

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

2017 ANNUAL
GENERAL MEETING

ADDRESSES TO SHAREHOLDERS

Perpetual 

FY17 PIC ANNUAL GENERAL MEETING

Chairman's Address

Nancy Fox

The Perpetual Equity Investment Company Limited, or PIC by its ASX code, continued its strong growth in the 2017 financial year.

PIC, which listed on the ASX in December 2014, provides shareholders with the opportunity to invest in an actively managed portfolio and to gain access to the investment management experience and expertise of Perpetual. PIC offers access to high-quality Australian and global listed securities and is managed to provide a growing income stream and long-term capital growth over a minimum five-year investment period.

FY17 results

FY17 was a challenging year for many value investors, with global valuations across most sectors remaining above their long term historical averages. This means there are fewer opportunities to own high quality companies at reasonable prices. Despite these headwinds the Company performed strongly, announcing an increase in net profit after tax of \$31.8 million – a 318% increase on the \$7.6 million announced in the 2016 financial year.

The Company declared a fully franked final dividend of 2.5 cents per share, bringing your total dividends declared for FY17 to 4.7 cents per share. This represents a significant increase on the total dividends declared in FY16.

We recognise that, as shareholders, you value a strong and sustainable fully franked dividend stream. The Board's objective is to pay a regular dividend and we remain focused on achieving this. Importantly, the Company has also built a healthy franking account and profit reserve balance – a prudent approach that will help us deliver a sustainable dividend in future years.

A proven approach to value investing

We are committed to value investing. PIC is managed by one of Australia's most experienced fund managers, Perpetual Investment Management Limited, which offers a track record of delivering consistent performance to investors for more than 50 years.

PIC's strong FY17 result is testament to the skill and expertise of the Portfolio Manager, who will talk to you shortly.

The disciplined, bottom-up approach to investing that has made Perpetual such a successful institution is the same approach employed with PIC. Vince is focused on finding quality stocks trading at attractive valuations. As a shareholder myself, knowing the approach, the method, and the Company's commitment to its style, I am confident we will continue to grow our capital while protecting our assets.

Investment strategy

The Company's investment strategy is to hold an actively managed portfolio of 20-40 quality securities. More specifically:

- 100% of our funds can be invested in Australian listed securities, typically with a mid-cap bias.
- However, we are allowed to invest up to 25% of the portfolio in global listed securities. Our global stocks allow us to take advantage of opportunities outside Australia, which represent about 98% of the world's investment opportunities.
- We can also hold up to 25% of the portfolio in cash. This allows us to reduce potential market risk and be defensive, when necessary.

We earned a net investment return of 17.4%, before tax but after management fees and operating expenses, outperforming our benchmark, the S&P/ASX 300, by 3.6%. This outperformance was achieved holding an average of 21% cash in the portfolio, reinforcing not only Vince's skill and expertise picking stocks, but also the Company's commitment to protecting your capital in what is an overvalued market.

In hindsight, this outperformance was driven to a large extent by the returns on the global component of our portfolio while maintaining the flexibility afforded by the cash component.

Vince has also made a strong start to FY18, with first quarter performance exceeding the benchmark by more than 2.1%.

Protecting your assets

As I mentioned earlier, PIC's investment approach helps grow the Company's capital while protecting your assets.

Investment decisions are based on an intensive analysis of an investment's quality, value and risk. The Manager aims to choose the best quality investments at prices that represent good value, based on their potential risks and returns. Patience is often required, and as the Company's FY17 results show, this patience has led to strong outcomes.

Showing you what we do, why we do it, and how we do it

Investors are increasingly seeking transparency and liquid investments as part of a diversified portfolio.

Beyond that, we know how important it is to be part of the journey, which is why over the past 12 months we have continued to enhance the shareholder experience.

The PIC website now hosts several videos of Vince discussing market themes and trends, as well as commentary on individual stock selections. You can also register for the monthly newsletter, view the Net Tangible Asset (NTA) backing per share daily, as well as watch insight videos from a number of Perpetual's broader investment team. If you haven't done so recently, I encourage you to take a look. We will continue to enhance the tools and resources available to shareholders throughout FY18.

