, as some of you may have read, David Kiddie, who was appointed to the PIC Board in May 2016 has decided to return to England permanently in the near future for personal reasons. I’d like to thank both Michael and David for their work on the PIC Board.

Today we will be seeking shareholder approval for the appointment of Geoff Lloyd, CEO and Managing Director of Perpetual Limited, as the new Executive Director of PIC. Further details on Geoff’s experience and other items on the agenda for today’s AGM are provided in the Notice of Meeting.

### **Looking ahead**

The remainder of the 2017 financial year will likely see continuing market volatility, with a number of macro-economic factors influencing markets around the world.

In these uncertain conditions, the Perpetual Equity Investment Company will maintain its disciplined investment approach.

Finally, I’d like to thank the Board, the Manager and business partners for their support and commitment during 2016. We look forward to continuing to work with all of our investors in 2017 and beyond.

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# **PIC FY16 ANNUAL GENERAL MEETING**

## **Executive Director's Address**

**Geoff Lloyd**

Good afternoon and welcome.

### **Overview**

The 2016 financial year was the Company's first full year of operation. We delivered Net Profit After Tax (NPAT) of \$7.6 million – this is a 106% increase on the previous period.

Investment income for the year was \$12.5m - comprised of \$8.2m in dividends, \$4.1m from realised and unrealised capital gains, and a small FX loss. Expenses were \$3.9m, made up of fees for the Manager, the ASX, auditors and directors.

### **Dividend growth**

Importantly, the Company announced a fully franked final dividend of 2.0 cents per share, taking total dividends declared in FY16 to 2.8cps – this represents significant growth compared to last financial year.

The Company aims to grow its dividend prudently but sustainably. The Board's objective is for all dividends paid to shareholders to be franked 100% - or, to the maximum extent possible twice a year.

The Listed Investment Company (LIC) structure can generate franking credits from two sources - franked dividends the Company receives from its investments, and franking credits generated when the Company pays tax. We are still early in our journey building our dividend history, and franking credits.

The Board is however pleased to deliver significant growth in our dividend - from 0.5 cps in FY15 to 2.8 cps in FY16.

### **Keeping you informed**

We know communication is important to you, our shareholders. The Company aims to keep shareholders informed with a number of excellent services. Shareholders and prospective shareholders have access to new sources of information such as monthly emails and greater media exposure.

This builds on what we already have - daily Net Tangible Asset (NTA) announcements, the PIC website, and half yearly national presentations and roundtables – all of these provide excellent services for investors.

## **NTA**

As I just mentioned, PIC provides daily NTA announcements. NTA measures the value of the Company's investment portfolio. It's one of the best measures to reflect the skill of the Manager investing the Company's capital.

PIC's NTA is \$1.053. Pleasingly, it has grown 9.3% over the year to the end of September 2016. This has been driven by growth in the share price of stocks in the portfolio, for example BlueScope, Bapcor, Monash IVF and so on.

## **A proven investment philosophy**

The Manager has diligently managed the portfolio – and did not invest all of the capital at launch due to concerns over company valuations in the investable universe. By doing this the Manager has protected your capital in what we believe to be an overpriced market and remains committed to finding quality companies but only at attractive valuations.

This diligence is the same approach to value investing utilised by Perpetual Investments – one of the most respected fund managers in Australia.

Perpetual is an active, value manager, with a bottom-up investment process - which has been proven over time. Perpetual Investments has an enviable track record and loyal clients who value consistency.

## **Looking ahead**

It is pleasing to see there has been a steady increase in the Company's NTA. The investment portfolio has performed well in an absolute sense despite increased market volatility, and the Manager remains committed to its disciplined approach to value investing.

Importantly, the Company has also delivered investors an increase in dividends at a time when investment yield is very important.

Thank you.

PERPETUAL  
EQUITY  
INVESTMENT  
COMPANY

# ANNUAL GENERAL MEETING

3 NOVEMBER 2016

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# IMPORTANT NOTE

This information was prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 and issued by Perpetual Trustee Company Limited (PTCL) ABN 42 000 001 007, AFSL 236643. PIML is the Manager for the Perpetual Equity Investment Company Limited (Company) ACN 601 406 419.

