

# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

## KEY ASX INFORMATION

As at 31 January 2017

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$252,748 million

Share price: \$1.00

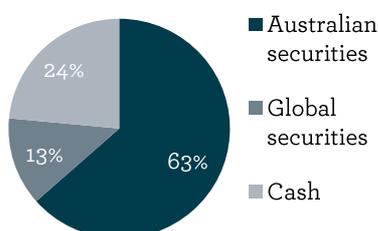
Shares on issue: 252,748,485

## JANUARY 2017 MONTHLY INVESTMENT UPDATE AND NTA REPORT

### PORTFOLIO PROFILE

#### ALLOCATION OF INVESTMENTS

77% of capital invested in securities.



### PERFORMANCE

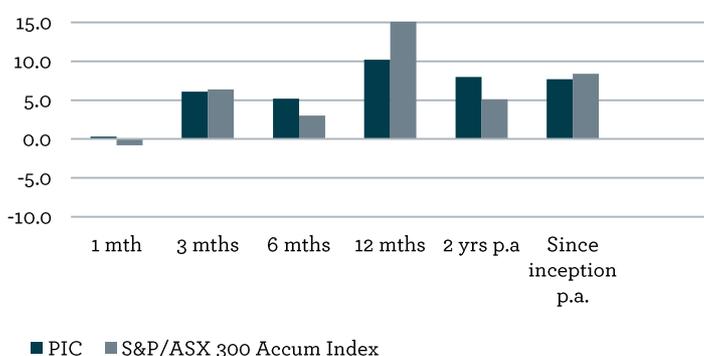
Net of fees, expenses and tax paid

| AS AT 31 JAN 2017     | 1 MTH | 3 MTHS | 6 MTHS | 1 YRS P.A. | 2 YRS P.A. | SINCE INCEP P.A. |
|-----------------------|-------|--------|--------|------------|------------|------------------|
| PIC                   | 0.3%  | 6.1%   | 5.2%   | 10.2%      | 8.0%       | 7.7%             |
| S&P/ASX 300 Acc Index | -0.8% | 6.4%   | 3.0%   | 17.3%      | 5.1%       | 8.4%             |
| Versus bench- mark    | +1.1% | -0.3%  | +2.2%  | -7.1%      | +2.9       | -0.7%            |

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 0.3% in January. The portfolio outperformed the benchmark S&P/ASX300, which fell by 0.8%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 7.7% per annum.

During the month, the portfolio benefited from continued good performance from its holding in BlueScope Steel with BlueScope announcing an upgrade to its earnings in January. Two of the portfolio's global stocks, Deutsche Boerse AG and Icon PLC also made a positive contribution. Henderson Group PLC and Star Entertainment detracted from performance. The Henderson share price weakened due to pressure on active fund managers and uncertainty over its merger with Janus. With Star Entertainment, the market is still assessing the impact of the Chinese government's actions targeting gambling activities and perceived softness in the domestic gaming market hurt the share price.

As at 31 January 2017, 3.25% of the PIC portfolio was invested in Incitec Pivot (ASX Code:IPL). IPL is a global diversified industrial chemicals company listed on the ASX. IPL has two major divisions - Dyno Nobel and Incitec Pivot Fertilizers. Through Dyno Nobel, IPL is a supplier of industrial explosives and blasting services to the mining, quarrying, seismic and construction industries in North America and Australia. Incitec Pivot Fertilisers is Australia's largest supplier of fertilisers, dispatching around two million tonnes each year for use in the Australian grain, cotton, pasture, dairy, sugar and horticulture industries.

The Manager believes that IPL has significant earnings leverage to global commodities like Ammonia, Urea and DAP (diammonium phosphate). 2016 was a very rough year for these major commodities, which were down between 20% and 50%. IPL was also awaiting the completion of its U\$850m Ammonia plant in Louisiana. While IPL has not been able to control the price action in Ammonia and Urea, IPL has continued to make its business more efficient. IPL delivered \$71m of benefits from its Business Improvement (Bex) programme in FY16 and another \$84m is targeted during FY17. Over the last few weeks, IPL's major capex spend, its Louisiana plant, has been operating well achieving 73% uptime since IPL took over the operation in October 2016. It is on track to achieve an average of 80% utilisation during its first 12 months of operation.