Share price and NTA

It is industry practice to measure the skill of the Manager by the return on the investment portfolio. Last year the Company was trading at a notable discount to its NTA. We committed to closing the gap, and over FY17 the discount has narrowed significantly.

So how did we do it? It was a combined effort on three fronts. Firstly, Vince's solid performance; Secondly, PIC's track record of paying regular fully franked dividends; and thirdly, our marketing and communications initiatives - including investor presentations, market updates and media appearances all contributed.

This work has ultimately benefitted shareholders and will continue throughout FY18 and beyond.

Board Matters

This year there have been changes to the composition of the Board. As many of you know, Peter Scott retired from the Board at the end of FY17. I'd like to once again thank Peter for his invaluable leadership throughout the Company's listing and early years.

This afternoon we will be seeking shareholder approval on a number of matters, including the re-election of Christine Feldmanis as Independent Non-Executive Director, the adoption of the Remuneration report, the reinsertion of the takeover provisions in the Constitution, and my election as Director. Further details of these resolutions can be found in your Notice of Meeting.

Looking ahead

The remainder of the 2018 financial year will no doubt have its surprises – there are just too many variables in today's global landscape. But I stand here with confidence knowing we have incredibly strong foundations – foundations that have laid the platform for strong growth in the future.

Finally, I'd like to thank the shareholders for your support and commitment during 2017. We look forward to working with you in 2018 and beyond.

I'd like to now introduce you to Vince Pezzullo, who will provide you with a more detailed update of the portfolio.

Thank you.

**PERPETUAL
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LIMITED**

ANNUAL GENERAL MEETING

November 2017

Perpetual 

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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NANCY FOX - CHAIRMAN

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AGENDA

| Chairman's Welcome and Address

| Portfolio Manager Update

| Questions

| Formal voting proceedings

- Resolution 1
- Resolution 2
- Resolution 3
- Resolution 4

| Closure

INVESTING FOR REGULAR INCOME AND LONG-TERM CAPITAL GROWTH

PIC: MANAGER WITH PROVEN TRACK RECORD



Actively managed by
Perpetual investment
professionals



Concentrated
20 – 40 stock
portfolio



Access to high quality
Australian and global listed
securities (typically mid-cap)



Benchmark
and sector
unaware

INVESTMENT OBJECTIVES

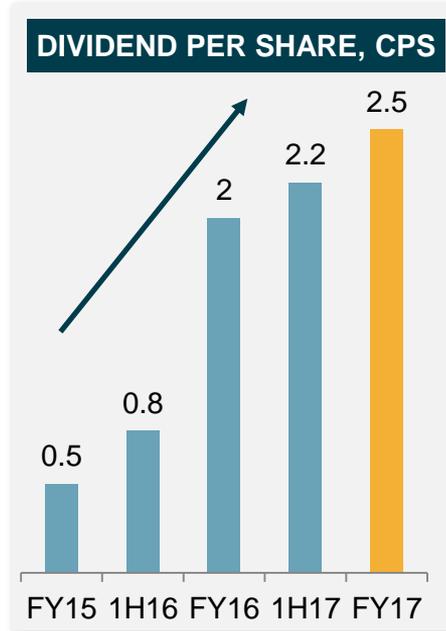
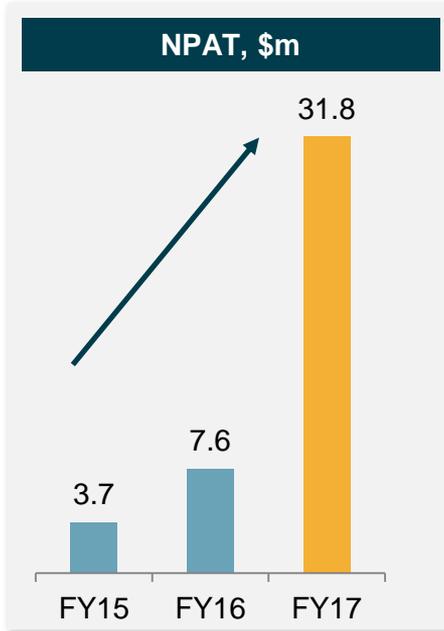
- Deliver a growing income stream
- Provide long term capital growth
- Exceed its benchmark

PORTFOLIO MANAGER – VINCE PEZZULLO

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

FULL YEAR 2017 OVERVIEW

STRONG RESULTS AND INCREASED DIVIDEND



\$31.8m

Operating profit
after tax

4.7 cents

Per share fully franked
dividend

\$1.097*

Net tangible assets
after tax per share

17.4%^

Investment performance
1 year to 30 June 2017

Source: Perpetual Equity Investment Company Limited (PIC) as at 30 June 2017.