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**PETER SCOTT - CHAIRMAN**

Perpetual 

# AGENDA

- > Chairman's Welcome and Address
- > Executive Director's Address
- > Portfolio Manager Update
- > Questions
- > Formal voting proceedings
  - Resolution 1
  - Resolution 2
  - Resolution 3
- > Other Business
- > Closure
- > Afternoon Tea

# PERPETUAL EQUITY INVESTMENT COMPANY (ASX: PIC)

PERPETUAL  
EQUITY  
INVESTMENT  
COMPANY

- > Actively managed
- > Concentrated 20 – 40 stock portfolio
- > Access to high quality Australian and global listed securities (typically mid-cap)
- > Benchmark and sector unaware

## Investment objectives:

- ✓ Deliver a growing income stream
- ✓ Provide long term capital growth
- ✓ Exceed its benchmark

## Portfolio Manager – Vince Pezzullo:

- ✓ Over 20 years in financial services industry
- ✓ Extensive domestic and global equity experience

**GEOFF LLOYD – EXECUTIVE DIRECTOR**

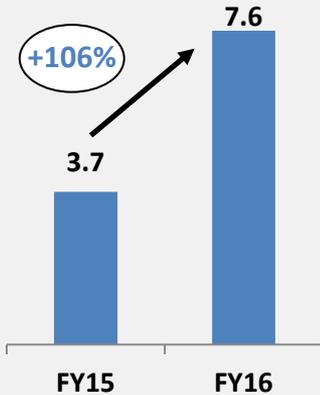
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# FY16 OVERVIEW

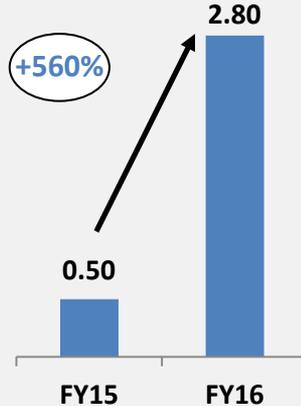
SOLID RESULTS IN VOLATILE MARKETS

PERPETUAL  
EQUITY  
INVESTMENT  
COMPANY

NPAT, \$m



DIVIDEND PER SHARE, CPS



## Solid Results

NPAT growth  
**106%**  
on FY15

DPS up  
**560%**  
on FY15

Net Profit After Tax of **\$7.6 million** for the period ending 30 June 2016.

The total dividends declared for FY16 were **2.8 cents per share**.

The Net Tangible Assets per share were **\$1.014** as at 30 June 2016.

