

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Perpetual Equity Investment Company Limited (ASX: PIC)

January 2017

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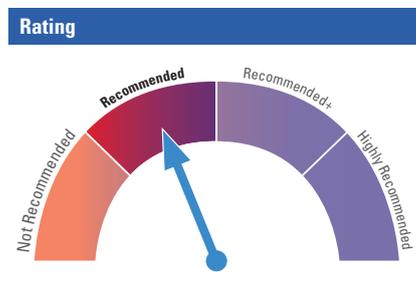
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- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
- 4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
- 5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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Note: This report is based on information provided by Perpetual Investment Management Limited



Key Investment Information	
ASX Code	PIC
Share Price (\$) at 23 January 2017	1.00
Market Cap (\$m)	252.7
Shares on Issue (m)	252.7
Shares Traded (\$m)	47.3
12-month L/H (\$)	0.915/1.00
Listing Date	December 2014
Fees:	
Management Fee (p.a) ex GST	1.00%*
Performance Fee	na

* The management fee of 1% of the portfolio NAV will be charged up to \$1b. A fee of 0.85% per annum will be charged for any amount in excess of \$1b.

Key Exposure	
Underlying Exposure	Long portfolio of Australian and global stocks.
FX Exposure	The Manager may invest in internationally listed securities and as such may have direct FX exposure. The Manager does not intend to hedge its currency exposure, however may hedge its exposure in the event of significant risk of currency weakness.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

1. PRODUCT SUMMARY

Perpetual Equity Investment Company Limited (ASX: PIC) is a listed investment company providing exposure to an actively managed concentrated portfolio primarily of ASX-listed stocks. The company can invest up to 25% of the portfolio in internationally listed stocks, providing the Investment Manager the ability to source value in other markets if it cannot be identified on the ASX. Perpetual Investment Management Limited has been appointed as the Investment Manager for an initial term of five years, with the appointment automatically extended for a further five years unless a termination clause is activated. The Manager will seek to outperform the S&P/ASX 300 Accumulation Index over a rolling five-year period. The portfolio will be actively managed and has the ability to have up to 25% of the portfolio in cash. The Investment Manager has a long only, bottom-up, high conviction, value investment strategy. The company will seek to pay dividends semi-annually, franked to the maximum extent possible. The Investment Manager will be paid an annual management fee of 1%, plus GST, up to \$1b NAV and 0.85% on the NAV in excess of \$1b. No performance fee is applicable.

2. INVESTOR SUITABILITY

INVESTOR SUITABILITY

Given the Investment Manager has a value approach to investing we would suggest an investment in PIC is suitable for a medium-to-long term investment timeframe. The portfolio will be concentrated with the Investment Manager taking high conviction positions in a small number of stocks. As such, investors should be comfortable with the investment style and stock picking abilities of the investment team. The portfolio may include stocks listed on international stock exchanges with up to 25% of the portfolio able to be invested internationally. The portfolio will have direct foreign currency exposure as a result, which will remain unhedged unless the Manager believes there is the risk of severe weakness in a currency. Investors should be comfortable with an element of exposure to foreign currency which may have a positive or negative impact on the value of the investment. The company intends to pay a semi-annual dividend meaning an investment in the company is suitable for those investors seeking a regular dividend stream.

3. RECOMMENDATION

Independent Investment Research (IIR) has assigned Perpetual Equity Investment Company Limited (ASX: PIC) a **Recommended** rating. The Portfolio Manager is solely responsible for the portfolio construction, although has a large team of 8 Australian Equity Analysts and 7 Global Equity Analysts that support the 7 Portfolio Managers at Perpetual Investment Management. Over its short history, the company has largely traded at a discount to pre-tax NTA with an average discount of 5.8%. The ability of the Board and Investment Manager to manage the discount is important and will be dependent on the performance of the portfolio, a steady and growing dividend stream and sufficient investor communications. We view the daily NTA announcements as an indication that the company values transparency and communication to investors. Since inception, the portfolio (pre-tax NTA plus dividends) has increased 13.2% to 30 November 2016, underperforming the benchmark index which has returned 14.6% over the period. The portfolio has only been fully invested for the last 12-months. Over this period, the portfolio has underperformed the benchmark index by 6.0%. The performance of the portfolio will be largely dependent on the stock picking abilities of the Investment Manager with very few investment limitations. In particular, the portfolio performance will be dependent on the Portfolio Manager, who has the ultimate responsibility for the portfolio construction. The Portfolio Manager's history using the investment strategy and process to be used for the PIC portfolio provides us with confidence that the Portfolio Manager has the ability to generate alpha for a concentrated portfolio over the longer-term. The compensation of the investment team is aligned with the performance of the stocks for which they are responsible for, aligning the interests of the Investment Manager with shareholders.

