

INVESTMENT UPDATE AND NTA REPORT

September 2018

PORTFOLIO SNAPSHOT

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

AS AT 30 SEPTEMBER 2018	AMOUNT
NTA before tax (cum div) ²	\$1.168
NTA after tax (cum div) ²	\$1.154

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 30 September 2018, the NTA before tax ex dividend was \$1.135^{1,3} and the NTA after tax ex dividend was \$1.121^{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.

KEY ASX INFORMATION

AS AT 30 SEPTEMBER 2018

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$295 million

Share price: \$1.160

Shares on issue: 254,442,926

INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 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	-0.6%	1.2%	7.5%	10.1%	11.6%	11.1%	9.5%
Net of fees, expenses and <u>before tax paid</u>							
S&P/ASX 300 Acc Index	-1.2%	1.5%	10.0%	14.0%	11.5%	12.1%	9.6%
Excess Returns	0.6%	-0.3%	-2.5%	-3.9%	0.1%	-1.0%	-0.2%

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
Westpac Banking Corporation	6.9%
Suncorp Group Ltd	6.2%
Commonwealth Bank	5.4%
Oil Search Ltd	4.8%
Tabcorp Holdings Ltd	4.6%

TOP 3 GLOBAL LISTED SECURITIES

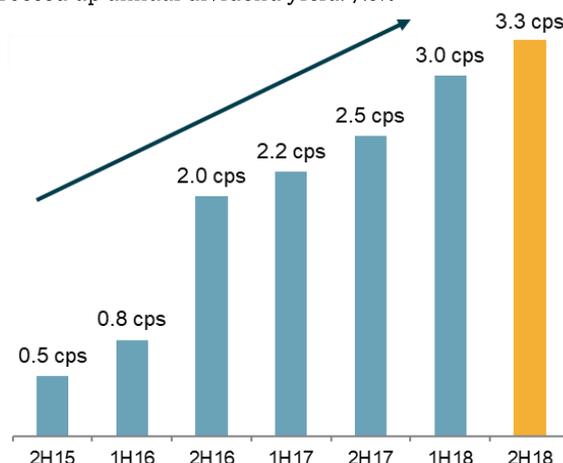
COMPANY	PORTFOLIO WEIGHT
Shire PLC	6.3%
Technipfmc Plc	1.0%
General Electric Co	0.8%

DIVIDEND PER SHARE, CPS

2H18 final dividend: 3.3 cents per share

Annual dividend yield: 5.4%⁵

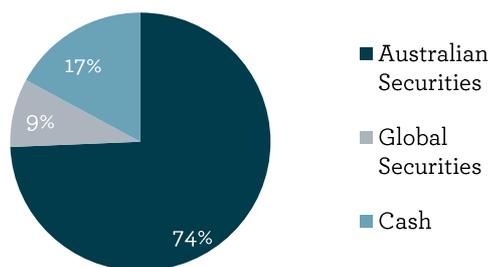
Grossed up annual dividend yield: 7.6%⁵



⁵Yield is calculated using the 30 September 2018 share price of \$1.160. Grossed up yield takes franking credits into account. The ex date for the final dividend is 18 October 2018 and the payment date is 2 November 2018.

ALLOCATION OF INVESTMENTS

83% of capital invested in securities.



PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was 0.6% in September outperforming the benchmark S&P/ASX300 Accumulation Index by 0.6%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 9.5% per annum net of fees and expenses.

Portfolio holdings in BHP Billiton, Shire PLC and Telstra Corporation contributed positively to performance this month. Conversely the Company's positions in Suncorp Group, Bega Cheese and Westpac Banking Corporation detracted from returns. The portfolio's cash holding assisted returns relative to the benchmark over the month.

STOCK NEWS

Brambles (ASX:BXB) is a supply-chain logistics company operating primarily through the CHEP and IFCO brands, in over 50 countries. BXB specialises in the pooling of unit-load equipment and engages in the provision of supply chain support services. BXB owns 290 million pallets and 294 million reusable plastic containers, with a network of more than 850 service centres. Brambles ranks as a top 20 ASX listed company with a market capitalisation of approximately A\$17.4 billion. As at 30 September 2018 the portfolio allocation to BXB was 2.5%.