# KEEPING YOU INFORMED WITH EXCELLENT SERVICE



Monthly emails  
including market  
updates



Daily NTA  
announcement



Half & full year  
financial results



Media

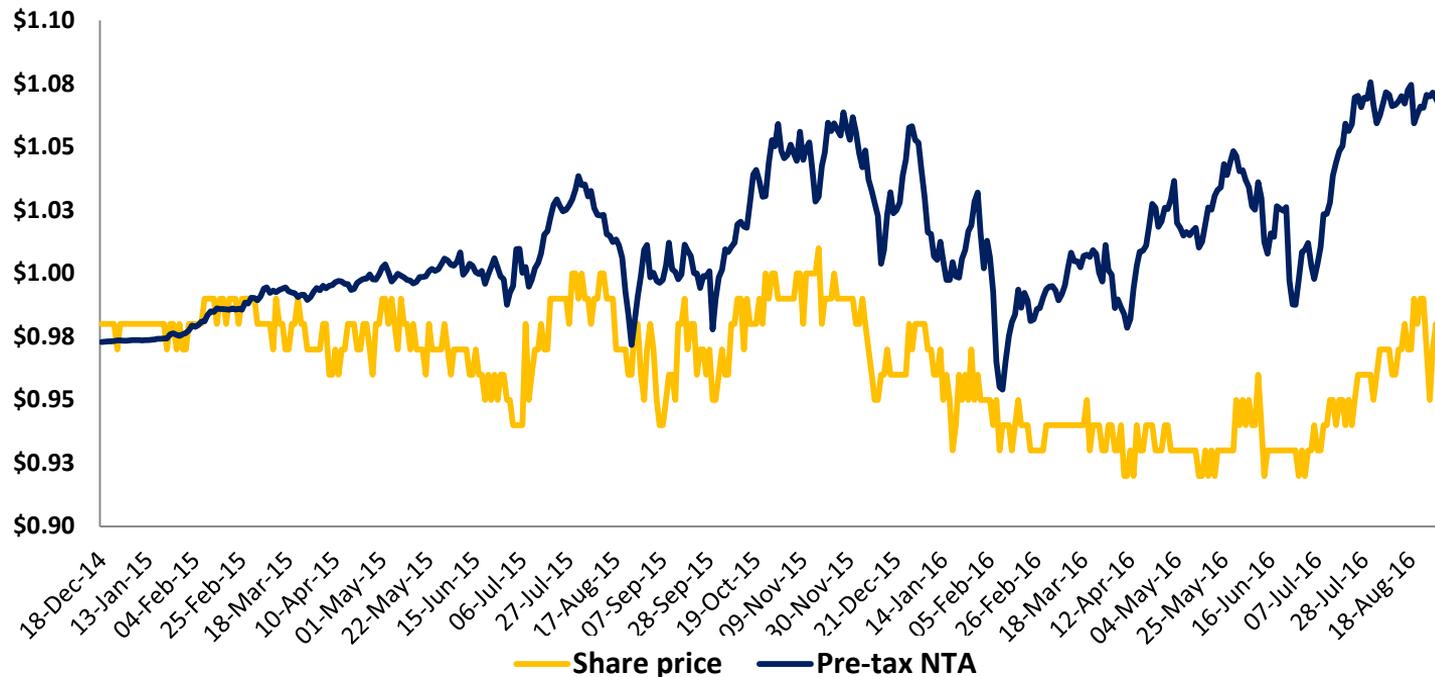


Website  
[www.perpetualequity.com.au](http://www.perpetualequity.com.au)



Half yearly national  
investor presentations  
and broker roundtables

# PORTFOLIO NTA HAS GROWN 9.3% OVER 12 MONTHS



Pre tax NTA returns shown for the Company have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees and any income tax on realised gains) and assuming reinvestment of dividends. Any provisions for deferred tax on set up costs and on unrealised gains and losses are excluded. Past performance is not indicative of future performance. Inception date is 18 December 2014.

# PROVEN TRACK RECORD

- Established in 1886, Perpetual is one of Australia's **most respected** fund managers, with a passion for **protecting** and **growing** our clients' wealth.
- Perpetual is an **active, value** manager, with a bottom-up investment process.
- One of the largest investment teams in Australia that conducts **more than 1,000 company meetings** each year.
- **A\$30.7bn** funds under management (at 30 September 2016).
- Perpetual Investments is part of Perpetual Limited (ASX:PPT).
- Provider of **market-leading** equities, fixed income, cash and multi-asset solutions.



**VINCE PEZZULLO – PORTFOLIO MANAGER**  
**MARKETS, PROCESS AND PERFORMANCE**

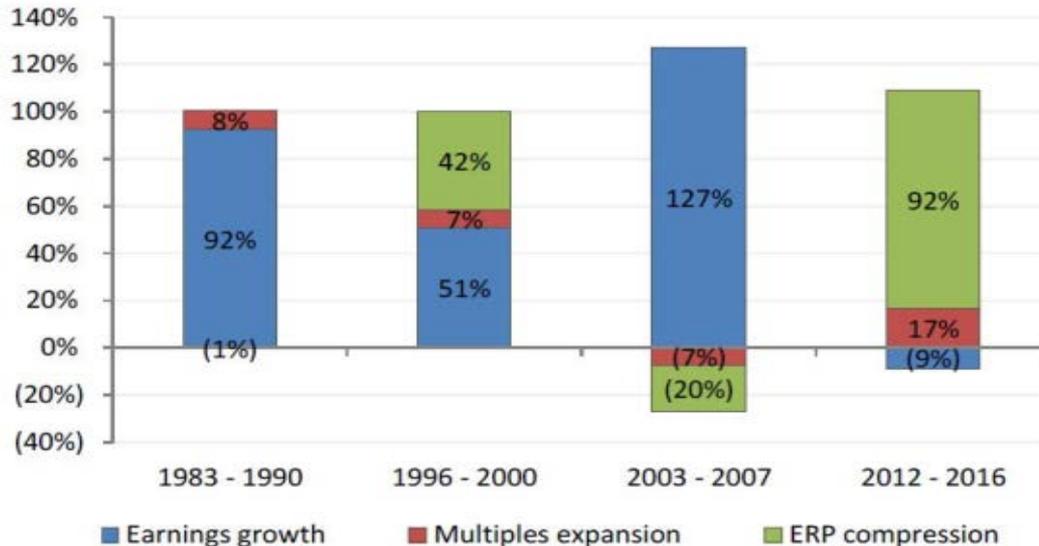
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# MACRO EVENTS CREATING OPPORTUNITIES

