

PERPETUAL
EQUITY
INVESTMENT
COMPANY
LIMITED

Perpetual Equity Investment
Company Limited
ABN 68 601 406 419

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14 September 2020

ASX Limited
ASX Market Announcements Office
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Perpetual Equity Investment Company Limited
Monthly Investment Update and NTA Report announcement

Perpetual Equity Investment Company Limited (the Company) (ASX: PIC) advises that it has released the Monthly Investment Update and NTA Report (the Report) for the period ending 31 August 2020 (as attached).

If shareholders or other interested parties have any queries regarding the Report, they can contact:

Karen Davis
Senior Manager, Listed Products and Projects
Perpetual Investment Management Limited
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Yours faithfully



Sylvie Dimarco
Company Secretary
(Authorising Officer)

INVESTMENT UPDATE AND NTA REPORT

August 2020

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 31 AUGUST 2020	AMOUNT
NTA after tax (cum dividend)	\$1.093
NTA before tax (cum dividend)	\$1.103

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

All figures are unaudited and approximate.

The before and after tax numbers relate to provisions for deferred tax on unrealised gains and losses of the Company's investment portfolio. As at 31 August 2020, the NTA after tax (ex dividend) was \$1.065 and the NTA before tax (ex dividend) was \$1.075. The ex dividend NTA figures are reduced by a provision for the 2.8 cents per share final dividend that was declared on 26 August 2020. The ex date for the final dividend is 30 September 2020 and the payment date is 23 October 2020.

NTA figures are calculated as at the end of day on the last business day of the month.

KEY ASX INFORMATION

AS AT 31 AUGUST 2020

ASX Code:	PIC
Listing Date:	18 December 2014
Market Capitalisation:	\$344 million
Share Price:	\$0.99
Shares on Issue:	347,830,810

INVESTMENT PERFORMANCE

AS AT 31 AUGUST 2020	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio Net of fees, expenses and before tax paid	5.7%	5.3%	8.7%	6.3%	3.7%	6.6%	7.8%	7.7%
S&P/ASX 300 Acc Index	3.0%	6.2%	-4.1%	-4.8%	1.9%	6.2%	7.6%	7.2%
Excess Returns	2.6%	-0.8%	12.8%	11.2%	1.8%	0.4%	0.2%	0.4%

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 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
Iluka Resources Limited	5.6%
Crown Resorts Limited	5.3%
AUB Group Limited	4.9%
Aristocrat Leisure Limited	4.1%
Boral Limited	3.3%

TOP 3 GLOBAL LISTED SECURITIES

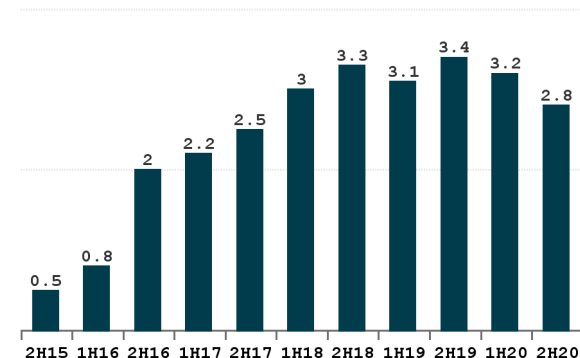
COMPANY	PORTFOLIO WEIGHT
Flutter Entertainment Plc	9.7%
La Francaise des Jeux SA	6.1%
Ferguson Plc	3.1%

Portfolio weight based on direct investments in securities and does not include any derivative exposure

