

INVESTMENT UPDATE AND NTA REPORT

October 2018

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE^{1,3}

AS AT 31 OCTOBER 2018	AMOUNT
NTA before tax (cum div) ²	\$1.113
NTA after tax (cum div) ²	\$1.115

Daily NTA is available at www.perpetualequity.com.au

¹All figures are unaudited and approximate.

²The before and after tax numbers relate to provisions for deferred tax on set-up costs and on unrealised gains and losses in the Company's investment portfolio. As at 31 October 2018, the NTA before tax ex dividend was \$1.080^{1,3} and the NTA after tax ex dividend was \$1.082^{1,3}. The ex div NTA figures are reduced by a provision for the 3.3 cent per share final dividend that was declared on 20 August 2018. The ex date for the final dividend is 18 October 2018 and the payment date is 2 November 2018.

³A tax rate of 27.5% (previously 30%) is now applied.

INVESTMENT PERFORMANCE

AS AT 31 OCTOBER 2018	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	3 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio ⁴ Net of fees, expenses and <u>before tax paid</u>	-3.9%	-4.1%	-0.3%	2.2%	10.0%	7.6%	8.1%
S&P/ASX 300 Acc Index	-6.2%	-6.0%	-0.5%	2.9%	9.2%	8.2%	7.6%
Excess Returns	2.2%	1.9%	0.2%	-0.7%	0.8%	-0.6%	0.5%

⁴Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. 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. Portfolio and Index return may not sum to Excess Return due to rounding.

TOP SECURITIES

TOP 5 AUSTRALIAN LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Suncorp Group Ltd	5.2%
Westpac Banking Corporation	5.1%
Commonwealth Bank	4.1%
Tabcorp Holdings Ltd	4.0%
Evolution Mining Ltd	3.7%

TOP 3 GLOBAL LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Shire Plc	3.9%
General Electric Co	1.4%
Technipfmc Plc	1.0%

KEY ASX INFORMATION

AS AT 31 OCTOBER 2018

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$376 million

Share price: \$1.09

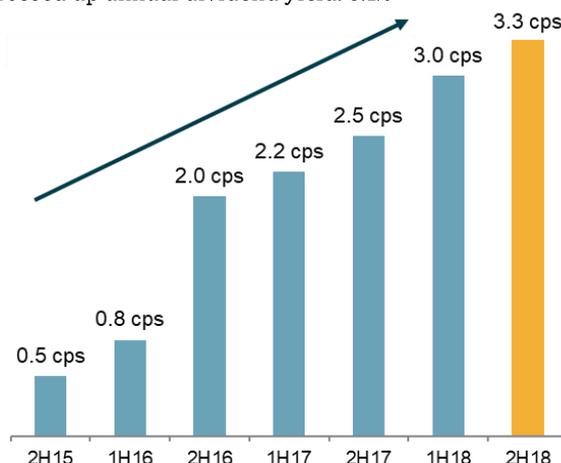
Shares on issue: 344,840,452

DIVIDEND PER SHARE, CPS

2H18 final dividend: 3.3 cents per share

Annual dividend yield: 5.8%⁵

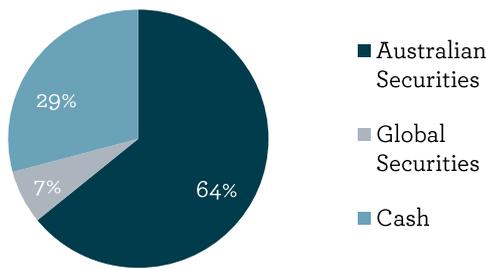
Grossed up annual dividend yield: 8.1%⁵



⁵Yield is calculated using the 31 October 2018 share price of \$1.09. Grossed up yield takes franking credits into account. The ex date for the final dividend was 18 October 2018 and the payment date was 2 November 2018.

ALLOCATION OF INVESTMENTS

71% of capital invested in securities.



PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was -3.9% in October outperforming the benchmark S&P/ASX300 Accumulation Index by 2.2%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 8.1% per annum net of fees and expenses.

Portfolio holdings in Evolution Mining, Aurizon Holdings and Woolworths Group contributed positively to performance this month. Conversely the Company's positions in Oil Search, CYBG PLC and General Electric detracted from returns. The portfolio's cash holding assisted returns over the month.

The proceeds from the recent capital raising have been received and the Manager has been cautiously deploying the capital into recent market weakness using its disciplined investment process. The Manager has up to three months to invest the funds and to bring the portfolio's cash limit back below 25%. As at 31 October 2018, the portfolio's allocation to cash was 29%.

STOCK NEWS

Evolution Mining (EVN) is an ASX-listed gold miner with a market cap of A\$5.2bn. Evolution provides the portfolio with exposure to the gold price as well as to an asset base that has low capital intensity growth options. The Manager believes this growth can be funded without stretching the balance sheet, even if the gold price falls. As at 31 October 2018 the portfolio allocation to Evolution was 3.7%.

Evolution has six mines in NSW, QLD and WA and produces around 720,000 ounces of gold per year. It has an all-in sustaining cost of approximately US\$650 per ounce, which means that at today's gold price of around US\$1200 per ounce, margins are excellent and free cash flow generation is strong. This allows Evolution to pay a sustainable dividend while concurrently investing in organic growth.