4. SWOT

STRENGTHS

- ◆ The company has a majority of independent directors on the Board, in line with ASX best practice guidelines.
- ◆ The company publishes the NTA on a daily basis and at the time of writing this report is the only LIC to do so.
- ◆ The company has a large investment team. While the Portfolio Manager is ultimately responsible for the investment decisions, the collective Perpetual Investments Management team has a collaborative approach across all investment mandates.
- ◆ Compensation of the investment team is partially based on performance, aligning the interests of shareholders with the Investment Manager.
- ◆ Mr. Pezzullo has been with the Investment Manager for 9 years and has managed two portfolios using the investment process which is used for managing the PIC portfolio. This included the Industrial Share Fund, which is the largest Perpetual fund at over \$5b FUM, and the Direct Equity Alpha strategy, a high conviction Australian equity model portfolio.
- ◆ The ability of the Investment Manager to invest in international markets allows the Manager to source investment opportunities in sectors where value cannot be found in the Australian market, which is heavily weighted towards the financials and materials sectors.

WEAKNESSES

- ◆ The company has a short performance history of two years and over this time the portfolio (pre-tax NTA plus dividends) has underperformed the benchmark index.
- ◆ There is insufficient performance history to determine whether the Investment Manager will be able to consistently achieve its objective of outperforming the S&P/ASX 300 Accumulation Index on a rolling five year basis.

OPPORTUNITIES

- ◆ PIC offers investors access to the investment strategy and process of Perpetual Investments, which manages over \$30b, through the benefit of a LIC structure.
- ◆ The company has largely traded at a discount to pre-tax NTA since listing. A discount provides investors the opportunity to invest in the company at a value less than the portfolio value. In the event the Board and the Manager can eradicate the discount, this will provide for capital gains in addition to the portfolio performance.

THREATS

- ◆ The Portfolio Manager has recently been promoted to the Deputy Head of Equities and taken on the responsibility of the Australian Share Fund and the Geared Australian Share Fund. The Australian Share Fund is one the largest investment mandates for Perpetual with \$3.125b FUM at 30 September 2016 and Mr. Pezzullo does not have the benefit of a Co-Portfolio Manager as he did with the Industrial Share Fund. As such, this may take some of the Portfolio Manager's attention away from the PIC portfolio.
- ◆ The Manager takes high conviction positions and as such the underperformance or weakness of an investment will have an adverse impact on the performance on the portfolio.
- ◆ The company has largely traded at a discount since listing in December 2014. The company may continue to do so meaning investors cannot exit the company at the value of the portfolio.
- ◆ Based on the current profit reserve and the shares on issue, the company can cover the current dividend for one year. The company will have to have generate consecutive periods of positive returns from the portfolio to grow the reserves and continue to payout consistent dividends. In the event the company decides to increase the dividend, this will likely deplete the profit reserve and put pressure on the ability of the company to maintain dividends. Dividend volatility will likely have a negative impact on the share price.

5. STRUCTURE

PRODUCT OVERVIEW

PIC listed in December 2014 after raising \$250.4m through the issue of 250.4m shares at \$1.00 per share. An equivalent number of options were issued and were listed under the code PICO. These options expired in June 2016, with the large majority of options lapsing without being exercised.

Perpetual Investment Management Limited (the Investment Manager) was appointed as the Investment Manager for the company. The Manager is part of the Perpetual Limited (ASX: PPT), which was established in 1886 and has been listed on the ASX since 1964. PPT is a diversified financial services group with three core businesses - Perpetual Investments, Perpetual Private and Perpetual Corporate Trust. PPT had a market cap of \$2.3b at 4 January 2017. Perpetual Investments is a funds management business with in excess of \$30b funds under management and offers 170 investment options.

