

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

KEY ASX INFORMATION

As at 31 December 2016

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$250.221 million

Share price: \$0.99

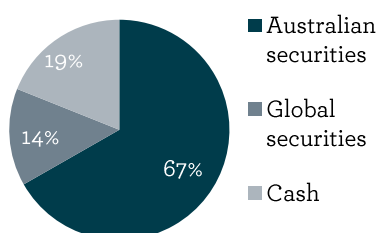
Shares on issue: 252,748,485

DECEMBER 2016 MONTHLY INVESTMENT UPDATE AND NTA REPORT

PORTFOLIO PROFILE

ALLOCATION OF INVESTMENTS

81% of capital invested in securities.



PERFORMANCE

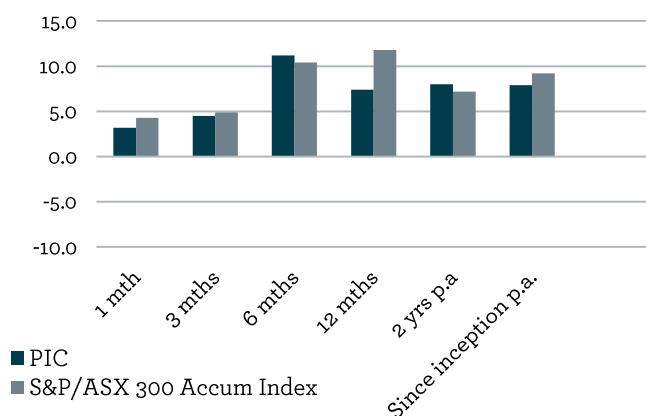
Net of fees, expenses and tax paid

AS AT 31 DEC 2016	1 MTH	3 MTHS	6 MTHS	1 YRS P.A.	2 YRS P.A.	SINCE INCEP P.A.
PIC	3.2%	4.5%	11.2%	7.4%	8.0%	7.9%
S&P/ASX 300 Acc Index	4.3%	4.9%	10.4%	11.8%	7.2%	9.2%
Versus bench- mark	-1.1%	-0.4%	+0.8%	-4.4%	+0.8%	-1.3%

Inception date is 18 December 2014.

PERFORMANCE - PIC VS BENCHMARK

Performance %



PORTFOLIO COMMENTARY

The Portfolio performance, as measured by the growth in net assets per share, was 3.2% in December. The portfolio underperformed the benchmark S&P/ASX300, which rose by 4.3%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 7.9% per annum.

Investor confidence has continued to rise since President-elect Trump's victory, underpinned by stimulatory policy propositions such as the prospect of US tax cuts and increased infrastructure spending. December saw the broad-based rally in Australian equities continue, with every sector recording a positive month. The Portfolio did not have any exposure to the strongest performing sectors – Utilities (+8.7%), Real Estate (+6.7%) and Energy (6.1%).

A recent addition to the PIC portfolio has been Star Entertainment Group Ltd (ASX:SGR). Star is an Australian based casino operator that has been listed on the ASX since it was spun out of Tabcorp (ASX:TAH) in 2011. The group owns and operates The Star Casino in Sydney, Treasury Casino in Brisbane and Jupiters Casino on the Gold Coast.

In 2015, Star and its Destination Brisbane Consortium partners gained final approval to proceed with a \$3 billion redevelopment of Queens Wharf Brisbane, which will replace the existing Treasury Casino upon its completion in 2022. Further to this, Star has committed to spending \$500 million over 5 years improving the quality of the Sydney property and is nearing completion of a \$345 million development of the Jupiter's property. Star also recently announced plans to construct a hotel/residential apartment tower at the Sydney and the Gold Coast properties, in conjunction with its Queens Wharf partners. This strategic partnership provides Star with a model to significantly increase its hotel room capacity whilst minimising the capital requirements. Hotel capacity has been a constraint in recent periods, with occupancy consistently running at over 90%.

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

Perpetual

The Manager believes that Star is appealing because:

- The locations of its assets are attractive as they provide exposure to the continued growth in inbound Chinese tourism.
- An extensive pipeline of investment over the next 5 years will improve the quality and capacity of each of the properties, providing a platform for SGR to continue to grow earnings through taking a greater share of local gaming markets.
- Star's high level of cash flow remains a key feature, which will enable it to fund its extensive capital expenditure commitments over the next 5 years whilst maintaining its strong balance sheet position.

In October 2016, 18 Crown Casino (ASX:CWN) employees were arrested and detained in China on alleged gambling related crimes. Whilst Star Entertainment was not directly involved in this event the share price came under considerable pressure, driven by uncertainty and speculation about what this could mean for Chinese VIP visitation to Australia, to which Star has some exposure. The Manager believes that any material impact on Star's operations will be short term in nature and the current share price undervalues what the Manager views as a high quality, defensive portfolio of assets. The Manager has taken advantage of the share price weakness to establish a position in Star. As at 31 December 2016, Star was 4.6% of PIC's portfolio.

MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose by 4.3% during December. Global developed markets delivered strong returns during the month buoyed by the stimulatory policy propositions of US President-elect Donald Trump. The US Federal Reserve lifted US interest rates by 25bps and increased its expectations of the number of 2017 rate hikes from two to three on the back of an improving economic outlook. Optimism around the prospect of US tax cuts and increased infrastructure spending led to a rally in cyclical sectors and strong gains in the US dollar. Oil rose strongly on the back of OPEC's announcement in late November that it had agreed to cut production by 1.2 million barrels per day in 2017. Australian economic data was relatively soft, as reflected by 3Q GDP growth which was well below expectations. The RBA kept rates on hold and the Australian dollar lost ground against most major currencies and closed down 2.0% against the USD at 72.41 cents.

The best performing sectors for the month were utilities (+8.7%), property trusts (+6.7%) and energy (+6.1%). The worst performers were telecommunication services (+0.5%), health care (+0.9%) and consumer staples (+1.7%). As a whole, industrial stocks (+4.5%) outperformed resource stocks (+3.7%) and large cap stocks (+4.5%) outperformed small cap stocks (+3.6%).

TOP SECURITIES

TOP 5 AUSTRALIAN SECURITIES AS AT 31 DECEMBER 2016

COMPANY	PORTFOLIO WEIGHT
Woolworths Ltd	11.8%
Suncorp Group Ltd	6.8%
Sky Network Television Ltd	6.1%
Medibank Private	5.6%
CYBG Plc	5.3%

TOP 3 GLOBAL SECURITIES AS AT 31 DECEMBER 2016

COMPANY	PORTFOLIO WEIGHT
Deutsche Boerse AG	5.3%
Icon Plc	4.9%
Bank of America Corp	2.1%

NET TANGIBLE ASSET (NTA) BACKING PER ORDINARY SHARE¹

AS AT 31 DECEMBER 2016	AMOUNT
NTA before tax ²	\$1.101
NTA after tax	\$1.083

Daily NTA is available on the website.

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.

INSIGHTS VIDEOS

LIVEWIRE EXCLUSIVE: FINANCIALS RIPPING HIGHER

Vince Pezzullo, Portfolio Manager at Perpetual Equity Investment Company (ASX: PIC) features in this Livewire Buy Hold Sell. Vince shares his view on a selection of companies in the financials sector, including CBA, QBE Insurance and Henderson Group.

[WATCH VIDEO \(2:13\)](#)



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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This monthly report has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535, AFSL 234426 and Perpetual Trustee Company Limited ABN 42 000 001 007 AFSL 236643. 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. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the Company or the return of an investor's capital.

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