

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Perpetual Equity Investment Company Limited (ASX: PIC)

Listed Managed Investments

April 2021

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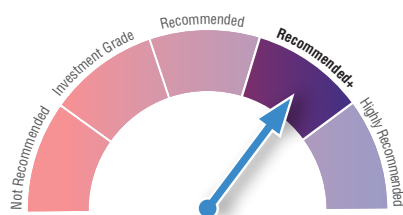
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Rating



LMI Structure

Listed Investment Company

Investment Area

Australia & International

Investment Assets

Listed companies, typically

Investment Sectors

Diversified

Benchmark Index

S&P/ASX 300 Accumulation Index

Key Investment Information

Price (\$) as at 31 March 2021	1.255
Market cap (\$M)	437.6
Shares on issue (M)	348.7
Options on issue (M)	0.0
Shares traded (\$M p.a)	67.6
12-month L/H (\$)	0.76/1.265
Listing date	December 2014
Foreign Currency Exposure	Typically unhedged
Fees:	
Management Fee (p.a)	1.00%
Performance incentives	na

Discount/Premium to pre-tax NTA

As at 31 March 2021	-2.5%
Average since inception	-5.4%

Dividend Yield*	%
FY18	5.0
FY19	5.2
FY20	4.8

*Based on dividends paid for the fiscal year and the share price as at 31 March 2021.

Largest Shareholders	%
Navigator Australia Limited	3.1
Nulis Nominees (Australia) Limited	2.6

As at 31 July 2020

COMPANY OVERVIEW

Perpetual Equity Investment Company Limited (ASX: PIC) is a listed investment company providing exposure to an actively managed concentrated portfolio primarily of ASX-listed stocks. The company can invest up to 35% of the portfolio in internationally listed stocks, providing the Investment Manager the ability to source value in other markets if it cannot be identified on the ASX. Perpetual Investment Management Limited is the Manager of the portfolio. The portfolio is actively managed and has the ability to have up to 25% of the portfolio in cash. The Investment Manager has a long only, bottom-up, high conviction, value investment strategy. The company will seek to pay dividends semi-annually, franked to the maximum extent possible. The Investment Manager will be paid an annual management fee of 1%, plus GST, up to \$1b NAV and 0.85% on the NAV in excess of \$1b. No performance fee is applicable.

INVESTMENT OBJECTIVE

PIC seeks to provide investors with an income stream and long-term capital growth in excess of the benchmark index over a rolling five-year period.

STYLE AND PROCESS

The Manager is a value investor with a fundamental, bottom-up investment approach. The Investment Manager seeks to invest in what it determines to be high quality securities at attractive prices. Companies are assessed on four key criteria: (1) Sound Management; (2) Conservative debt; (3) Quality of business; and (4) Recurring earnings. Companies are then valued and ranked from strongest to weakest, which is a key input in the portfolio construction.

PORTFOLIO CHARACTERISTICS

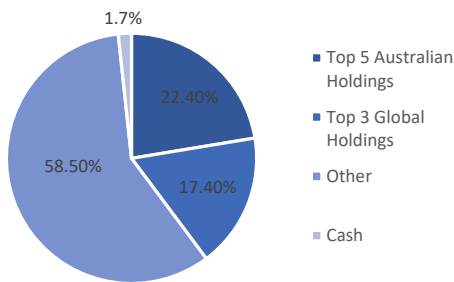
The portfolio will be predominantly invested in ASX-listed securities with up to 35% of the portfolio able to be invested in global securities and is expected to typically have a mid-cap bias (ex-20 stocks). The portfolio is actively managed and is concentrated with the portfolio comprising 20-40 stocks at any given time. As at 31 March 2021, the top five Australian and top three global holdings accounted for 39.8% of the portfolio. 74.9% of the portfolio was invested in ASX-listed securities and 23.4% in global securities. As can be seen below, the portfolio has historically been weighted to three sectors - Financials, Consumer Discretionary and Materials. We note the Manager does not focus on sector allocations but rather on the quality and value of individual stocks. The portfolio is essentially fully invested with 1.7% cash at March-end. This compares to February-end last year at which time the portfolio had 16.6% cash.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

Since inception in 2014, PIC's pre-tax NTA (plus dividends) has performed in line with the benchmark index (S&P/ASX 300 Accumulation Index). While there was a period of underperformance in late 2018 and 2019, the pre-tax NTA (plus dividends) and share price (plus dividends) have both performed strongly over the past 12-months, increasing 60.5% and 68.0%, respectively. This compares to the benchmark index increase of 38.3%. Active management of the portfolio proved fruitful over the past 18-months with the Manager positioning the portfolio to take advantage of significant events. Coming into the COVID-19 sell-off, the Manager was well positioned with cash reserves to deploy as valuations became attractive. The Manager also had put options over the market at the beginning of 2020 to protect the portfolio from a falling market. As can be seen by the Market Capture ratios below, the portfolio has declined by less than the benchmark index during down markets. The company has traded at a discount to pre-tax NTA for the most part throughout its history, which has been a key drawback for investors. Due to franking credit availability and for capital management purposes, the Board reduced the last two dividends. The company will seek to pay fully franked dividends where possible, however, we note that the franking account was largely depleted post the payment of the FY21 interim dividend, which may impact the level of franking for the final dividend. If the interim dividend was maintained for the final dividend, the company had 2.7 years of dividend coverage as at 31 December 2020.

