

# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

## SHAREHOLDER REPORT APRIL 2023

### Chairman's report

Dear Fellow Shareholders,

Thank you for your ongoing support of the Perpetual Equity Investment Company ('Company' or 'PIC').

On Tuesday 21 February 2023, the Company announced a strong half year 2023 result including a net operating profit after tax of \$34.5 million and investment portfolio performance of 9.9% for the six months to 31 December 2022.

The Board declared its highest interim dividend since inception in 2014. The fully franked interim dividend of 3.3 cents per share was an increase from the 1H22 interim dividend of 2.8 cents per share and consistent with the size of the 2H22 2.8 cents per share final dividend and the 0.5 cents per share special dividend. We considered the interim dividend to translate to an attractive annual cash dividend yield of 5.7% and a grossed up dividend yield of 8.1%<sup>1</sup>.

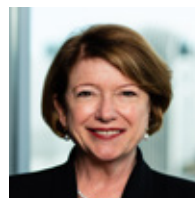
Since the half results have been announced, we have seen market volatility continue with various macroeconomic factors at play including high inflation, geopolitical tensions, rising interest rates and the rising cost of capital for companies. Banking problems in the US have also impacted markets more broadly. We are confident in the Manager's ability to navigate this challenging environment through its disciplined and active investment approach. We believe the Manager's quality and value focus will become more important than ever before given this ever changing environment.

With income being valued, we are focused on delivering an income stream to you over the long-term through our prudent management of the profit reserve and franking credit balance.

The Company's profit reserve is \$107.0 million after the payment of the interim dividend which equates to 4.3 years dividend coverage.<sup>2</sup>

The Board and the Manager remain focused on delivering excellent outcomes to shareholders, without losing sight of the investment philosophy and discipline that we believe underpin our success. We look forward to updating you in the future.

Yours sincerely,



*Nancy Fox*

**Nancy Fox AM**  
Chairman

<sup>1</sup> Yield is calculated based on the dividends announced in the prior 12 months, being a total of 6.6 cents per share and the closing share price of \$1.165 as at 31 December 2022. Grossed up yield takes into account franking credits at a tax rate of 30%. \*As at 28 February 2023

<sup>2</sup> Profit Reserve of \$107.0 million as at 31 December 2022 after taking into account the estimated payment of the interim dividend. This equates to 28.4 cents per share and represents 4.3 years dividend coverage based on a total dividend payment of 6.6 cents per share per annum. This does not take into account any changes to share capital in the future. No representation is made in relation to the payment of future dividends, which will be at the discretion of the Company's Board.

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# 1H23 Highlights

## Annual dividend yield

5.7%<sup>1</sup>

## Grossed-up dividend yield

8.1%<sup>1</sup>

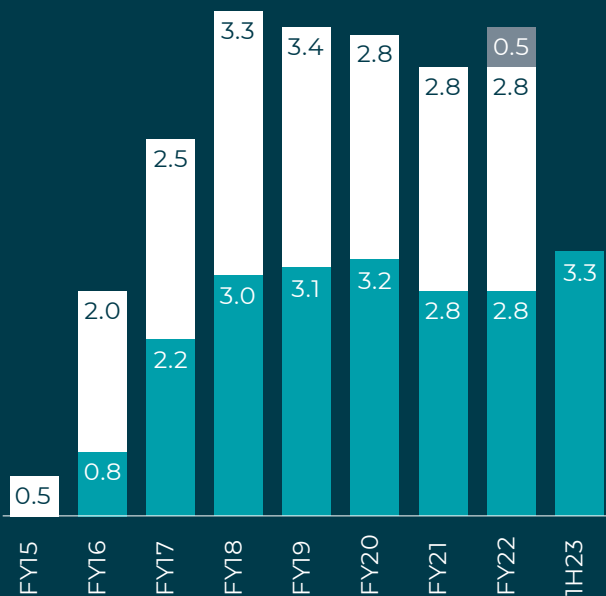
## Investment portfolio performance 6 months to 31 December 2022

9.9%<sup>2</sup>

## Profit reserve

28.4 cps<sup>3</sup>

## Dividend history (fully franked in cents per share)



■ Interim dividend ■ Final dividend ■ Special dividend

Source: Perpetual Equity Investment Company Limited (PIC) as at 31 December 2022.

<sup>1</sup> Yield is calculated based on the dividends announced in the prior 12 months, being a total of 6.6 cents per share and the closing share price of \$1.165 as at 31 December 2022. Grossed up yield takes into account franking credits at a tax rate of 30%.