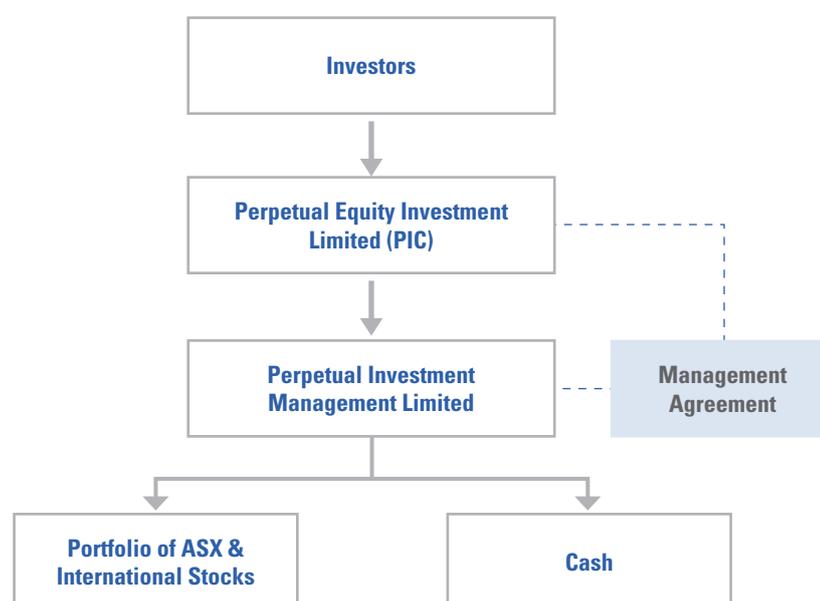
The Manager will primarily invest in Australian equities with up to 25% of the portfolio able to be invested in internationally listed securities. The ability to invest in international markets allows the Manager to find value in sectors that are overvalued in Australia. The portfolio will be actively managed, with the Manager able to hold up to 25% cash. The Manager may invest up to 10% of the portfolio in unlisted investments that are expected to list within a twelve month period. There are very few limitations with respect to the construction of the portfolio outside of the geographic allocations. These limitations are: (a) a single security can be a maximum of 15% of the portfolio value at any time. The company will be required to reduce its exposure to a security if it breaches this level; and (b) the company can own no more than 10% of any entity in which it is invested.

The Manager has a bottom-up, fundamental, long only approach to stock picking and is benchmark agnostic. The portfolio will have a mid-cap focus (ex top 20) and will be concentrated with the portfolio typically comprising 20 to 40 listed securities. While the portfolio is benchmark agnostic, the company will seek to outperform the S&P/ASX 300 Accumulation Index over a rolling five year period.

The company intends to pay a dividend on a semi-annual basis and will seek to frank dividends to the maximum extent possible. In FY16, PIC paid a full year dividend of 2.8 cents per share, fully franked. The company will seek to pay a consistent and growing dividend, however the dividend paid will be at the discretion of the Board.

The company will pay the Investment Manager an annual management fee of 1.0% (plus GST) of the portfolio's NAV up to \$1b and 0.85% of the portfolio's NAV in excess of \$1b. No performance fee will be charged.

INVESTMENT STRUCTURE



Product Leverage	
Used:	The company does not intend to use leverage in the portfolio, however, the company has the right to borrow up to 10% of the portfolio's NAV, at the Board's discretion. The company may use derivatives to adjust currency exposures, hedge selected investments, gain short-term exposure to the market and build positions in selected investments, however the company has stipulated that it will not use derivatives for gearing purposes.
Cost (incl. Fees):	na
Capital Protection	na
Tax	
Disclaimer:	<i>Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Independent Investment Research's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.</i>
Capital gains:	A capital gains tax (CGT) event will likely occur in the event the investor sells the shares on market for a higher price than it was purchased for. Investors will likely be eligible for the CGT discount if the shares are held for more than 12 months.
Dividends:	Dividends are expected to be paid semi-annually and will likely be on income account in the year earned.
Legal Structure	
Wrapper:	Listed Investment Company
Investment Manager.:	Perpetual Investment Management Limited
Capital vs. Income:	Returns will likely comprise a combination of both capital and income, the extent of which will depend on the composition of the portfolio. The company intends to pay dividends semi-annually, franked to the maximum extent possible.
Investor Leverage	
Available:	No
Risks	<i>The below is not a full list of all risks associated with the company but highlights what IIR considers to be the more significant risks associated with the fund. A detailed risk assessment can be obtained from the PDS.</i>
Foreign currency risk:	With up to 25% of the portfolio able to be invested in internationally listed securities, the portfolio will have direct exposure to foreign currency risk at times. The company does not intend to hedge the currency risk unless it is determined that there is significant risk of currency weakness. Currency exposure may have either a positive or negative impact on the value of an investment.
Concentration risk:	The portfolio is concentrated with the Manager typically holding between 20 and 40 securities. As such, significant weakness in a single investment may have a significant adverse impact on the performance of the portfolio.
Performance Risk:	The Manager seeks to outperform the S&P/ASX 300 Accumulation Index over a rolling five-year period. Given the investment strategy is index agnostic, the Manager may not achieve this objective on a consistent basis. Further to this, the portfolio will have a mid cap bias. In the event, this sector of the market underperforms the portfolio may underperform the market.