PORTFOLIO ANALYTICS

PIC Largest Portfolio Holdings (as at 31 March 2021)

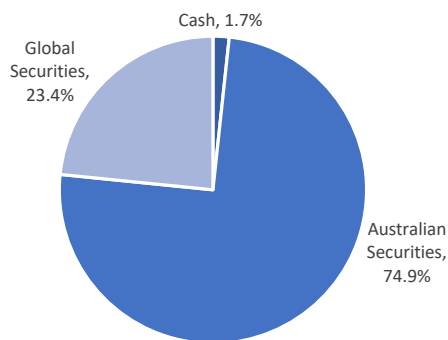


PIC Largest Portfolio Holdings (as at 31 March 2021)

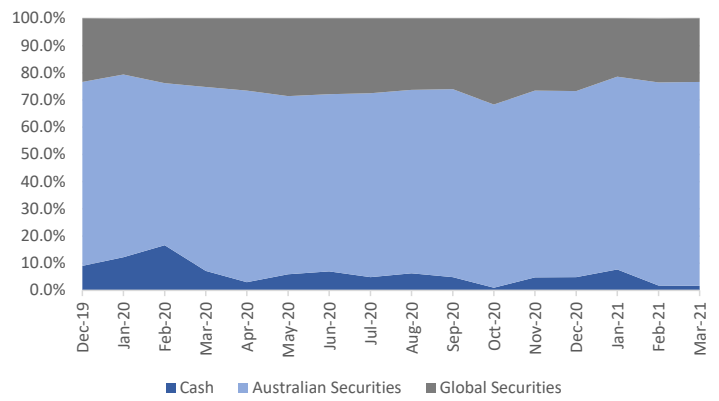
Top 5 Australian Positions	Ticker	Sector	Weighting
PWR Holdings Ltd	PWH.ASX	Consumer Discretionary	5.2%
Bluescope Steel Limited	BSL.ASX	Materials	4.7%
Crown Resorts Limited	CWN.ASX	Consumer Services	4.6%
Suncorp Group Limited	SUN.ASX	Financials	4.0%
Boral Limited	BLDASX	Materials	3.9%

Top 3 Global Positions	Ticker	Sector	Weighting
Flutter Entertainment Plc	FLTR.LSE	Consumer Services	7.5%
La Francaise des Jeux SA	FDJ.VI	Consumer Services	6.7%
Persimmon Plc	PSN.LSE	Industrials	3.2%

Geographic Allocation (as at 31 March 2021)



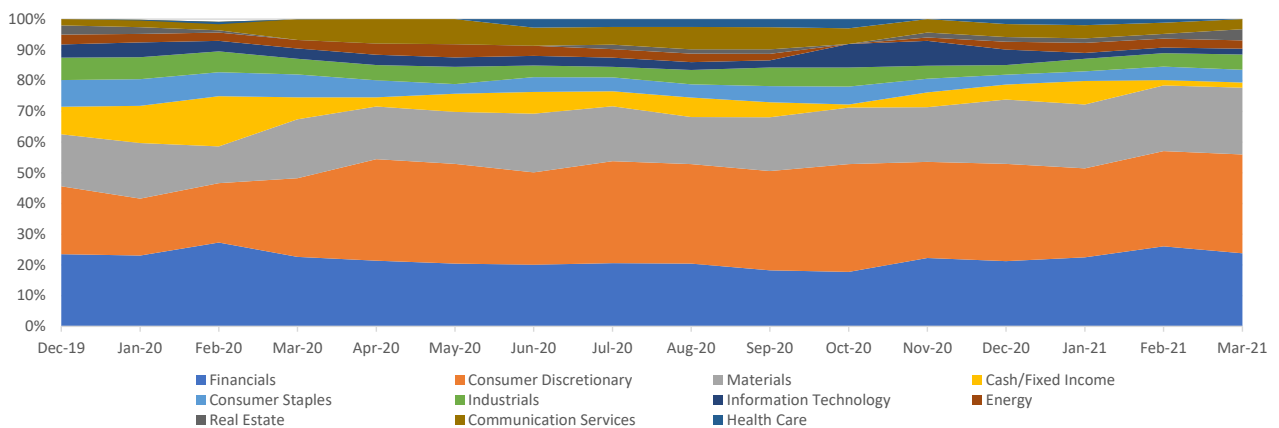
Historical Geographic Allocation



Sector Allocation (as at 31 March 2021)