<sup>2</sup> The benchmark is the S&P/ASX 300 Accumulation Index. Returns have been calculated on the growth of 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.

<sup>3</sup> Profit Reserve of \$107.0 million as at 31 December 2022 after taking into account the estimated payment of the interim dividend. This equates to 28.4 cents per share and represents 4.3 years dividend coverage based on a total dividend payment of 6.6 cents per share per annum. This does not take into account any changes to share capital in the future. No representation is made about the payment of future dividends, which will be at the discretion of the Company's Board.

# Portfolio update

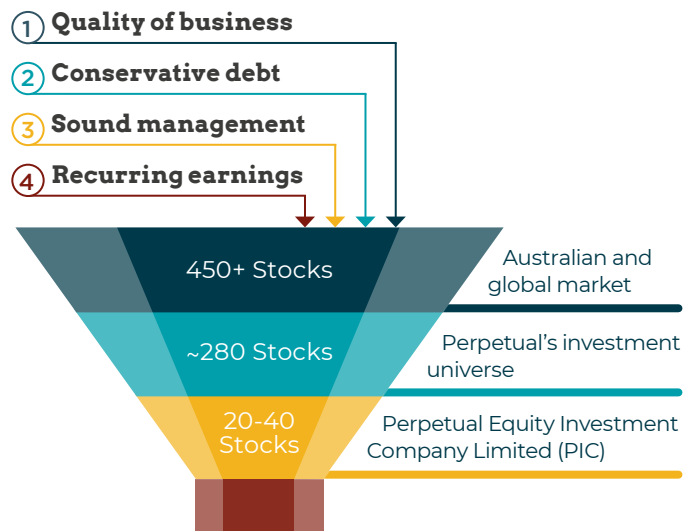
## Manager's views on the market

As economic conditions continue to evolve, markets are still challenged by the ongoing competing forces of rising inflation and economic slowdown. The central banks' aggressive attempt to rein in inflation expectations may cause unintended consequences in economies and markets.

With the prospect of a longer tightening cycle, there is an increasing risk of a bumpier landing for the Australian economy. Markets are now factoring in more potential interest rate rises, adding to the recessionary narrative.

The current environment is a reminder why we do have our quality filters – quality business, sound management, conservative debt and recurring earnings. The strength of a company's balance sheet indicates to us who will stand through tough conditions. Our investment process favours value-oriented, quality companies with good balance sheets that are trading at reasonable valuations, who should continue to do well in the current environment.

The following diagram illustrates Perpetual's Investment process and how we construct the PIC portfolio.



- Quality of business** – this test looks at the industry in which the company operates, its market share, barriers to entry, its products and their positioning and any ESG risks.
- Conservative debt** – involves strict balance sheet scrutiny.
- Sound management** – based on our assessment of the track record of the company's management.
- Recurring earnings** – we look for companies who have at least three-year track records, generating earnings and cash flows.

As economic conditions continue to evolve, cash in the portfolio has also increased to 12.9%\* which allows us to invest in either new positions or add to existing positions with attractive valuations, when opportunities arise. As uncertainty persists in markets, we believe now more than ever it is important to hold a high conviction portfolio full of quality companies while maximising on opportunities within the resources industry and seeking perspectives globally.

While inflation was a key theme of the recent reporting season, costs were materially higher with a tight job market and rising wages impacting on margins with cash flows quite ordinary.

Online betting and gaming provider Flutter Entertainment Plc has been a long-term position in the PIC portfolio and continues to be a positive contributor to absolute portfolio performance over the 12 months to 28 February 2023. The stock has recently benefitted from announcing that it will commence shareholder consultation on an optimal share listing structure based on the Board's view that an additional US listing will yield several long-term strategic and capital market benefits. This includes the group's profile in the US, better enabling the recruitment and retention of US talent, providing access to deeper capital markets and to new US domestic investors, providing greater overall liquidity, and optionality to pursue a primary US listing (one of the criteria for access to US indices).

Supply chain services provider Brambles contributed to portfolio performance over the 12 months to 28 February 2023. Brambles reported 1H23 underlying NPAT (from continuing operations) of \$334.5m (vs consensus \$321.9m), and an underlying EBIT of \$548.8m (vs consensus \$511.4m). Management guided full-year sales revenue (to June 2023) of 12% to 14% year-on-year (at constant currency) and an underlying EBIT growth of 15% to 18% year-on-year at constant currency. Free cash flow after dividends is expected to improve in FY22 but remain a net outflow with a dividend payout ratio of 45-60% of underlying profit after finance costs and tax.