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

IPL's major commodities have also started showing signs of stabilisation with seasonal demand and cost push factors affecting global prices of Ammonia and Urea. DAP prices have moved slightly higher on reduced Chinese availability and stronger seasonal demand.

In the near term, the Manager believes that IPL should continue to benefit from higher Ammonia and Urea prices. With its major capex out of the way, the Manager estimates that IPL could deliver a free cash flow yield of +6.5%, which should be positive for IPL's share price.

PIC will be announcing its Half Year Results on 20 February 2017.

## MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, fell 0.8% during January. Global developed markets were generally down over the month with the exception of the US market, which posted gains of 1.8%. Donald Trump was inaugurated as President of the US, dominating headlines in January with the withdrawal from the Trans-Pacific Partnership, proposed tax cuts and talking down of the US dollar. Trade data released showed a surplus for the first time since 2014 in Australia owing to the rally in iron ore and coal prices. Resources stocks performed well in the month with iron ore increasing 5.7% over the period. Gold rose sharply as the US dollar lost ground, while oil fell over the period with uncertainty around the success of the cuts announced by OPEC producers in late 2016. The Australian dollar gained ground against the USD to close the month up 4.84% at USD 75.92 cents.

The best performing sectors for the month were materials (+4.8%), health care (+4.6%) and utilities (+1.1%). The worst performers were real estate (-4.6%), industrials (-4.4%) and consumer discretionary (-4.3%). As a whole, industrial stocks (-1.9%) underperformed resource stocks (+5.2%) and large cap stocks (-0.7%) outperformed small cap stocks (-2.4%).

## TOP SECURITIES

### TOP 5 AUSTRALIAN SECURITIES AS AT 31 JANUARY 2017

| COMPANY                | PORTFOLIO WEIGHT |
|------------------------|------------------|
| Woolworths Ltd         | 12.0%            |
| CYBG Plc               | 5.4%             |
| Medibank Private Ltd   | 5.3%             |
| Sky Network Television | 5.1%             |
| Suncorp Group Ltd      | 4.7%             |

### TOP 3 GLOBAL SECURITIES AS AT 31 JANUARY 2017

| COMPANY              | PORTFOLIO WEIGHT |
|----------------------|------------------|
| Deutsche Boerse AG   | 5.7%             |
| Icon Plc             | 5.3%             |
| Bank of America Corp | 2.1%             |

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

| AS AT 31 JANUARY 2017       | AMOUNT  |
|-----------------------------|---------|
| NTA before tax <sup>2</sup> | \$1.104 |
| NTA after tax               | \$1.086 |

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 provisions for deferred tax on set-up costs and on unrealised gains and losses in the Company's investment portfolio.

## INSIGHTS

### LESSONS FROM 2016'S BEST & WORST PERFORMERS

In a Livewire exclusive, Vince Pezzullo Portfolio Manager at Perpetual Equity Investment Company (ASX: PIC) notes: "We are also conscious that we may be at – or very close to – the bottom of the global interest rate cycle, which has driven the growth and yield stocks to these extraordinarily high levels. We think this is yet to be fully reflected in the market." ([VIEW LINK](#))

### THREE STOCKS FOR A SHIFTING MARKET

Vince Pezzullo, Portfolio Manager at Perpetual Equity Investment Company (ASX: PIC) features in a Livewire Exclusive commenting on the trend that emerged last year, whereby growth stocks struggled and cyclicals rallied could continue through 2017. ([VIEW LINK](#))

## KEEPING YOU INFORMED

### HALF YEAR RESULTS TELECONFERENCE

The Board would like to extend an invitation to all shareholders and interested parties to register for our Half Year Results teleconference on Thursday 9<sup>th</sup> March at 10am (AEST). Geoff Lloyd, Perpetual CEO and Managing Director and the Company's Executive Director will join Vince Pezzullo, Portfolio Manager to present an update on the Company and the portfolio. To register for the event please [click here](#) or visit [www.perpetualequity.com.au](http://www.perpetualequity.com.au). Questions are welcomed and can be submitted upon registration or following the presentation. A copy of the presentation slides will be made available via the ASX on the 9<sup>th</sup> March and emailed to registered participants prior to the teleconference. Finally if you are unable to join us at this time the presentation slides and audio will be posted on our website.



## 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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