PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

Half Year 2022 Shareholder Report

Chairman's report

Dear Fellow Shareholders,

It continues to be a challenging time for investment markets and our daily lives given geopolitics, the impact of recent floods in Queensland and New South Wales and the ongoing COVID-19 pandemic. In this environment, we are pleased the Company is delivering on its investment objective of providing income and delivering long-term capital growth in excess of the benchmark over minimum 5 year periods.

We have full confidence in the Manager and believe its high conviction, actively managed portfolio of diverse holdings across Australian and global equities makes PIC well positioned to ride out market volatility. Moreover, the Company's recent half year results in February 2022 delivered a net operating profit after tax of $21.8 million which contributed to a strong profit reserve of $108.4 million. This equates to 5.2 years of dividend coverage which we believe positions the Company well for future growth through our ability to deliver a sustainable income stream.

We would like to thank our shareholders for their ongoing support and continued confidence in both our effective management of capital and the Manager's proven ability to navigate various market cycles.

Shareholders are reminded that last year, the Company announced a one-for-one issue of bonus options which provides holders the opportunity to acquire a PIC ordinary share for $1.35 (exercise price) per option before the expiry date of 2 September 2022. The options are trading on the ASX under the ASX Code: PICOA.

The options provide shareholders with the opportunity to purchase additional shares and participate in the potential growth of the Company without incurring brokerage or transaction costs. Option holders that elect to exercise some or all of their PIC options before the ex-date of any final FY22 dividend declared will be entitled to that dividend.

For more information about the options, including how to exercise your options, please visit https://www.perpetualequity.com.au/shareholders/pic-options.

Yours sincerely,

Nancy Fox

Nancy Fox AM
Chairman

Perpetual

Key highlights

Fully franked interim dividend

2.8 cents per share

Total dividends paid since inception

35.2 cents per share

Annual dividend yield[1]

4.3%

Grossed up dividend yield[1]

6.2%

Profit reserve[2]

28.9 cps

Dividend coverage[2]

5.2 years

1 Yield is calculated based on total dividends of 5.6 cents per share and the closing share price of $1.30 as at 31 December 2021. Grossed up yield takes into account franking credits at a tax rate of 30%.

2 Profit Reserve of $108.4 million as at 31 December 2021, equating to 28.9 cents per share. This represents 5.2 years dividend coverage based on a total dividend payment of 5.6 cents per share per annum. This does not take into account the payment of the interim dividend, any changes to share capital or options exercised in the future.

Portfolio update

Our views on the market

The current market environment sees ongoing impacts of COVID-19, geopolitical tensions and extraordinary government measures in response to rising consumer price inflation. At this point in the market cycle, we find that growth stocks become richly overpriced and there is a return to favouring value stocks. Hence, we believe markets are poised for further rotation to a more value-oriented investment environment and quality companies with balance sheet strength, recurring earnings and sound management provide great opportunity to deliver sustainable, long-term returns.

While it has taken some time for the US Federal Reserve to acknowledge the scale and breadth of the rise in inflation, it is now finally girding itself for the fight to bring it back under control. Similarly, in Australia, the RBA has all but abandoned plans not to raise rates before 2024 and there are now several rate hikes pencilled in before Christmas 2022, an incredible turnaround in policy stance in just a few months!

Equity markets have been remarkably resilient in the face of the forecast rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. History shows that when the bond market and equity market disagree, the bond market is overwhelmingly correct.

We believe rising bond yields will eventually lead richly priced equities, including technology stocks, into a more sustained and overdue correction. As a result, global stocks with large technology exposures, will suffer more than Australian stocks, where the dominance of financials and resource stocks will provide a measure of protection for investors in a world of higher rates and commodity prices.

The stunning events in Ukraine also provide a reminder that many geopolitical risks, whilst often lurking in the background, can suddenly and dramatically intrude into global markets, leading to shocks likely to reverberate for some time.

How are we investing in this environment?

Our investment process favours quality companies with good balance sheets trading at reasonable valuations. We think the current environment continues to offer investors these opportunities.

Our view is that base metals, especially those exposed to events such as the electrification of cars, offer multi-year upside, protection against inflation and these factors have not yet been fully reflected in base metal prices. We think stocks with exposure to commodities such as copper, nickel, rare earths and cobalt provide good investment opportunities to generate returns. This investment thesis is reflected in the PIC portfolio in holdings in Jervois Global Limited (ASX: JRV), OZ Minerals Limited (ASX: OZL), BHP Group Limited (ASX: BHP) and Iluka Resources Limited (ASX: ILU).

We also like the energy sector, primarily expressed through a large position in Santos Limited (ASX: STO), as the impact of sanctions on Russia embed themselves in global supply chains. The merger between STO and Oil Search Limited late last year has created a company with strong and diversified cash flows that we feel the market is mispricing. A partial divestment in one or more of its assets in the near term could see STO rerate. The backdrop for oil prices remains positive as energy is historically one of the few bright spots for outperformance in a high-inflation environment.