The Manager believes BXB has been operating in a tough operating environment lately especially in the US. Brambles pooled pallet business in the US has had to contend with increasing labour costs and higher Lumber and Transport costs. Despite its market dominance, Brambles US pooled pallet business saw significant margin compression over the last 6-9 months.

Whilst BXB once traded at a market premium the Manager believes that at the recent price lows BXB was trading at a market discount. While the US Pallets business experienced margin compression, BXB management has reset the return on invested capital target to a level which is achievable through the cycle.

The Manager believes Brambles has also built a robust pooled pallet business in Europe which has delivering consistent margins. The European business now generates more for the group than the US pallets business. The one criticism has been the poor (relative to its market position) free cash flow that the business generated. With a new management team at the helm

and a renewed focus on free cash flow and operating efficiencies, the Manager believes the stock at the recent lows offered an attractive entry point.

MARKET COMMENTARY

The Australian equity market struggled over the month of September, falling 1.2%, as measured by the S&P/ASX 300 Accumulation Index. Aged care-related stocks caused a drag on the market as scrutiny of aged care facilities led to the announcement of a royal commission into the industry. More of the banks followed the trend of raising interest rates out of cycle, citing increased wholesale funding costs, while the Reserve Bank of Australia maintained the official cash rate at its record low of 1.5%. The Hayne Banking Royal Commission's interim report on hearings into industry lending practices, financial advice, superannuation, and insurance was released late in the month, highlighting "a culture of pursuing profit and financial interest at the expense of customer interest." Despite ending the month lower, the major banks finished ahead on the day of the release.

Mining stocks rallied following strengthening commodities and a weaker US dollar. A rise in Brent crude oil, gaining 7.0% on supply-tightening concerns in anticipation of US sanctions on Iran also assisted energy stocks. Base metals recovered during the month as the London Metals Exchange Index climbed 2.3%, led by zinc and copper, up 8% and 5%, respectively. Coking coal gained 9.2% while China introduced unofficial restrictions on coal imports in a move that threatens to disrupt demand for Australian thermal coal.

Second-quarter GDP climbed 0.9%, and by 3.4% year-on-year, demonstrating the highest year-on-year growth since the third quarter of 2012. The greatest contributors to the stronger-than-expected growth came from household consumption, government spending and net exports. The Australian dollar gained ground over its major trading partners on the stronger economic data, led by the Japanese Yen (2.9%) and the US dollar (0.5%) yet finishing flat in trade-weighted terms.

The best performing sectors for the month, as measured by the S&P/ASX 300 Accumulation Index, were Energy (+4.3%), Materials (+4.1%) and Telecommunication Services (+3.0%). The worst performers were Health Care (-7.3%), Consumer Discretionary (-3.8%) and Utilities (-3.1%). As a whole, industrial stocks (-2.7%) underperformed resources stocks (+5.2%) and large cap stocks (-1.4%) underperformed small cap stocks (-0.4%). Value stocks (+0.1%) outperformed growth stocks (-2.7%) for only the second time in 12 months, as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

COMPANY NEWS

CAPITAL RAISING

The Company would like to thank shareholders for their support during the recent capital raising.

Investors demonstrated strong interest in the capital raise with the Company raising the full Offer amount of \$101.24 million.

The proceeds of the capital raise will support the Company in expanding its investment portfolio and to increase its ability to take advantage of market opportunities as they arise.

DIVIDEND DATES

The Company declared a fully franked final dividend of 3.3 cents per share for Financial Year 2018. Important dates for shareholders are:

Ex Dividend date: Thursday 18 October 2018

Dividend record date: Friday 19 October 2018

Dividend payment date: Friday 2 November 2018

Shareholders are reminded that the Dividend Reinvestment Plan has been suspended for this dividend payment.

ANNUAL GENERAL MEETING 2018

A reminder that our fourth Annual General Meeting will be held on Thursday 1 November 2018 at Perpetual's Sydney office: Level 18, 123 Pitt Street, Sydney and will commence at 2.00pm.

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.

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