

**JANUARY 2015**  
**MONTHLY INVESTMENT UPDATE AND NTA REPORT**

**MONTH IN REVIEW**

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose 3.2% during January. Global equity markets had a mixed month, with the US underperforming while European and Asian markets posted positive returns. Europe was the focus for markets during the month as the European Central Bank announced that it will begin a new open-ended QE program in March, purchasing EUR60bn of government bonds per month. Commodity prices continued to come under pressure with iron ore falling 12.7% and oil falling 9.4%. The Aussie dollar also continued its downward slide, falling 4.8% against the USD. In Australia the Westpac-MI consumer confidence improved following a slump in December and expectations of an RBA rate cut increased after a weaker-than-expected 4Q14 CPI figure.

**PERPETUAL EQUITY INVESTMENT  
COMPANY LIMITED**

As at 31 January 2015  
ASX code: PIC  
Listing date: 18 December 2014  
Market capitalisation: \$241.91 million  
Share price: 0.965  
Shares on issue: 250,686,278  
Options on issue: 250,102,277  
Options ASX Code: PICO  
Options expiry date: 10 June 2016  
Options Share price: 0.045

**PORTFOLIO COMMENTARY**

The Portfolio has gradually built a number of positions in domestic and international stocks however the majority of funds remain in cash. The Portfolio was 11% invested in equities as at 31 January 2015. The short term underperformance of the Portfolio is reflective of the current high cash weighting and we expect this to reverse as the Portfolio continues to increase its invested position at a measured pace as attractive investment opportunities present themselves.

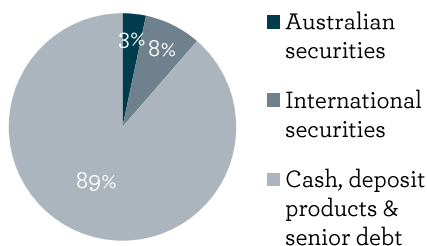
Two of the stocks where we have identified value are Nine Entertainment and Bank of America. Nine Entertainment is a leading Australian media company that generates the majority of its revenues and earnings from selling advertising time during broadcasts to its national free-to-air (FTA) TV audience. The market is extremely negative on this sector, with fears that the industry is facing structural decline as the entry of online content providers threatens to disrupt the market. Having closely analysed comparable companies in the US and UK, where online providers have existed for some time, we believe many of these fears are unfounded and that FTA TV providers in Australia are in a better position than many of their overseas counterparts. Netflix has been in the US for 7 years and cable penetration is close to 85% yet audiences numbers on FTA have in fact increased over time as have average minutes watched per day. Australia has less than 30% cable penetration and most importantly premium sport is protected by anti-siphoning rules which ensure they remain on FTA. The stock has now been sold off to a point where a slight improvement in the ad market will see a strong recovery in the share price. Nine has a strong balance sheet and good control over its cost base in the near term which will see revenue growth convert to earnings when the market cycle improves.

Bank of America is one of the largest financial institutions in the United States with a low teens market share of both loans and deposits. The deposit franchise of the bank is particularly attractive with over 1 trillion in customer deposits, including \$400b on which they pay no interest. The value of this is not currently apparent given the extremely low interest rates in the United States, however as we look out over the next 5 years we are confident that monetary policy in the US will normalise. As this occurs Bank of America's earnings will grow substantially through margin improvement and also volume growth generated by a growing economy. In the meantime we can buy the stock for ~ 1x tangible book and so see the risk reward as skewed in our favour. Australian banks as a comparison are trading between 2.5 and 4x tangible book, making them significantly more expensive than the majority of their global competitors.

We remain committed to patiently deploying capital as we identify quality stocks trading at attractive prices.

## PORTFOLIO PROFILE

### ALLOCATION OF INVESTMENTS



### 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.

### TOP SECURITIES

The Manager may take up to approximately three to six months to fully invest the Portfolio to within the investment guidelines. When the Portfolio is fully invested the Company will disclose the top 10 Australian securities and top 5 International securities and their weightings in the Portfolio.

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

	AMOUNT
NTA before tax <sup>2</sup>	\$0.977
NTA after tax	\$0.984

Daily NTA is available on the website.

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

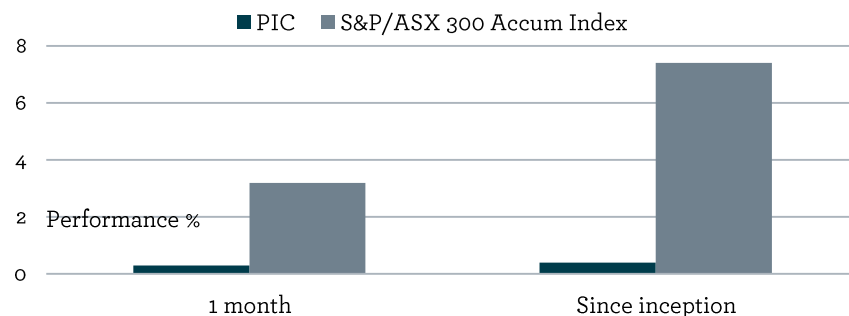
<sup>2</sup>The before and after tax numbers relate to the provision for deferred tax on the unrealised gains in the Company's investment portfolio.

### PERFORMANCE - NET OF FEES, EXPENSES AND TAX PAID

PERFORMANCE	1 MONTH	SINCE INCEPTION
PIC	0.3%	0.4%
S&P/ASX 300 Accumulation Index	3.2%	7.4%
Performance Relative to benchmark	-2.9%	-7.0%

Inception date is 18 December 2014.

### PERFORMANCE - PIC VS BENCHMARK



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, any income tax and any realised capital gains tax) and assuming reinvestment of dividends. Past performance is not indicative of future performance.

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