6. MANAGEMENT & CORPORATE GOVERNANCE

PIC BOARD OF DIRECTORS

There are five members of the Board of PIC, the majority of which are Independent. We view this as a positive as there is sufficient independent oversight of the Manager's activities. All Board members have a significant amount of experience in senior positions across the business, finance and wealth management industries.

There has been some turnover at the Board level with the company appointing the third Executive representative since listing in September 2016.

Board of Directors		
Name	Position	Experience
Peter Scott	Chairman and Non-Executive Director	Mr. Scott has more than 20 years business experience in senior positions. Mr. Scott was previously the CEO of MLC, an Executive General Manager of National Australia Bank and held a number of positions at Lend Lease. Mr. Scott is currently a director of Perpetual Limited and Transurban Limited and recently resigned as a director from Stockland Corporation Limited. Mr. Scott is was recently appointed as a member of the Senate of the University of Sydney and is an advisory board member of Igniting Change.
Virginia Malley	Non-Executive Director	Ms. Malley has 27 years experience in the investment and banking sectors. Ms. Malley's areas of expertise include regulatory compliance, financial and environmental markets and governance and risk management. Ms. Malley is currently a non-executive director of Perpetual Superannuation Limited, a member of a number of compliance committees at Perpetual, a member of the Sydney Airport Trust Compliance Committee, a director of the Nature Conservation Trust of NSW and a member of the Clean Energy Regulator. Ms. Malley was formerly the Chief Risk Officer and member of numerous Investment Committees at Macquarie Funds Management, where she oversaw the risk management of portfolios investing in clean technologies, listed equities, derivatives, currencies and private equity.
John Edstein	Non-Executive Director	Mr. Edstein has more than 35 years experience as a legal practitioner and was formerly a partner at the Tax and Superannuation Group of King & Wood Mallesons. Mr. Edstein is currently a director of Macquarie Investment Management Limited and Retail Employees Superannuation Pty Limited. Mr. Edstein is also the Independent Member of the Australian Defence Forces Financial Services Consumer Centre and is the part time Special Counsel for Carroll & O'Dea Lawyers.
Christine Feldmanis	Non-Executive Director	Ms. Feldmanis has more than 30 years experience in the finance sector in both the public and private sectors. Ms. Feldmanis has held senior executive positions with a number of companies including Deloitte, Elders Finance, Bankers Trust, NSW TCorp and Treasury Group. Ms. Feldmanis is currently a director and chair of the audit and risk committees of Delta Electricity and Netball NSW, and is a director of Uniting Financial Service, NSW Crown Holiday Parks Trust and Bell Asset Management Limited.
Geoff Lloyd	Executive Director	Mr. Lloyd was appointed to the Board in September 2016, replacing David Kiddie as the Executive Director. Mr. Lloyd is the CEO and Managing Director of Perpetual Limited. Mr. Lloyd was appointed to this role in February 2012. Prior to joining Perpetual Limited in 2010, Mr. Lloyd held a number of senior roles at BT Financial Group and St George's Wealth Management business. Mr. Lloyd is currently an Advisory Board member of The Big Issue and the Patron of the Financial Industry Community Aid Program. Mr. Lloyd is a patron of the Emerge Foundation and sits on the Law Advisory Board at the University of Technology Sydney.

INVESTMENT MANAGER - PERPETUAL INVESTMENT MANAGEMENT LIMITED

Perpetual Investment Management Limited has been appointed the Investment Manager for PIC and is the Investment Management arm of Perpetual Group Limited (ASX: PPT). The Manager is responsible for managing 170 investment options across all asset classes.

The Manager was appointed for an initial five year term. The Management Agreement will be automatically extended for a further five years unless terminated prior to this.

The Manager has a large investment team which comprises of 7 Portfolio Managers and 15 analysts that support the Portfolio Managers - 8 Australian equity analysts and 7 global equity analysts. We have tabled the PIC investment team below but note that Mr. Pezzullo has the ultimate responsibility for the PIC portfolio, responsible for the portfolio construction. However, investment decisions are based on the work done by the supporting analysts.

