

# INVESTMENT UPDATE AND NTA REPORT

## June 2018

### PORTFOLIO SNAPSHOT

#### NET TANGIBLE ASSET (NTA) BACKING PER SHARE <sup>1</sup>

AS AT 30 JUNE 2018	AMOUNT
NTA before tax <sup>2</sup>	\$1.156
NTA after tax <sup>2</sup>	\$1.139

Daily NTA is available at [www.perpetualequity.com.au](http://www.perpetualequity.com.au)

<sup>1</sup>All figures are unaudited and approximate.

<sup>2</sup>The 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.

### KEY ASX INFORMATION

#### AS AT 30 JUNE 2018

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$298 million

Share price: \$1.170

Shares on issue: 254,442,926

### INVESTMENT PERFORMANCE

AS AT 30 JUNE 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 <sup>3</sup> Net of fees, expenses and <u>before tax paid</u>	2.7%	6.2%	1.5%	12.0%	14.7%	10.8%	9.8%
S&P/ASX 300 Acc Index	3.2%	8.4%	4.3%	13.2%	13.5%	9.1%	9.9%
Excess Returns	-0.5%	-2.2%	-2.8%	-1.2%	+1.1%	+1.7%	-0.1%

<sup>3</sup>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. 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
Westpac Banking Corporation	8.1%
Woolworths Ltd	7.6%
Suncorp Group Ltd	5.0%
National Australia Bank Ltd	4.6%
BHP Billiton Ltd	4.0%

#### TOP 3 GLOBAL LISTED SECURITIES

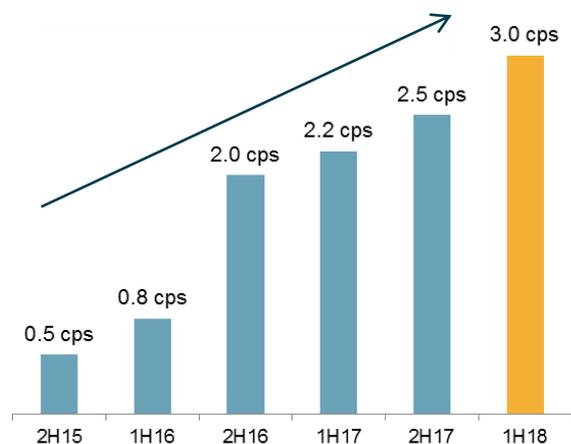
COMPANY	PORTFOLIO WEIGHT
Shire PLC	8.0%
DowDuPont Inc	0.5%
General Electric Co	0.4%

### DIVIDEND PER SHARE, CPS

1H18 interim dividend: 3.0 cents per share

Annual dividend yield: 4.7%<sup>4</sup>

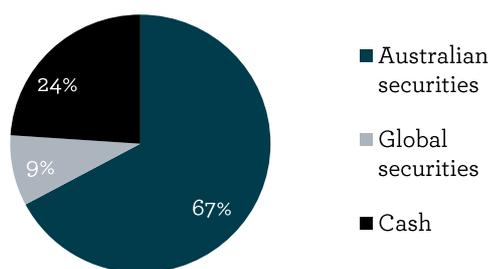
Grossed up annual dividend yield: 6.7%<sup>4</sup>



<sup>4</sup>Yield is calculated using the 30 June 2018 share price of \$1.170. Grossed up yield takes franking credits into account.

## ALLOCATION OF INVESTMENTS

76% of capital invested in securities.



## PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was 2.7% in June underperforming the benchmark S&P/ASX300 Accumulation Index by 0.5%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 9.8% per annum net of fees and expenses.

Portfolio holdings in Woolworths Group Ltd, Suncorp Group Ltd and Westpac Banking Corporation contributed positively to performance this month. Conversely, the portfolio's cash position and holdings in AMP Limited and Mineral Resources Ltd detracted from relative returns.

## STOCK NEWS

Downer EDI Ltd (DOW) provides engineering, construction and asset management services to customers operating in a variety of market sectors including minerals and metals, oil and gas, power, road and rail infrastructure, telecommunications, utilities and facilities management. As at 30 June 2018 the portfolio's allocation to DOW was 1.3%.

The Manager believes the outlook for DOW's base business is positive, with a favourable backdrop across virtually all of DOW's end markets and momentum improving with contract announcement wins accelerating in recent months.

Mining has been a drag on DOW's earnings as the sector experiences a cyclical downturn. The Manager expects DOW to see the benefits of cost savings from FY19 which should lead to margin recovery. With strong top-line growth across most business units, and margin recovery in mining, the Manager believes DOW is well placed to deliver strong earnings growth into FY19.