DIVIDENDS IN CENTS PER SHARE

Annual dividend yield: 6.1%

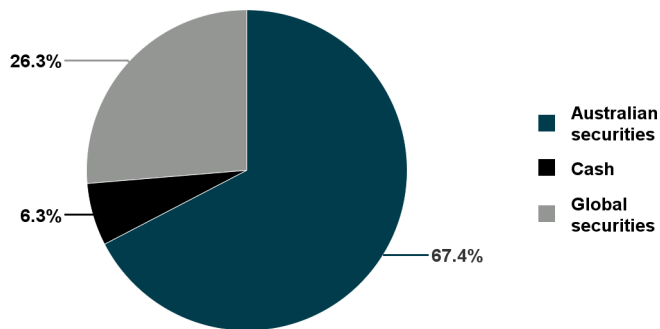
Grossed up annual dividend yield: 8.7%



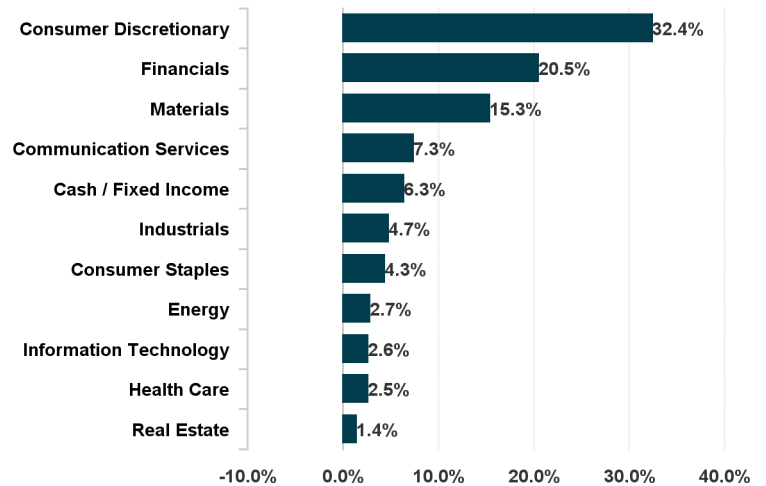
Yield is calculated based on the total dividends of 6.0 cents per share and the closing share price of \$0.99 as at 31 August 2020. Grossed up yield takes into account franking credits at a tax rate of 30%.

ALLOCATION OF INVESTMENTS[^]

93.7% of capital invested in securities



PORTFOLIO SECTORS[^]



[^]Weightings calculated based on direct investments in securities and any indirect exposure via S&P /ASX 200 related derivatives. All figures are unaudited and approximate.

PORTFOLIO COMMENTARY

REPORTING SEASON: BETTER THAN FEARED, BUT TOUGHER TIMES AHEAD

The month of August has been reporting season with many Australian listed companies announcing their financial year 2020 (FY20) results during the month. PIC Portfolio Manager, Vince Pezzullo outlines his views on the reporting season and how it transpired for the portfolio.

The market rallied through August with a number of companies reporting better than expected results. The Australian government's stimulus packages appear to have been crucial in preventing a reporting season catastrophe as Australia continued to emerge from lockdown across most States. However, some companies were able to utilise the government support on offer better than others.

The Consumer Discretionary sector rose sharply in August which benefited the PIC portfolio. Premier Investments Limited (ASX: PMV) which owns retail conglomerate Just Group and has an equity stake in Breville Group Limited, performed remarkably well in the circumstances, delivering better than expected results. We believe this was due to their savvy management team leveraging the growth of online sales, strategically closing down stores and maximising government stimulus through rent and wage subsidies. As at 31 August, PMV was 1.7% of the PIC portfolio.

The top contributor to absolute performance was AUB Group Limited (ASX: AUB). In August, AUB reported strong results for FY20 that exceeded guidance. For FY20 AUB reported a 15.2% increase in underlying net profit after tax (NPAT) and an increase of 9.2% in their fully franked final dividend. AUB also expects FY21 underlying NPAT to grow between 9.5% and 14.2%, excluding any major acquisitions. This guidance was received well by the market, indicated by the increase in their share price. The closing price on 24 August 2020 (the day before their FY20 results announcement) was \$13.50, and this rose to \$15.80 on 31 August 2020.

The PIC portfolio continues to be invested in a mixture of undervalued cyclicals and quality defensives, which has enabled the portfolio to navigate the ups and downs of the market without binding our investors to an outright bullish or bearish view. With so many economic uncertainties, we think this is prudent and has meant the portfolio has returned solid performance with relatively low risk. Furthermore, this positive performance has come without having to own what we consider to be, extremely expensive technology and healthcare names like Afterpay Limited (ASX: APT) or CSL Limited (ASX: CSL). We believe APT and CSL have reached levels of extreme over-valuation.