The below investment team members have been members of the investment team for an average of 4.5 years with two global equity analysts appointed in 2016. Mr. Pezzullo was promoted to Deputy Head of Equities in December 2016 in response to the resignation of Nathan Parkin. In addition to the below, the Head of Equities, Paul Skamvougeras, has been with the Investment Manager for 13 years and was appointed as the Head of Equities in 2015.

Over the past five years the investment has experienced high turnover with 10 departures over this period.

Investment Team			
Name	Position	Years Experience	Years as part of the investment team
Paul Skamvougeras	Head of Equities/Portfolio Manager	21	13
Vince Pezzullo	Deputy Head of Equities/Portfolio Manager	22	9
Jack Collopy	Portfolio Manager	17	15
Nathan Hughes	Portfolio Manager	12	6
Anthony Aboud	Portfolio Manager	17	4
Anthony Cay	Portfolio Manager	20	20
Garry Laurence	Portfolio Manager	13	8
Maryanne Drewe	Deputy Portfolio Manager	32	13
Alex Hurrell	Australian Equities Analyst	10	10
Joshua Hain	Australian Equities Analyst	9	7
Alex Patten	Australian Equities Analyst	2	4
Carly Turner	Australian Equities Analyst	11	4
Michael Croser	Australian Equities Analyst	11	1
Tariq Chotani	Australian Equities Analyst	13	1
Sean Roger	Australian Equities Analyst	4	>1
Andrew Blakely	Global Equities Analyst	24	8
Andrew Plummer	Global Equities Analyst	10	2
Rosemary Tan	Global Equities Analyst	12	6
Josh Phillips	Global Equities Analyst	4	4
Thomas Rice	Global Equities Analyst	14	2
Timothy Cheung	Global Equities Analyst	13	>1
Abbey Cook	Global Equities Analyst	11	>1

7. INVESTMENT PROCESS

INVESTMENT OBJECTIVE

The objective of PIC is to provide investors with a growing income stream and long-term capital growth in excess of the benchmark index (S&P/ASX 300 Accumulation Index) over a rolling five year period. The company seeks to achieve this objective through an investment in Australian and internationally listed securities.

INVESTMENT PROCESS

The Investment Manager is a value investor with a fundamental, bottom-up investment philosophy. The Investment Manager seeks to invest in what it determines to be high quality securities at attractive prices.

The Investment Manager implements the investment process that is used for the management of all of its investment mandates. This process involves a focus on quality and value. The process involves four steps: (1) Filter companies based on the quality criteria to determine the investment universe; (2) Company valuation; (3) Rank the stocks that have been valued; (4) Portfolio construction.

The Investment Manager undertakes a substantial number of company visits throughout the year as part of its process of company due diligence.

1) Quality Filter

The first step in the investment process is to apply the quality filters to the potential investment universe. Companies must pass this criteria to be considered for the portfolio.

The four quality criteria that companies must adhere to include:

- ◆ **Sound Management:** the Manager is looking for management with a history of sensible investment, a clear focus on maximising shareholder value and strong governance practices. The Manager seeks to determine that the management is disciplined, delivers on promises and is overseen by an effective and ethical board or governing body. The Manager will also assess new management teams in established businesses to determine if they are able to improve shareholder returns.

- ◆ **Conservative Debt Levels:** The Manager will typically seek to invest in companies that have a debt to equity ratio of less than 50% and/or an EBIT interest cover of at least 3x.
- ◆ **Quality of the Business:** The Manager looks at the markets in which the company operates as well as the position of the company in the market. Social and environmental impacts are considered that may affect the future share price of a company. The Manager is looking for companies that have a good and sustainable market share, and a business that generates positive cashflow and has the ability to provide a good return on capital.
- ◆ **Recurring Earnings:** The Manager looks for companies that have a three year track record of generating positive and growing earnings, or have a demonstrated ability to provide visible earnings in the future.

Those stocks that pass the quality filter determine the investment universe.

2) Company Valuation

For those companies in the investment universe, the Manager will value the company. The Manager tends to favour a discounted cash flow valuation methodology, however the analysts in the investment team have the flexibility to choose the valuation approach that they deem appropriate for a company.

3) Company Ranking

Based on the valuations completed for the investment universe, companies are ranked from 1 to 5. The ranking ultimately drives the construction of the portfolio.