The Manager believes the market is yet to price in the growth potential at Cowal, Evolution's largest mine. Guidance is for flat gold production over the next three years, but during a recent site visit to Cowal the Manager concluded that there is high potential for production to increase.

Evolution bought Cowal from Barrick in 2015 and the Manager believes that the mine suffered from years of underinvestment during the Barrick days. Since acquisition, Evolution has

invested in exploration drilling and engineering studies. It has also pulled together an impressive and motivated management team. The Manager anticipates that Cowal can be expanded via a low capital-intensity project and therefore that Evolution's production can grow.

The Manager considers that the market is overly focused on the risk of Evolution making an acquisition and is confident Evolution will not undertake an acquisition that is NPV or earnings dilutive. Evolution's stated strategy is to reduce costs, increase free cash flow per share and increase the dividend. The Manager meets with Evolution's management team regularly and is satisfied that not only does Evolution have the right strategy but that they will stick to it.

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation index, fell 6.2% over the month. The sell-off was in line with a broader decline across global markets as increasing interest rates and worry about a slowdown in global growth took its toll on equities. Prevailing trade tensions between the US and China further heightened uncertainty as the Trump Government suggested imposing tariffs on all remaining Chinese imported goods if a resolution was unable to be reached.

The official interest rate was maintained at 1.5% as expected, though the Reserve Bank of Australia cited strengthening conditions as the unemployment rate fell sharply to 5.0% from 5.3%, while employment numbers increased by 5,600 positions (yet missing consensus of a 15,000 increase). Retail sales figures, released in October, saw a 0.3% rise in August, led by department stores and clothing/footwear sales. Business and consumer confidence was similarly reported as improving. The latest national accounts confirmed that the Australian economy grew strongly over the past year, with GDP increasing by 3.4%. Third-quarter headline CPI rose 0.4% quarter-on-quarter, falling just short of a +0.5% consensus, though still broadly in line with the Reserve Bank's year-on-year forecast. The Australian dollar fell in trade-weighted terms (down 0.5%), losing the most against the Japanese yen (-2.1%) and the US dollar (-2.1%).

Resource stocks were mixed over the month as oil prices slumped on concerns of reduced demand from a slowdown in global economic growth. This saw Brent and WTI crude fall 8.8% and 10.6%, respectively. Base metals weakened again in October as the London Metals Exchange index fell 4.6%. Iron Ore was an exception, gaining 9.4% on rising Chinese steel prices which led to an increase in steel production. Coking coal also rallied, though thermal coal dropped by 7.6%.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Real Estate (-3.8%), Utilities (-4.0%), and Consumer Staples (-4.9%). The worst performers were Information Technology (-11.4%), Energy (-10.3%) and Consumer Discretionary (-8.3%). As a whole, industrial stocks (-6.1%) outperformed resource stocks (-6.5%) and large cap stocks (-5.4%) outperformed small cap stocks

(-9.6%). Value stocks (-5.6%) outperformed growth stocks (-5.7%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

COMPANY NEWS

FOURTH ANNUAL GENERAL MEETING

Thank you to shareholders who attended our fourth Annual General Meeting in Sydney on November 1st. The AGM results, the Chairman's Address and Presentation slides are available at www.perpetualequity.com.au/AGM2018.

MONTHLY INVESTOR UPDATE NEWSLETTER

A reminder to any new or existing shareholders you can elect to receive our monthly eNewsletter, by visiting Link's Share Registry site via www.perpetualequity.com.au/login and entering your Security holder Reference Number (SRN) or Holder Identification Number (HIN) then selecting Communications Preferences from the top menu and simple elect to receive all shareholder communications via email.

By providing us with your email address you will receive future communications via email and will no longer receive printed hard copies of communications such as the annual report, dividend statements and notices of shareholder meetings. You can update your preference online at any time. Please also note that all information included in the monthly eNewsletter will also be available online at www.perpetualequity.com.au.

If you are not currently a shareholder and would like to receive our eNewsletter, please subscribe via our website www.perpetualequity.com.au.

INVESTMENT PHILOSOPHY

INVESTMENT OBJECTIVE

The investment objective of the Company is to provide investors with a growing income stream and long-term capital growth in excess of its benchmark (the S&P/ASX 300 Accumulation Index) over minimum 5 year investment periods.

INVESTMENT STRATEGY

The Company's investment strategy is to create a concentrated and actively managed portfolio of Australian securities with typically a mid-cap focus and global listed securities.

The Company will provide investors with the opportunity to invest in an actively managed portfolio and to gain access to the investment management experience and expertise of the Manager.

ABOUT THE MANAGER

The Company's investment portfolio is managed by Perpetual Investment Management Limited, part of the Perpetual Group, whose consistent track record of investing excellence is underpinned by its proven investment process that focuses on value and quality.

PORTFOLIO MANAGER

Vince Pezzullo - Perpetual Investments
Vince has over 20 years' experience in the financial services industry, has outperformed consistently and has prior global experience as both an analyst and a portfolio manager. Vince leverages the expertise of the Perpetual Investments' Equity team, one of the largest investment teams in Australia.

PERPETUAL KEY CONTACTS

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