*'After tax' refers to after tax paid and provisions for deferred tax on set-up costs and on unrealised gains and losses in the company's investment portfolio.

^ Returns 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. Past performance is not indicative of future performance. The benchmark is the S&P/ASX 300 Accumulation Index. Past performance is not indicative of future performance.

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



\$31.4bn funds under management (at 30 June 2017)



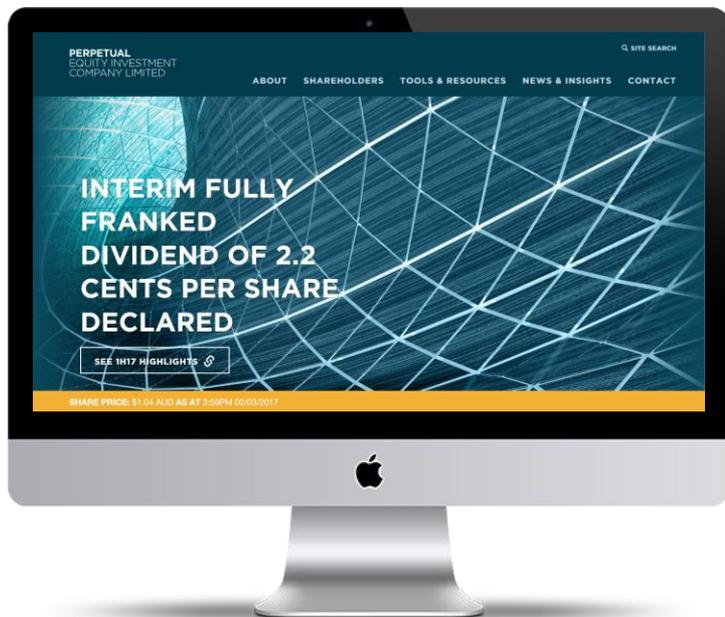
Perpetual Investments is part of Perpetual Limited (ASX:PPT)