Despite the economic damage caused by the COVID-19 pandemic, global markets especially the US, have traded upwards. The S&P 500 has not only retraced its losses since the COVID-19 led volatility but has posted new highs by recording the best August in more than 30 years, gaining 7%. However, we believe the real test is yet to come as government stimulus inevitably must be tapered, consumers and businesses will attempt to return to normal and creditors will face an inevitable reckoning. An important component of our analysis is scrutinising balance sheets to understand how companies manage their debt. To understand broader market conditions that may impact company debt we are able to draw on the specialist expertise of the Perpetual Credit and Fixed Income investment team. The team have extensive knowledge of credit markets and many years' experience investing over multiple market cycles.

VIEWES FROM PERPETUAL'S CREDIT & FIXED INCOME TEAM

Head of Corporate High Yield, Anne Moal outlines her views on credit markets below.

Credit markets continue to be remarkably buoyant with intervention by central banks including the US Federal Reserve and the Reserve Bank of Australia (RBA). Governments also unleashed fiscal stimulus and financial support to companies and individuals to reduce the impact of COVID-19 on the economy and maintain the provision of credit. This has effectively postponed much of the economic adjustment to come, as indicated by default rates remaining relatively low.

In March, at the height of market volatility, credit markets experienced the most significant widening in credit spreads since the Global Financial Crisis. This reflected a heightened sense of risk as investors factored in the risk of companies defaulting on their payment obligations to lenders. As credit spreads widened, this means that compensation, or return provided for accepting risk, increased. Both the Equities and Credit & Fixed Income investment teams consider balance sheet strength to be paramount when assessing investment opportunities.

Since March, credit spreads have tightened in both investment grade and high yield debt. This means compensation, or return provided for accepting risk, lowered. Debt issuance is also at record levels in the US and healthy in Australia, although more subdued than offshore. In August, issuance of investment grade debt was the highest for the year and US high yield debt recorded the highest ever monthly issuance in May and August.

As the lasting economic impact of COVID-19 becomes clearer and monetary and fiscal support is withdrawn, we may see some volatility in credit spreads and equity markets, especially for more leveraged companies. For the value investment style Perpetual follows, we believe this should provide investment opportunities in both markets.

VIEWES FROM OUR INVESTMENT TEAM - SELECTING OFFSHORE STOCKS

PIC Portfolio Manager Vince Pezzullo is supported by Perpetual's broader investment team which includes Portfolio Managers and Analysts specialising in particular sectors of the market.

The investment team are encouraged to present ideas and research analysis on companies listed in Australia or offshore. When it comes to investing offshore, the investment team often identify global counterparts when conducting in-depth analysis on a domestic company. For example, in the PIC portfolio, Flutter Entertainment Plc (LON: FLTR) can be compared to Tabcorp Holdings Limited (ASX: TAH), Ferguson Plc (LON: FERG) to Reece Limited (ASX: REH), AutoTrader Plc (LON: AUTO) to Carsales.com Ltd (ASX: CAR) and CME Group (NASDAQ: CME) to ASX Limited (ASX: ASX). We outline below two of these examples in more detail.

Flutter Entertainment PLC (LON:FLTR) (Analyst: Sean Roger)