Insurers, such as Insurance Australia Group Limited (ASX: IAG), continue at historic lows and we see much more value to come. IAG shares have halved from their July 2019 highs as weather events took their toll on profits. However, it would be a mistake to over-extrapolate these financial losses in adverse weather conditions, just as the market tends to over extrapolate the gains when the weather improves. IAG delivered a solid half year result for financial year 2022 in February, but we think there's a lot more potential upside as the stock continues to trade at the lower end of its historic range. Over the last couple of months, IAG has been trading between $4 and $4.50, which contrasts significantly to when it traded around $8 in 2019. We believe the company has turned around its business to deliver long term value and returns to shareholders.

We believe that markets are in for a long bout of volatility as the realities of ongoing geopolitical strife, higher inflation and policy uncertainty play out. Locally, an Australian election year may also impact policy making for businesses and economic spending. For that reason, we are currently seeing more opportunities in Australia than globally. We have trimmed our position in Flutter Entertainment Plc (LON: FLTR) considerably from the highs of 10.8% of the PIC portfolio in October 2020 to 4.7% of the PIC portfolio as at 28 February 2022.

We have taken significant profits in FLTR and still retain approximately half our position as we believe it offers long term value for investors. We view De'Longhi S.P.A (MIL: DLG) favourably, given its strong balance sheet and dominant market position where they have 35% of the European coffee machine market and premium pricing power. We see their penetration in the US as a significant growth opportunity over the medium to long term as the US market shifts away from filtered coffee towards barista-quality coffee beverages.

Cash in the portfolio has also increased to 7.6% allowing us to keep powder dry for when opportunities to take new positions arise or to add to existing positions at attractive valuations. The benefits of active management come to light as we have the flexibility to actively seek opportunities and adapt the portfolio to changing market conditions. Given the current uncertainty in global markets, we believe it remains important to hold a high conviction portfolio of diverse ideas to protect on the downside whilst maximising participation on the upside.

Thank you for your continued support and we look forward to updating you in the future.

Yours sincerely,

Vince Pezzullo
Deputy Head of Equities,
Perpetual Asset Management Australia

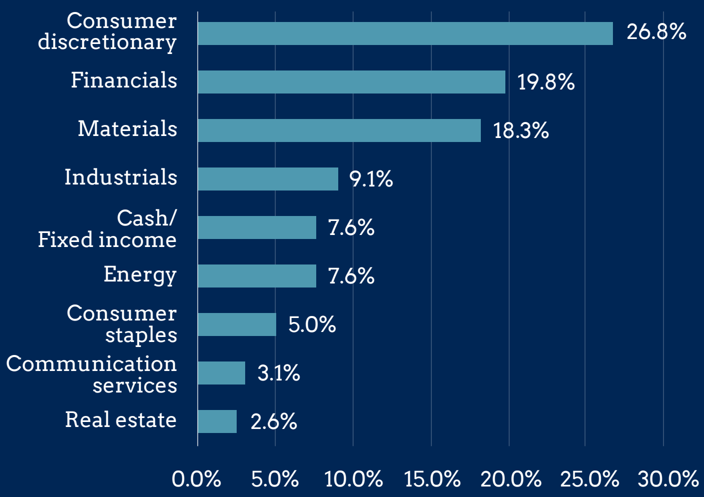
Portfolio Manager,
Perpetual Equity Investment Company Limited
(ASX: PIC)

PIC portfolio breakdown as at 28 February 2022

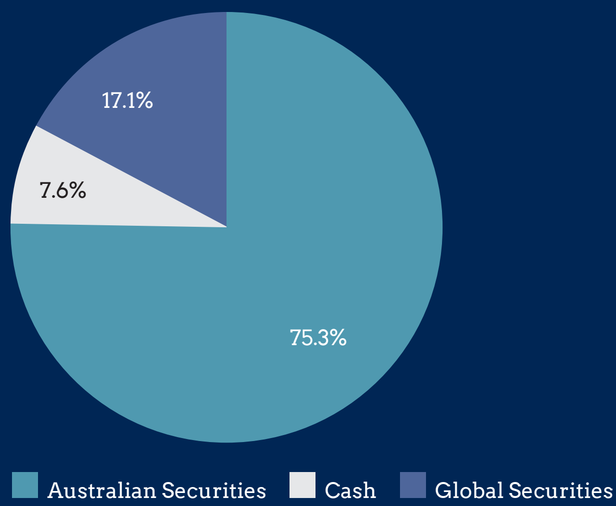
Investment performance

As at 28 February 2022	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	7 years p.a.	Since incep p.a.
PIC Investment Portfolio[3] Net of fees, expenses and before tax paid	1.5%	4.0%	0.5%	19.2%	23.6%	16.0%	12.6%	11.3%	11.2%
S&P/ASX 300 Accumulation Index	2.1%	-2.0%	-4.2%	10.2%	8.6%	8.7%	8.6%	6.9%	8.8%
Excess Returns	**-0.6%**	**6.0%**	**4.7%**	**8.9%**	**15.0%**	**7.3%**	**3.9%**	**4.3%**	**2.4%**

Portfolio breakdown by sector



Allocation of investments[4]



3 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.

4 All figures are unaudited and approximate. Allocations may not sum to 100% due to rounding.

Find out more information

Visit our website www.perpetualequity.com.au to subscribe for the monthly investment update as well as insights from the Manager, dividend history and educational resources.

Contact us

EMAIL: karen.trau@perpetual.com.au
Phone: +61 2 9229 3138

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