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www.perpetualequity.com.au



Monthly emails
including market updates



Daily NTA
announcement

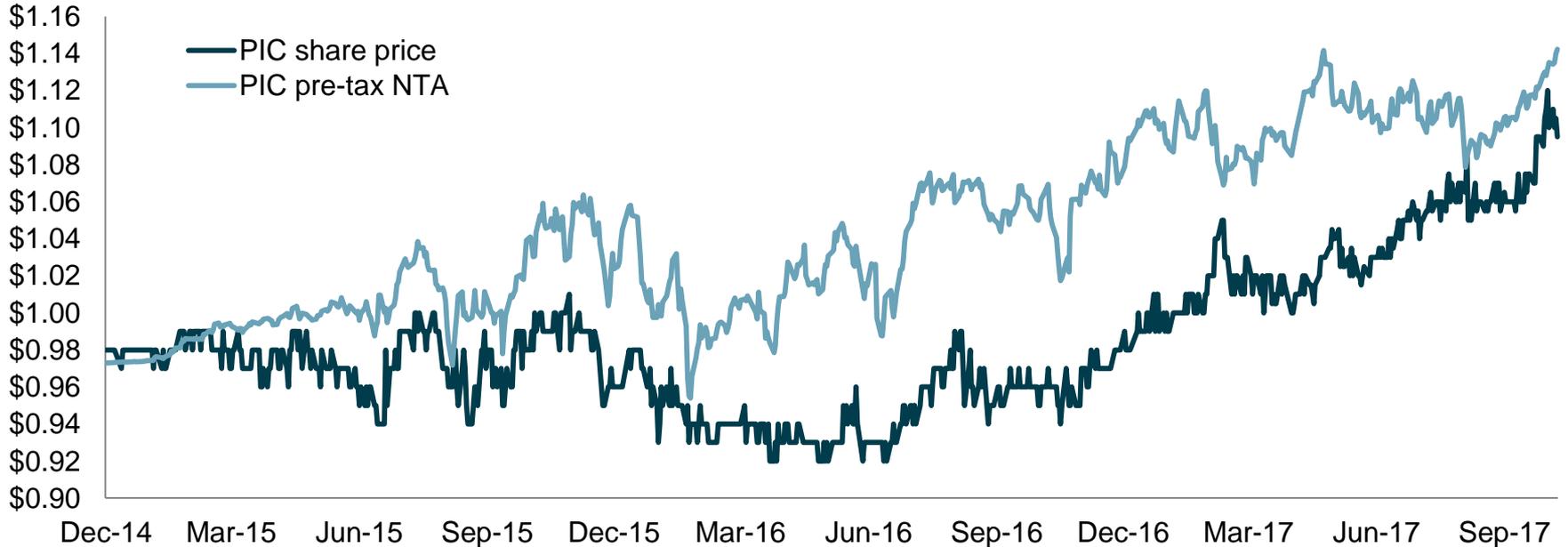


Half year and
full year
financial results



Half yearly national
investor presentations
and broker roundtables

DISCOUNT TO UNDERLYING VALUE HAS CLOSED



Source: FactSet, RBC – as at 26 Oct '17

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.

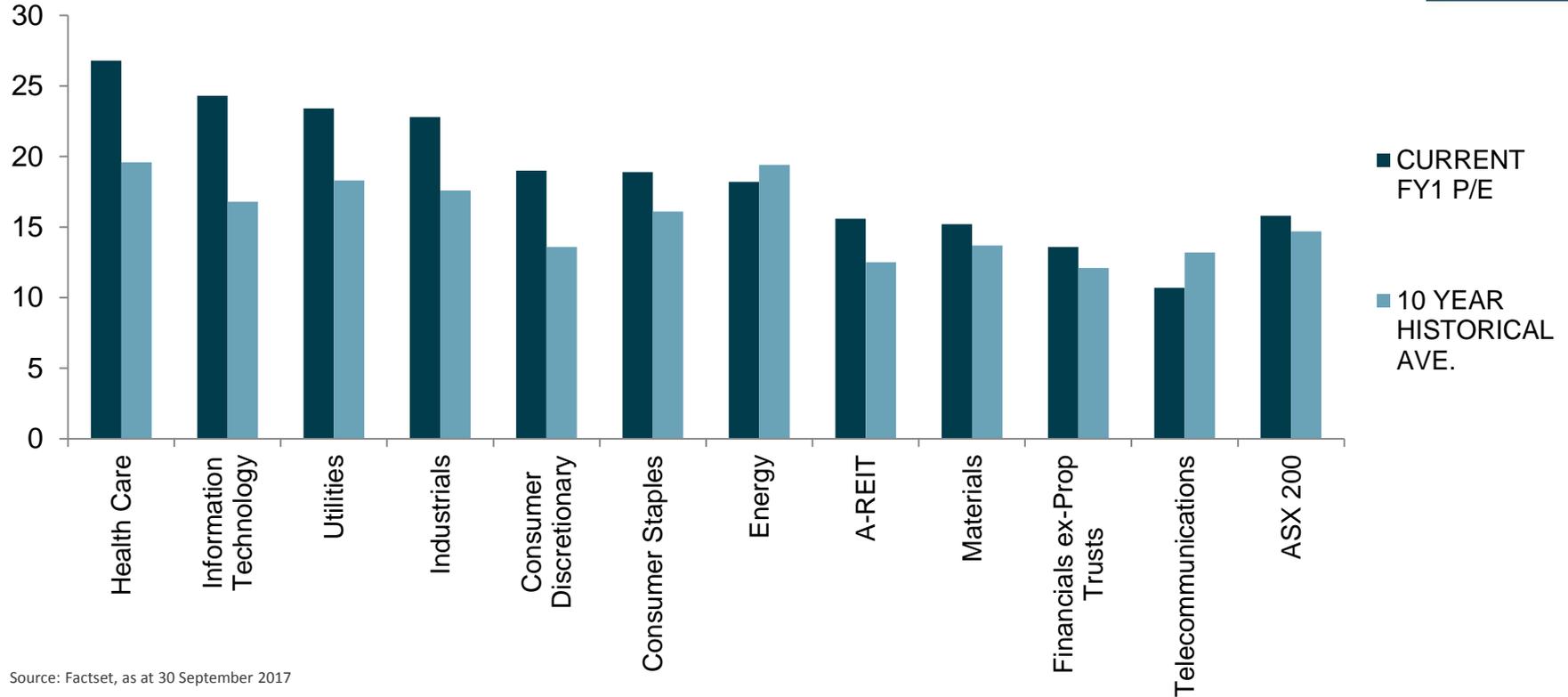
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PORTFOLIO MANAGER UPDATE - VINCE PEZZULLO