Flutter Entertainment Plc (LON: FLTR) is listed on the London Stock Exchange and included in the FTSE 100 Index. It is the largest position in the PIC portfolio with a portfolio weight of 9.7% as at 31 August 2020. FLTR was identified initially through researching its Australian counterpart, Tabcorp Holdings Limited (ASX: TAH). Both are sports betting and gaming operators, however, we view FLTR as a more attractive investment. This is based on its strong track record of growing market share through their top market positions in Australia (Sportsbet), UK (Paddy Power/Betfair) and US (FanDuel), and a more favourable growth outlook. We have observed this operational performance in our analysis of the Australian sports betting market where Sportsbet has consistently outperformed Tabcorp over an extended period. We were impressed with the strength of the Sportsbet brand and marketing strategies, market leading customer generosity and unique product innovation. When researching FLTR, we observed similar outcomes in FLTR's other global markets such as with the Paddy Power brand in the UK and the FanDuel brand in the US. FLTR is also well positioned to benefit from the ongoing shift from retail to online with 95% of its revenue being generated online. On our assessment, the core FLTR business (excluding US) is trading on a similar valuation to TAH. Given the more favourable growth outlook, strong track record of execution and comparable valuation, we see FLTR as a more attractive investment.

CME Group Inc (NASDAQ:CME) (Analyst: Tariq Chotani)

We recently invested in Chicago Mercantile Exchange or CME Group (NASDAQ: CME) which comprises 2.8% of the PIC portfolio as at 31 August 2020. CME can be compared to ASX Limited (ASX: ASX) as both are stock exchanges with products across equities, fixed income, futures and options. However, CME's advantage over ASX is that it operates as a near monopoly in the interest rates market and a strong duopoly in the crude oil market. At the end of August, CME was trading at an approximately 30% discount to ASX on a P/E (price to earnings multiple) basis, approximately -50% discount on a P/B (price to book multiple) basis and offering a better dividend yield than ASX. Accordingly, we believe CME is offering compelling relative value to ASX.

Our decision to invest globally is opportunistic as we believe there will be opportunities to purchase global listed securities at potentially cheaper valuations from time to time relative to Australian listed securities. Given we have expertise and experience investing in Australian and global listed securities, the foundation of the PIC's investment strategy rests on the benefits of a flexible mandate, across both Australian and global listed securities. We continue to be encouraged by the performance of the global companies in the portfolio which have been the top contributors to absolute performance over the past 12 months.

RECENT POSITION: HT&E LIMITED (ASX: HT1) (ANALYST: ALEX PATTEN)

We have recently established a position in HT&E Limited (ASX: HT1). HT&E – Here, There & Everywhere is a leading media and entertainment business operating radio, audio and digital businesses in Australia as well as outdoor assets in Hong Kong. Following the sale of its outdoor advertising business to Ooh Media in June 2018, HT1’s core asset is the Australian Radio Network (ARN) which operates the KIIS and WSFM stations.

HT1’s radio business has been materially impacted by the COVID-19 pandemic, as advertisers moved quickly to cut advertising spend and preserve capital. Whilst advertising markets are progressively improving, it may be some time before advertising spend returns to pre COVID-19 levels across the market. Despite this reality, we viewed the sell-off in March 2020 as an attractive opportunity to establish a position in HT1.

We believe the market is underestimating a number of factors with respect to HT1. As at 30 June 2020, HT1 had no debt and \$90 million of cash which in our view, positions the company with a very strong balance sheet. In contrast, peers within the traditional media sector were forced to undertake capital raisings in recent months which we considered were deeply discounted and heavily diluted. HT1’s position meant the company was able to use its cash to opportunistically acquire an approximately 4.7% stake in Ooh Media.

Further, HT1’s radio business is market leading in terms of share of ratings as well as revenues. The business requires very little capital and in normal market conditions, is highly cash generative. We view the management of the company as strong and capable in regard to managing key talent and being able to retain key talent with no major talents that are up for renewal for a number of years. While it may take some time, advertising markets are expected to recover and we are attracted to the company actively investing in its digital audio offerings, including digital radio and podcasting.

Finally, we believe the market is underestimating the value of HT1’s 25% stake in Soprano Design. HT1 has owned the stake for 20 years but has only started talking about it publicly in the last six months. Soprano provides customers with a communications platforms that facilitates automated mobile messaging. For example, the software enables enterprises to send one time passwords to customers or to send out communications across their staff base. Soprano has seen an acceleration in growth post the height of the COVID-19 pandemic but had been growing revenues at 20%+ for a number of years prior to COVID-19. Soprano is profitable and generated \$75m in revenue in FY20. Given the valuations being ascribed to listed peers, we believe Soprano could easily be valued at more than \$500m. We consider the value of HT1’s stake in Soprano to be material and not reflected in the current share price.