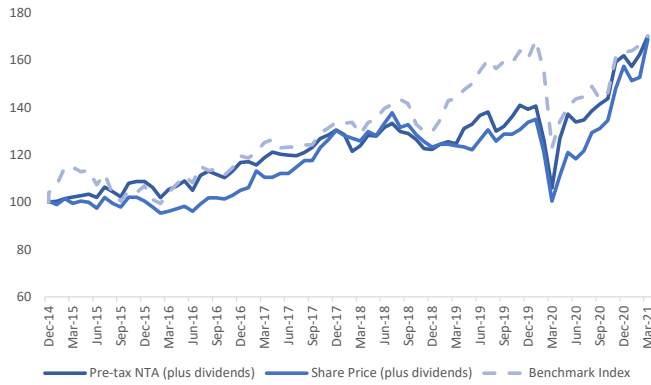
Financials	Consumer Discretionary	Materials	Consumer Staples	Industrials	Information Technology	Energy	Real Estate	Communication Services	Health Care	Cash/Fixed Income
23.8%	32.3%	21.7%	4.1%	5.0%	1.9%	2.7%	3.6%	3.3%	0.0%	1.7%

Historical Sector Allocation

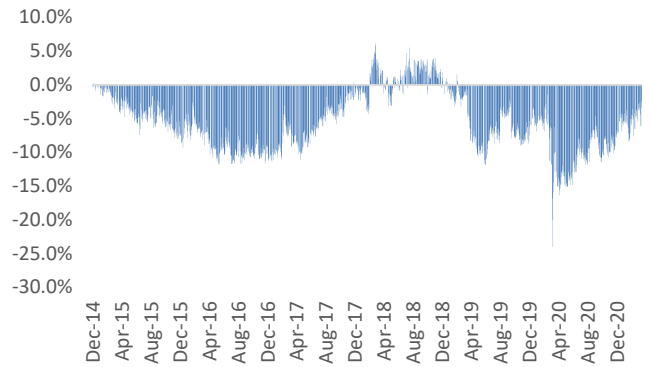


PERFORMANCE ANALYTICS

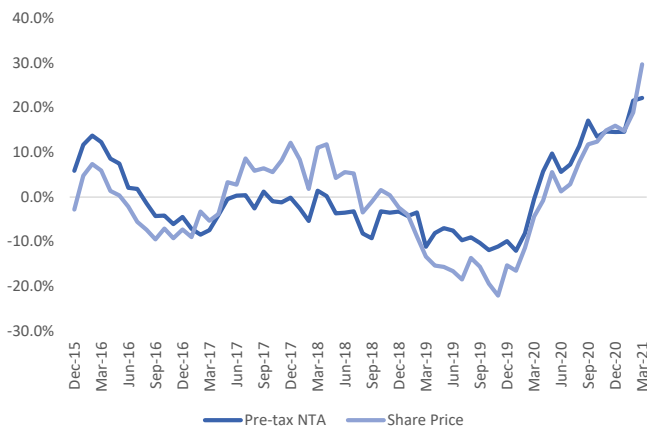
Monthly Performance History (Indexed)



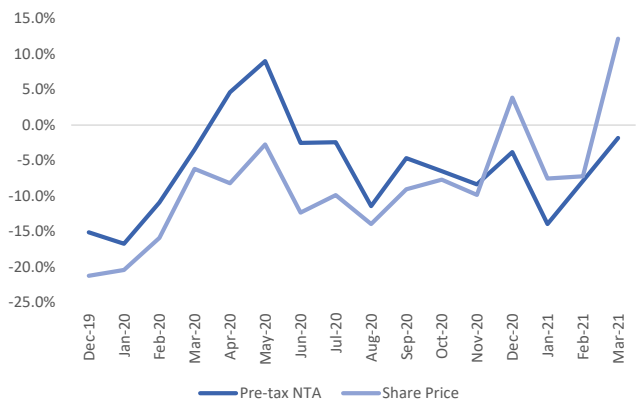
Daily Premium/Discount to Pre-tax NTA (to 31 March 2021)