MARKETS, PROCESS AND PERFORMANCE

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WHERE ARE WE AT TODAY? PRICE TO EARNINGS MULTIPLE CURRENT V 10 YR. AVERAGE ASX 200



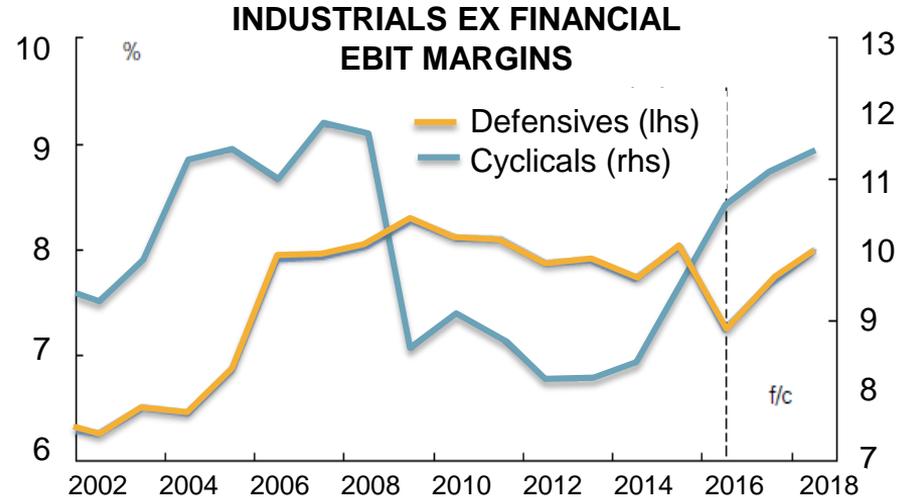
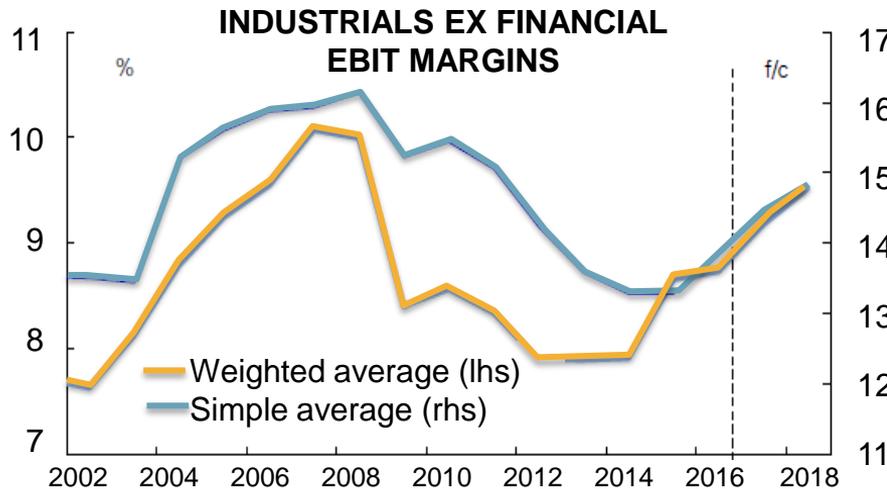
Source: Factset, as at 30 September 2017

FY17 REPORTING SEASON OVERVIEW

MARGINS

Margins have already risen a lot from the FY14 trough, so its not surprising that forecasts have been trimmed a little