Motor vehicle equipment, parts, and servicing supplier Bapcor Ltd reported a first-half revenue of \$1.0bn (up 11% from \$900.1m last year), pro-forma EBITDA of \$146.3m (up 7% vs year-ago \$137.2m) and declared a 0.5cps fully franked dividend. Pro-forma NPAT of \$62.0m also increased +2% from a year-ago. Operationally, Bapcor expects a solid underlying performance in FY2023 with slight increases in trading in the second half compared to the first half, subject to market conditions.

As economic conditions continue to evolve, PIC looks to allocate cash in quality businesses where strong demand will remain such as the resources & materials and banks & insurers industries.

Thank you for your continued support.

Yours, sincerely,



**Vince Pezzullo**  
PIC Portfolio Manager  
Head of Equities,  
Perpetual Asset Management Australia

\* As at 28 February 2023

### Portfolio top 10 holdings<sup>^</sup> as at 28 February 2023

Company	Portfolio weight
Westpac Banking Corporation	7.1%
Insurance Australia Group Ltd	6.3%
Flutter Entertainment Plc	5.9%
Brambles Limited	5.8%
Santos Limited	4.9%
Newcrest Mining Limited	3.9%
Iluka Resources Limited	3.8%
BHP Group Ltd	3.8%
Mirvac Group	3.6%
Bapcor Ltd	3.4%

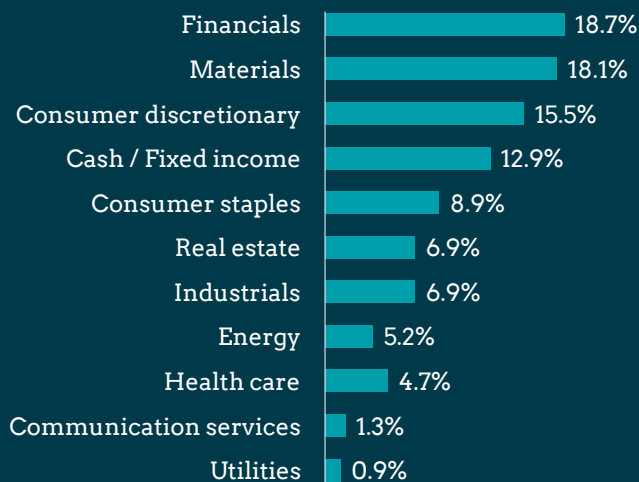
<sup>^</sup> All figures are unaudited and approximate. Allocations may not sum to 100% due to rounding. Weightings calculated based on direct investments in securities and any indirect exposure via S&P/ASX 200 related derivatives.

Source: Perpetual Investment Management Limited

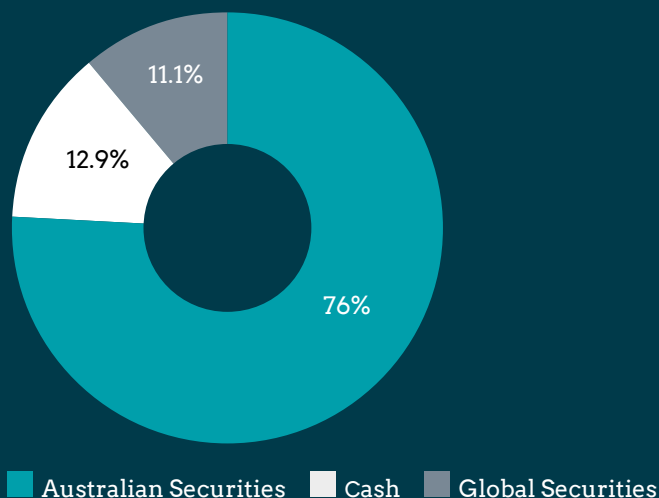
# Investment Performance

To view PIC's latest Monthly Update which includes updated investment portfolio performance and portfolio commentary, please [click here](#).

## Portfolio breakdown by sector<sup>^</sup>



## Allocation of investments<sup>^</sup>



<sup>^</sup> 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. Allocations may not sum to 100% due to rounding. As at 28 February 2023.

## More information

Visit our website [www.perpetualequity.com.au](http://www.perpetualequity.com.au) to subscribe for the monthly investment update as well as insights from the Manager, dividend history and educational resources.

If you have questions about your investment, contact Link Market Services on **+61 1800 421 712** or email [pic@linkmarketservices.com.au](mailto:pic@linkmarketservices.com.au).

## Contact us



Karen Trau  
Investor Relations  
+61 2 9229 3138  
[karen.trau@perpetual.com.au](mailto:karen.trau@perpetual.com.au)

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