- Taking advantage of the aggressive sell off of the British Pound we have bought Henderson and Clydesdale
- The HIPP trade (HealthCare, Infrastructure, Property and Pizza) has been in favour but steepening yield curves globally are starting to have an impact on these sectors and we are only just seeing the early phase of an unwind
- Have used recent market weakness in mid-caps to initiate new positions
- Stock selection is critical in this market

# WHAT IS DRIVING THE MARKET? NOT “E” GROWTH

## Contribution to SPX rallies in past expansion cycles



- All rallies are driven by different factors
- Rallies driven by earnings growth tend to be high quality (when not driven by leverage 2003 – 2007)
- Falling global yields have driven the current expansion.

Source: Haver Analytics and Deutsche Bank

# OUR INVESTMENT PHILOSOPHY

## QUALITY & VALUE FOCUS

### We focus on:

**1** Quality business

**2** Conservative debt

**3** Sound management

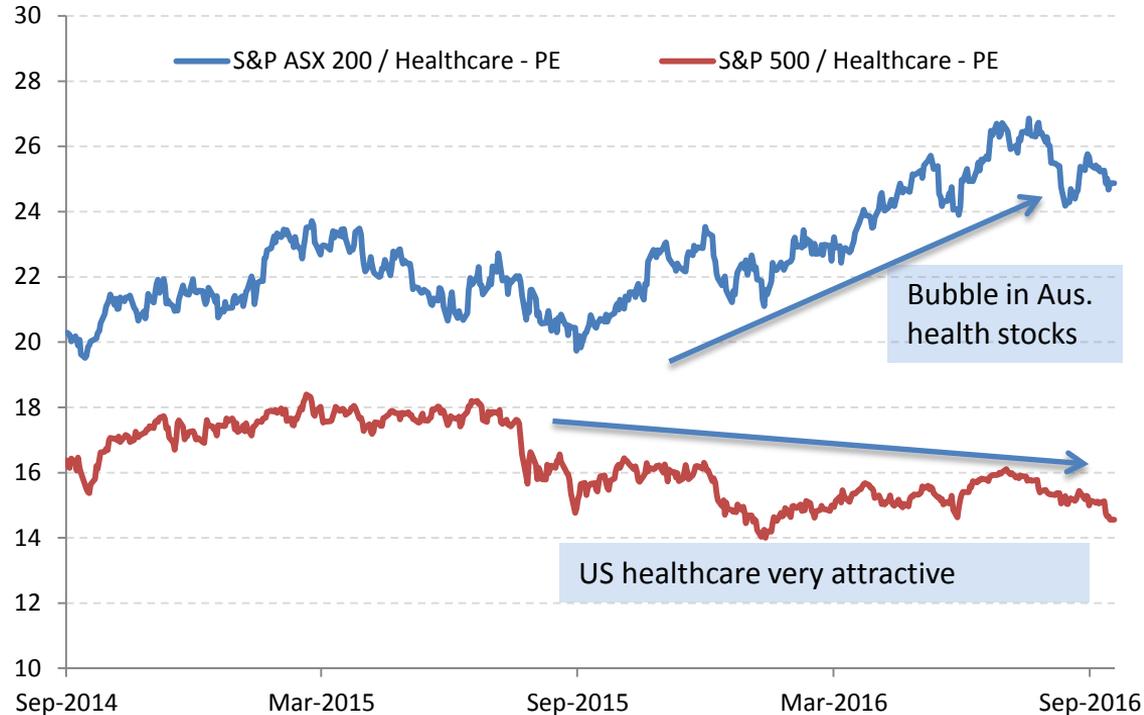
**4** Recurring earnings

### This means:

- > We seek **quality companies** at **attractive valuations** – Valuations can be more important than earnings, so we won't buy companies if they're overvalued
- > **Committed to cautiously deploying your capital**

# PROCESS IN ACTION

## US HEALTHCARE



- US healthcare looks much cheaper than Australian healthcare
- Australians tend to overpay for limited opportunities
- Overblown fears of healthcare cuts have also made US health even cheaper than normal