Cyclical industrial margins are already close to previous peaks



Source: Deutsche Bank

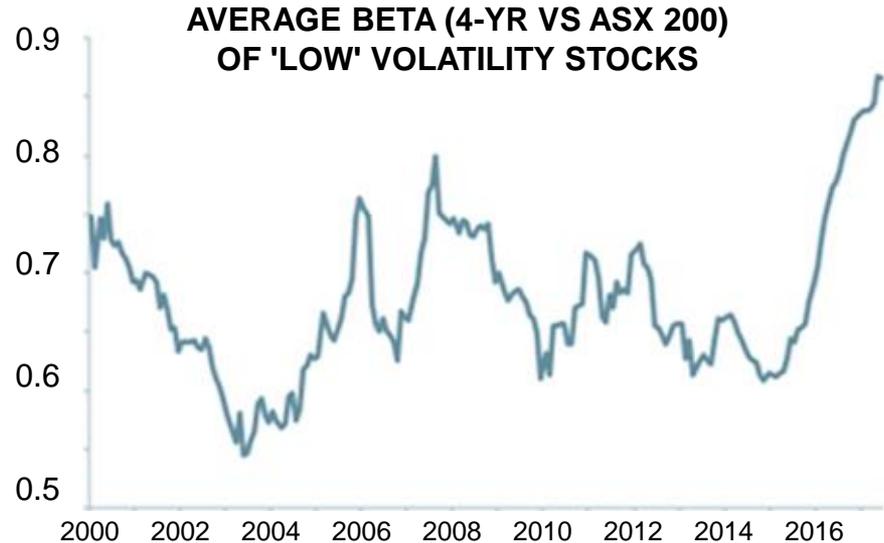
THE SYSTEMATIC RISK IN “LOW VOL” STOCKS SITS AT A 20-YEAR HIGH

Prices of what are considered
“low volatility” stocks have risen

Buying today you are taking on
close to market risk

Low volatility stocks include:

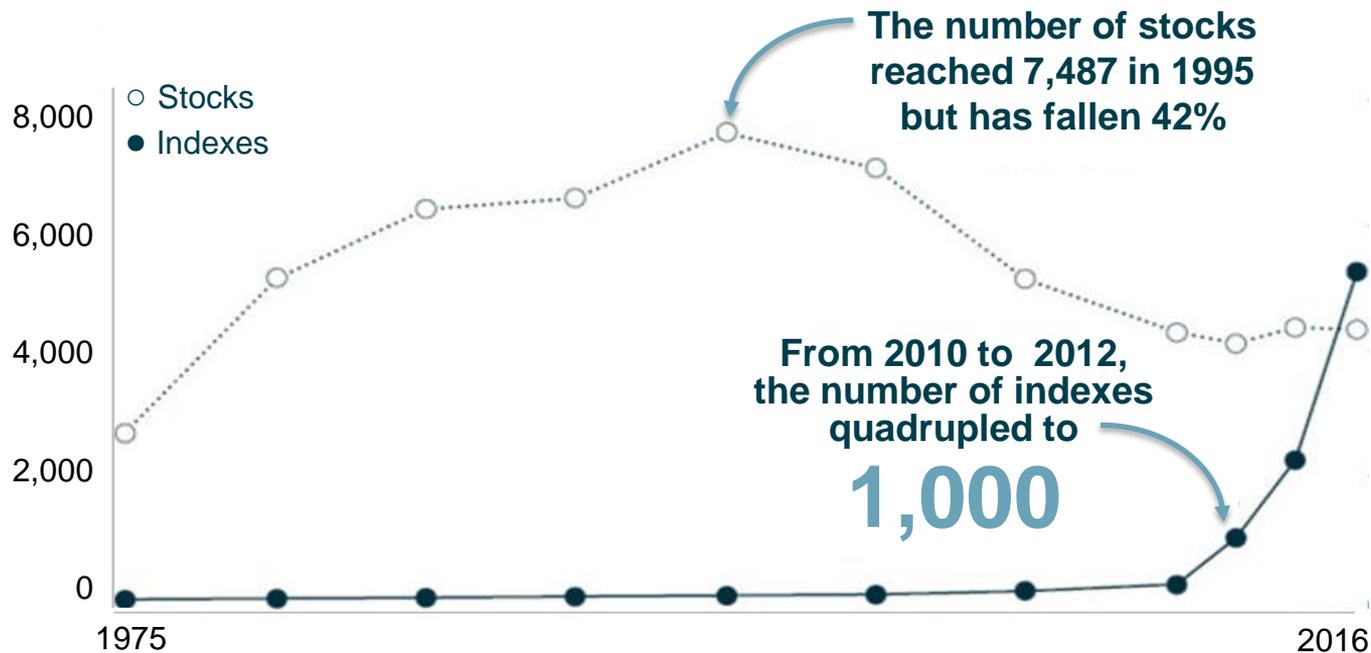
Telstra, Transurban, Scentre Group,
CBA, Stockland, GPT, NAB, ANZ,
Westpac, APA, Mirvac, Spark
Infrastructure, Suncorp,
Investa Office Fund, CSL.