DOW's 2017 acquisition of the Spotless Group represents both an opportunity and a risk. The opportunity for DOW is for the company to leverage its existing relationships in contracting into a new area of outsourcing, being facilities management. However, Spotless operates in a very competitive space, so the key to successful execution for DOW will be if the company can leverage its scale and reach to deliver a superior service and price offering without compromising margins. In the short-term, Spotless will also need to resolve an onerous contract with the Royal Adelaide Hospital. Although provisions for the contract have been taken on acquisition, additional provisions are likely in FY19, and the company

needs to resolve outstanding contract management issues with the South Australian government. Although this represents a risk to FY19 earnings, the Manager believes the improvement in the underlying business more than compensates for this, and whilst the Manager is monitoring the situation, it does not jeopardise the investment thesis for DOW.

## MARKET COMMENTARY

The Australian equity market continued to climb over June, gaining 3.2%, as measured by the S&P/ASX 300 Accumulation Index. The market was supported by positive economic data with the RBA holding interest rates steady at 1.5% for a record 23 consecutive months while real GDP showed a 1.0% increase over the March quarter, mainly attributed to increased exports. The ABS National House Price Index fell for the first time since September 2012 (declining 0.8%). Employment was stronger than expected with job numbers increasing by 12,000 positions in May and the unemployment rate falling by 0.2% to 5.4%. The Westpac consumer confidence index gained 0.3% and retail sales rose by 0.4%, boosted by household goods. All three stages of the Government's \$144b income tax cuts were passed through the Senate, with the first stage coming into effect on 1 July 2018.

The banks bucked their three-month trend to finish in positive territory as the Hayne Royal Commission into the banking and financial services industry turned its attention to farming finance and the provision of services to indigenous Australians. The miners struggled over June as broad-based commodities took a hit. The London Metals Exchange index fell 4.4%, with zinc prices punished the most, down 6.2%, and aluminium off 5.9%. Energy stocks, however, finished stronger as Brent and WTI crude oil gained 2.6% and 10.8%, respectively, on tougher US sanctions placed on Iran. Coal prices also had a strong month, rising 3.9%.

Global markets ended the month ahead, closing 2.4% higher in Australia dollar terms, as measured by the MSCI World total return index. The performance was assisted by a weaker Australia dollar, declining 2.1%, and 2.2% against the US dollar and Euro, respectively, on the back of falling commodity prices. Developed Markets (+0.4%) outperformed the Emerging Markets (-2.4%), attributed to a struggling Chinese market. On-again, off-again, talks of import tariffs between the US and their major trading partners amounted to increased market uncertainty and re-ignited fears of a global trade war.

The best performing sectors for the month, as measured by the S&P/ASX 300 Accumulation Index, were Energy (+7.7%), Consumer Staples (+5.9%) and Utilities (+5.9%). The worst performers were Telecommunication Services (-5.5%), Industrials (+0.6%) and Materials (+1.7%). As a whole, industrial stocks (+3.2%) outperformed resource stocks (+3.2%) and large cap stock (+3.7%) outperformed small cap stocks (+1.1%). Value stocks (-0.1%) underperformed growth stocks (+2.7%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

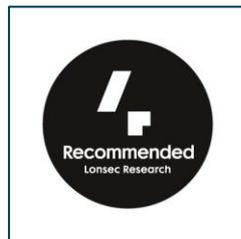
## COMPANY NEWS

### RELEASE OF YEAR END RESULTS

The Company will announce its annual results, including any final dividend announcement for the 2018 financial year on Monday 20 August 2018. On this date the results will be lodged with the ASX, posted on the Company's website and communicated via our e-newsletter. If you would like to be added to the distribution list for the e-newsletter please add your details to the "Subscribe for Updates" section found at the bottom of the Home page on the website ([www.perpetualequity.com.au](http://www.perpetualequity.com.au)).

### LONSEC RESEARCH ASSIGNS RECOMMENDED RATING

The Company is pleased to announce that Lonsec Research recently completed their review of the Perpetual Equity Investment Company Limited (PIC), initiating research coverage with a Recommended rating.



Lonsec states that it has "high regard for Perpetual Investments' (the Manager) quality-focused and valuation-driven research process" and a "favourable view of the portfolio management track record of Vince Pezzullo as well as the depth and experience of the Manager". Download the full research report [here](#).

## 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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No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) nor the Company guarantees the performance of the Company or the return of an investor's capital.

The Lonsec Rating (assigned July 2018) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Perpetual product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to the Lonsec website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>

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