Rolling 12-month Excess Return Over Benchmark Index



Rolling 5 year Excess Return Over Benchmark Index



Performance Metrics to 31 March 2021

	Return Metrics				Risk Metrics (based on Pre-tax NTA)				
	Pre-tax NTA	Share Price	Benchmark Index	Excess returns (pre-tax NTA)	Standard Deviation	Max. monthly drawdown (pre-tax NTA)	Up Market Capture Ratio	Down Market Capture Ratio	Capture Ratio
FYTD	27.0%	42.7%	18.4%	8.6%	13.3%	-2.8%	1.06	-0.58	1.84
1 year	60.5%	68.0%	38.3%	22.2%	16.4%	-2.8%	1.26	-0.58	2.18
3 year (p.a)	11.2%	10.3%	9.7%	1.4%	17.0%	-16.1%	0.88	0.74	1.19
5 year (pa)	10.1%	11.9%	10.3%	-0.2%	14.5%	-16.1%	0.77	0.63	1.23
Since Inception (p.a)	8.9%	8.7%	8.9%	0.0%	13.6%	-16.1%	0.74	0.56	1.32

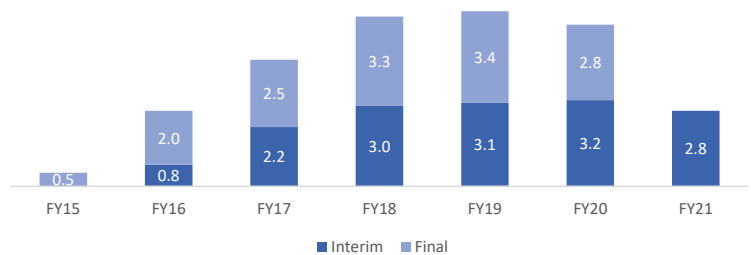
Note: 1) Pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

2) Returns represent total returns (pre-tax NTA or share price plus dividends).

Dividend History

Fiscal Year	Dividend Amount (cents per share)	Franking (%)
FY15	0.5	100%
FY16	2.8	100%
FY17	4.7	100%
FY18	6.3	100%
FY19	6.5	100%
FY20	6.0	100%
1H'21	2.8	100%

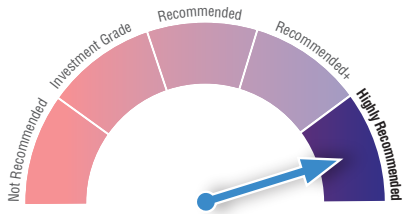
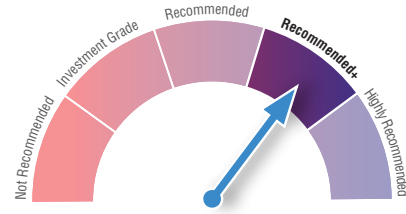
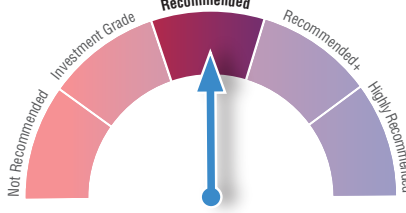
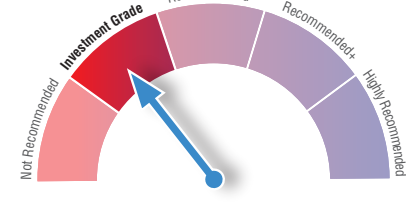
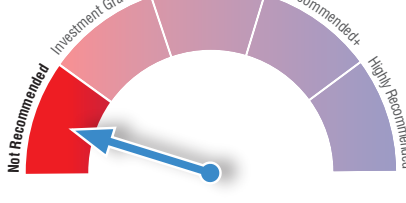
Dividends



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

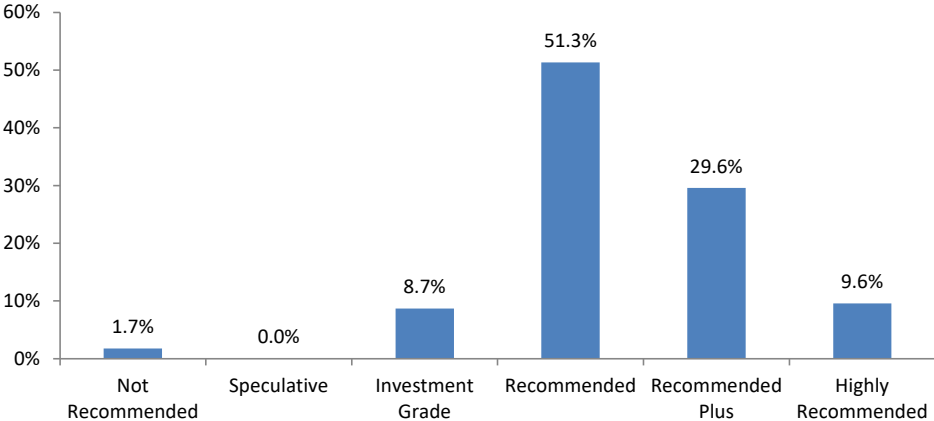
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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