Source: Goldman Sachs Global Investment Research, FactSet, IRESS, I/B/E/S

HAVE WE CONSIDERED THE RIGHT RISKS?

THE RISE OF PASSIVE CAN HAVE IMPLICATIONS



Source: Bloomberg LP (which owns Bloomberg BusinessWeek) and its affiliates provide indexes tracking various asset classes.
Data: Bloomberg Intelligence, Sanford C Bernstein, World Bank, Cash Flows as of March 31. Graphic created by Bloomberg BusinessWeek.

OUR INVESTMENT PHILOSOPHY

QUALITY & VALUE FOCUS

OUR FOCUS

1

Quality business

2

Conservative debt

3

Sound management

4

Recurring earnings

THIS MEANS:



We seek quality companies
at attractive valuations



We cautiously
deploy your capital

THE PROCESS IN ACTION: SHIRE PLC (LON:SHP)

SHIRE PLC - SHARE PRICE (GBP)



Source: FactSet, as at 27 Oct 2017

FORWARD P/E MULTIPLES (x)



Source: Perpetual Investment Management Limited

THE PROCESS IN ACTION: SHIRE PLC (LON:SHP)



IDEA IDENTIFICATION

OPPORTUNITY

- Share price weakness stemming from market concerns around competition from Roche ACE910 impacting sales in Shire's haemophilia franchise.

SCREENING

- Compared well quantitatively with market and peers
- Initially ticked a lot of boxes:
 - **Understandable business** – diversified rare disease company, exposure to 7 therapeutic areas.
 - **Strong market share** – leading Bioplasma company, strong share of global IVIG market (3Q IVIG sales +21% y/y).
 - **Growing sales** – strong revenue growth in recent years, combination of organic and acquired, looking to monetise R & D investment over the next several years.
 - **Generating free cash** – strong cash generation, deleveraging
 - **Sound management** – Chairwoman highly regarded, Board focused on debt reduction; CEO joined in 2012, has rationalised and optimised the business.

THE PROCESS IN ACTION: SHIRE PLC (LON:SHP)



IN-DEPTH, FUNDAMENTAL RESEARCH

MAJOR CONCERNS

- Haemophilia franchise sales to halve over the next 2-3 years
- Immunology business underappreciated
- Threat to Lialda business from generics
- M&A concerns around sale of neuroscience business

WORK

- Proprietary survey conducted with US, UK and German physicians – indicated high level of conservatism, desire to see a track record of safety data before switching clients.
- Call with infusion clinic specialist on infusion economics
- Contact with variety of industry experts – HAE specialists, IVIG Clinician, Global Health Tender Market expert, clinicians, ex-employees, FDA, founder of competitor product

THE PROCESS IN ACTION: SHIRE PLC (LON:SHP)



PROPRIETARY SURVEY

KEY RESULTS

- Inhibitor patient share loss of at most 25% within 5 years time
45% physicians would switch ~25% inhibitor clients to ACE910 within 5 years (only 6% would switch >25%)
- Non-inhibitor patient share loss of 5-10% within 2 years time, and most likely 10-15% within 5 years time
65% physicians would switch only 5% non-inhibitor clients to ACE910 within 5 years
- Clinical safety data and physician conservatism, patient push to switch
63% physicians wanted 5 years of clinical safety data before switching patient