As at 31 August 2020, HT1 comprised 2.7% of the PIC portfolio.

COMPANY NEWS

ANNUAL RESULTS

The Company announced its full year results and final dividend for financial year 2020 on Wednesday, 26 August 2020. The results are available on the [Company’s website](#).

IMPORTANT DATES FOR THE FINAL DIVIDEND

Announcement/Declaration	Wednesday 26 August 2020
Ex Date	Wednesday 30 September 2020
Record Date	Thursday 1 October 2020
DRP Election Date	Friday 2 October 2020
Payment Date	Friday 23 October 2020

DIVIDEND REINVESTMENT PLAN

The Company’s dividend reinvestment plan (DRP) is available to shareholders for the final dividend and will operate without a discount. To participate in the DRP or to change your level of participation, a DRP Participation Form must be received by no later than 5.00pm, AEST on Friday 2 October 2020 (“DRP Election Date”).

For more information regarding the DRP including the DRP rules and form to update your DRP preference, please visit our [website](#).

If you are already participating in the DRP and wish to remain so, there is no further action to be taken. Should you wish to check your participation, please visit the registry’s Investor Centre by clicking [here](#).

ANNUAL GENERAL MEETING (AGM)

The AGM and Investment Manager Update will be broadcast live on Thursday 15 October 2020 at 2:00pm (AEDT).

This year the Company will be holding a virtual AGM, whereby shareholders will have the opportunity to participate online. Shareholders will be able to fully participate in the meeting and have the ability to ask questions and vote live during the meeting. Further details on how to participate in the AGM are included in the [Notice of Meeting](#).

INVESTMENT MANAGER UPDATE REGISTRATIONS NOW OPEN

The Company would like to extend an invitation to all shareholders and interested parties to register for our Investment Manager Update on Thursday 15 October 2020 at 2:00pm (AEDT). Portfolio Manager Vince Pezzullo will provide an update on markets, how the PIC portfolio is being managed and the opportunities he is seeing in Australia and globally.

The update will close with Q&A. We encourage you to pre-submit your questions on the registration page.

[CLICK HERE TO REGISTER](#)

A copy of the presentation slides will be made available via the ASX and emailed to registered participants on the day. Finally, if you are unable to join us at this time, the presentation slides and audio will be posted on the Company website.

SHAREHOLDER COMMUNICATIONS

The Company website hosts a range of information aimed at keeping shareholders and other interested parties up to date with the latest Company news. Via the website, you can also update your communication preferences to receive various Company alerts via email at <https://www.perpetualequity.com.au/tools-and-resources/email-alerts>. We encourage to ensure your communication preferences are up to date so that you have access to all the information you need.

REMINDER: TAX CERTIFICATION COMPLETION

Under the Australian Government's participation in Automatic Exchange of Information (AEOI) regimes, PIC is required to collect FATCA/CRS certification information and an investor's tax residency from shareholders. The information in certain circumstances may be reported to the Australian Taxation Office (ATO) which in turn reports to various global tax authorities.

Please check that you have completed your FATCA/CRS certification by logging into the Link investor portal [here](#).

From there, under the Payments & Tax tab you will find 'FATCA/CRS', where you can fill in the Self Certification. Completing this information online is straightforward as the questions will guide you, and in some instances, it is only a couple of steps.

If you do not certify, PIC may be required to provide information about your account to the ATO. For more information on the self-certification process via Link please [click here](#). For further information on FATCA and CRS, please visit [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 25 years' experience in the financial services industry, 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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This monthly report has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. PIML is the investment manager of the Perpetual Equity Investment Company Limited (Company) ACN 601 406 419. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. This information does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of the Company's securities. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. References to securities in this publication are for illustrative purposes only and are not recommendations and the securities may or may not be currently held by the Company. Past performance is not indicative of future performance. This information is believed to be accurate at the time of compilation and is provided in good faith. 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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