# PROCESS IN ACTION

## – ICON

### CORE BUSINESS:

Provision of contracted research services for clinical studies of drug development

**SECTOR:** Healthcare

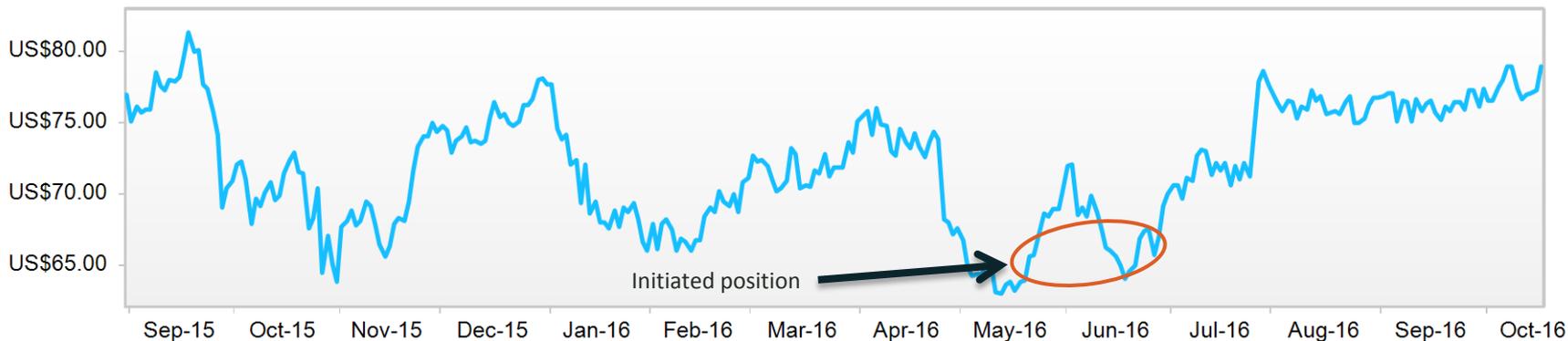
**INITIAL ENTRY PRICE:** ~US\$65.50

**PRICE/EARNINGS:** 16.4x

**DIVIDEND YIELD:** 0.0%

### WHY WE LIKE IT?

- Leading market position in a growing industry
- Strong history of earnings growth and stable cash flows
- Good management with strong track record
- Opportunity to take market share from smaller operators unable to compete effectively



# PROCESS IN ACTION

## IDEA IDENTIFICATION

- **Screening** – Compares well quantitatively with market
  - ICON appears on a list of companies we generated with good returns on capital and attractive valuations
- **Initial Look** – Ticks a lot of boxes:
  - ✓ Understandable business – it's a service business
  - ✓ Great long term track record – cash-flow is up 2.5x in the past 10 years
  - ✓ Industry growing – by 6-7% driven by R&D and increased outsourcing
  - ✓ Barriers to Entry – Ability to do global trials increasingly important
  - ✓ Generating lots of Free Cash – Capex needs are low
  - ✓ Predictable sales – Sales relate to the R&D budgets of Pharmaceutical organisations
  - ✓ Valuation low for transient reasons – Revenue slowing while bookings fine

# PROCESS IN ACTION

## IN DEPTH RESEARCH

- **Major Concerns**

- Industry Growth - Revenue growth has been significantly lower than booking growth
- ICON - Success with Pfizer which peaked at 30% of the business's revenue and their long term contract was coming up for renewal

- **Work**

- Model the company and industry - to make sure we understand the numbers
- Spoke with
  - Company – multiple times
  - Competitors (we spoke with nearly every listed peer)
  - Customers (we spoke with reps from 4 major pharma research depts)
  - Industry experts and sell side researchers

# PROCESS IN ACTION

## IN DEPTH RESEARCH

- **Sample of the types of questions we asked:**
  - Why should the industry grow at 6-8%, Why has “backlog conversion” slowed?
  - Why will outsourcing continue – what is the advantage of large players? How sticky are relationships that CROs have with their customers (will Pfizer leave ICON)?
  - What would happen to earnings if Pfizer left?
  - How reliant on capital markets are their smaller customers? Is competition rational? What are the differences between the CROs?
  - Why have margins increased at ICON, is this sustainable?
  - What are they going to do with their cash? What do we think of management, can we trust them with our cash

- **ICON Conclusion**

- We like the industry – Contract Research Organisations provide a valuable service to pharmaceutical companies and benefit from the increasing discovery of new molecules without the risk of actually having to find a specific “winner”
- ICON is a top tier player and the likelihood of losing their Pfizer contract was low and also in the price in the low/mid 60s
- PIC began buying at \$65 on a PE ratio of 13.2x, EV/EBIT 9.5x with earnings growth of 12% and no debt.