THE PROCESS IN ACTION: SHIRE PLC (LON:SHP)



SELECTION

CONCLUSIONS

- Trading significantly below global peers
- Like the business (diversified revenue, strong market share, significant free cash flow generation)
- Market overestimating the erosion to sales in Haemophilia franchise due to competition from Roche ACE910
- Market misunderstands the quality of the Baxalta bioplasma assets (acquired June 2016) .
- EPS growth 7-10% p.a.
- Net Debt/EBITDA to be 2-3x by end of FY2017

**PIC started buying in June 2017,
on a P/E ~10x and FCF yield 12%**

PORTFOLIO POSITIONING

STOCKS WE LIKE

COMPANY	RATIONALE	MULTIPLE
	Growth in assets with key casinos and hotels built with partners, ability to grow dividend over the next 5 years.	PE 16x, 1.4x P/B, DY 3.5% EV/EBITDA 8.5x.
	Dominates 'last mile' in retail, positive operating momentum, actively managing Big W losses, good balance sheet.	PE 17x, 12x EBIT, DY 3.5% \$1.80 p.s of franking credits on balance sheet.
	High quality, good management, cyclical trade, structured to take advantage of short LNG, One of the lowest cost positions in the global LNG market.	NPV \$8.50, P/FCF 7x, Ability to double production.
	Low price-to-book (P/B) and leverage to rising EU/US interest rates, future dividend growth + future buybacks.	PE 10x, DY 4.7%, PB 1.0, EPS Growth 5%
	Rare disease drug company, One of the leading Global Bioplasma Companies, significant free cash flow (FCF) generation.	PE 10x, FCF Yield 11% EPS Growth 7-10%.

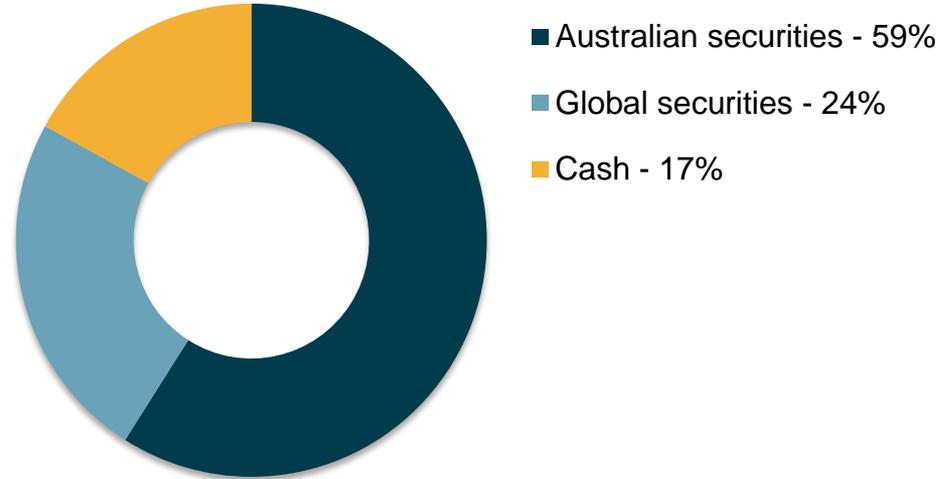
Source: Perpetual Investment Management Limited

ALLOCATION OF INVESTMENTS AS AT 30 SEPTEMBER 2017

83% of the Portfolio's capital
invested in securities

Cash is used to protect the portfolio
and take advantage of attractive
opportunities

Patient and prudent investment style
has rewarded shareholders



INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 2017

AS AT 30 SEP 2017	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	SINCE INCEPTION P.A.
PIC Investment Portfolio¹ Net of fees, expenses and before tax paid	1.72%	2.96%	5.03%	13.12%	11.66%	9.21%
S&P/ASX 300 Accumulation Index	0.04%	0.80%	-0.78%	9.02%	11.22%	8.10%
Excess Returns	+1.68%	+2.16%	+5.81%	+4.10%	+0.44%	+1.11%

¹Returns 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.

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