# PORTFOLIO POSITIONING

AS AT 30 SEPTEMBER 2016

PERPETUAL  
EQUITY  
INVESTMENT  
COMPANY

## DOMESTIC SECURITIES

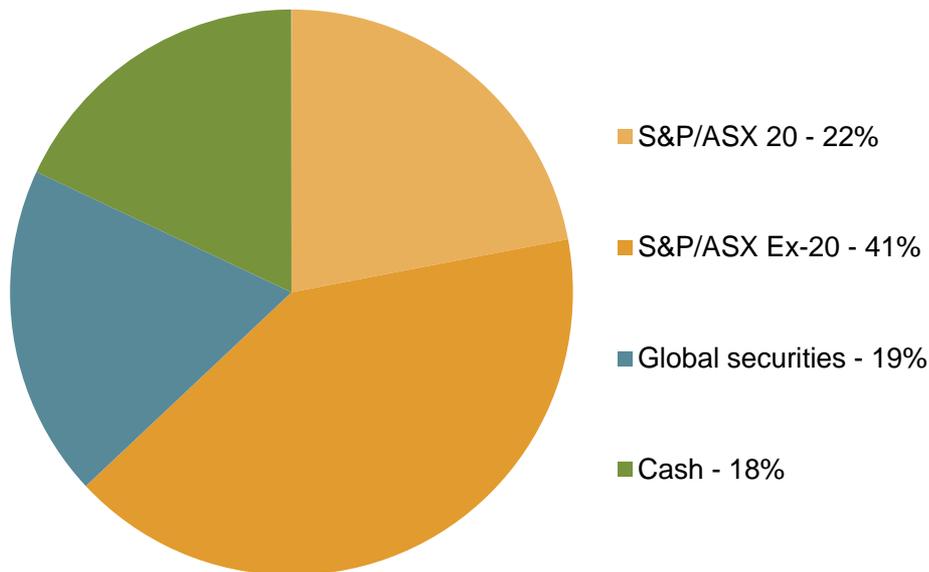
TOP 5 HOLDINGS	PORTFOLIO WEIGHT %
Woolworths Ltd	12.0
Suncorp Group Ltd	7.3
Sky Network Television Ltd	6.7
GrainCorp Ltd	5.2
BlueScope Steel Ltd	5.1

## GLOBAL SECURITIES

TOP 3 HOLDINGS	PORTFOLIO WEIGHT %
Royal Philips	7.3
Icon PLC	6.2
Bank of America Corp	3.6

# ALLOCATION OF INVESTMENTS

- At 30 September, 82% of the Portfolio's capital deployed
- Cash will be used to protect the portfolio and take advantage of attractive opportunities
- Patient and prudent investment style has rewarded shareholders



# COMPANY PERFORMANCE

AS AT 30 SEPTEMBER 2016	1 MTH	3 MTHS	6 MTHS	12 MTHS P.A.	SINCE INCEPTION P.A.
<b>PIC</b>	-1.2%	6.4%	6.1%	9.3%	6.4%
<b>S&amp;P/ASX 300 Accumulation Index</b>	0.5%	5.2%	9.4%	13.5%	7.6%
<b>Performance Relative to benchmark</b>	-1.7%	1.2%	-3.3%	-4.2%	-1.2%

Returns shown for the Company have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees and any income tax on realised gains) and assuming reinvestment of dividends. Any provisions for deferred tax on set up costs and on unrealised gains and losses are excluded. Past performance is not indicative of future performance. Inception date is 18 December 2014.

Source: Perpetual & FactSet



**PETER SCOTT - CHAIRMAN**

Perpetual 

- Aim: Long-term capital growth, regular income and fully-franked dividends
- Access a concentrated portfolio of high quality (typically mid-cap) Australian and global listed securities, managed by one of Australia's most respected fund managers, Perpetual Investments.
- Transparency - the ONLY LIC to provide Daily NTA reports