The ranking reflects the expected level of outperformance by the analyst and the conviction associated with the security. The rankings are as follows:

- 1 - Strong Overweight: the analyst expects substantial outperformance by the company.
- 2 - Overweight: the analyst expects strong outperformance by the company.
- 4 - Underweight: the analyst expects the company to underperform due to the company being overvalued.
- 5 - Sell: changes associated with a company and the market it operates in has resulted in the company failing the quality filter or the company is substantially overpriced.

Companies and their rankings are reviewed on a regular basis.

4) Portfolio Construction

The portfolio is constructed based on the assigned company rankings in conjunction with the investment requirements of the portfolio.

The Portfolio Manager is responsible for the construction of the portfolio, with investments based on the analysts recommendations. The weighting of a stock in the portfolio is determined primarily by the perceived risk-adjusted returns. The Portfolio Manager will consider the current price of a company and the expected upside, while also considering the downside risk. While there are no sector limitations, the Portfolio Manager will also take into consideration the concentration of the portfolio to any single sector.

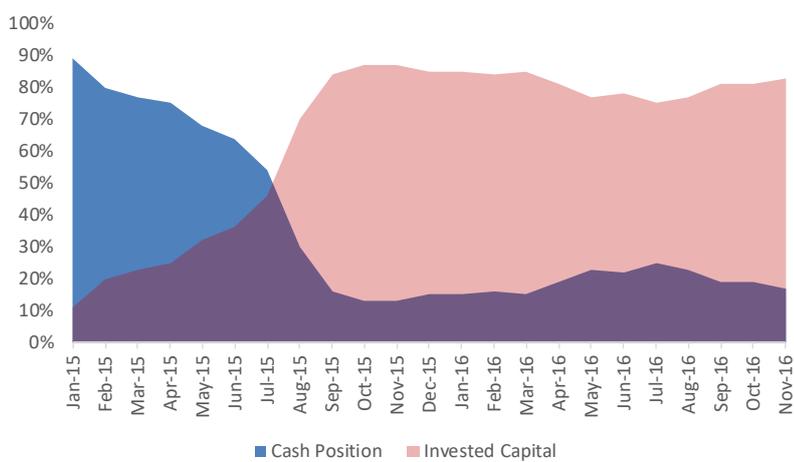
8. PORTFOLIO

- ◆ At 30 November 2016, PIC had 24 stocks in the portfolio. The largest holding was Woolworths Limited (ASX: WOW), which accounted for 11.6% of the portfolio. The WOW position has been accumulated since the initial investment in September 2015, at which point it accounted for 8.5% of the portfolio. Since the initial investment WOW's share price has declined over 6.0%, however the Manager has continued to acquire shares as the share price has declined, as the Manager believes the company is trading at attractive multiples and has a positive view on the ability of the new management team to successfully deliver structural reforms across the business.
- ◆ The portfolio is concentrated with the top five holdings equating to 36.6% of the portfolio. As shown by the below holdings, the Manager takes high conviction positions in stocks it identifies as attractive.

Top Five Holdings as at 30 November 2016		
Company	Code	Portfolio Weighting
Woolworths Limited	ASX: WOW	11.6%
Suncorp Group	ASX: SUN	7.4%
Sky Network Television Limited	ASX: SKT	6.5%
Icon Plc	US: ICLR	5.8%
Deutsche Boerse AG	ETR: DB1	5.3%
Total		36.6%

- ◆ The Manager took 8 months from the IPO to invest the cash raised below the 25% cash position limitation, as shown in the below graphic. As at 30 November 2016, the portfolio had 17% in cash with the remaining 83% invested in ASX-listed and global securities.

Historical Cash Position



- ◆ The portfolio is actively managed and as such may have periods of high turnover. Over the two years since being listed, the portfolio has had a turnover rate of 37%. The investment term for a security will differ depending on how quickly the security reaches a point where the Manager views the security to be fully valued or the view on a company changes.
- ◆ The portfolio is expected to have a mid-cap focus (securities outside the ASX top 20). The company does not publish the full extent of its holdings on a regular basis, only publishing all holdings in the Annual Report. As at 30 June 2016, the portfolio had three securities within the ASX 20 which accounted for 13.7% of the portfolio at that time, suggesting that the mid-cap focus is being adhered to.

9. PERFORMANCE ANALYTICS

SUMMARY OF ANALYTICAL RESULTS

The company was listed in December 2014 and as such only has two years of performance history. The Manager took 8 months to invest the majority of the capital raised and therefore the first 8 months of performance is distorted by the reduced exposure to the market. As such we have focused on the performance of the portfolio over the 12-months to 30 November 2016. The key findings include:

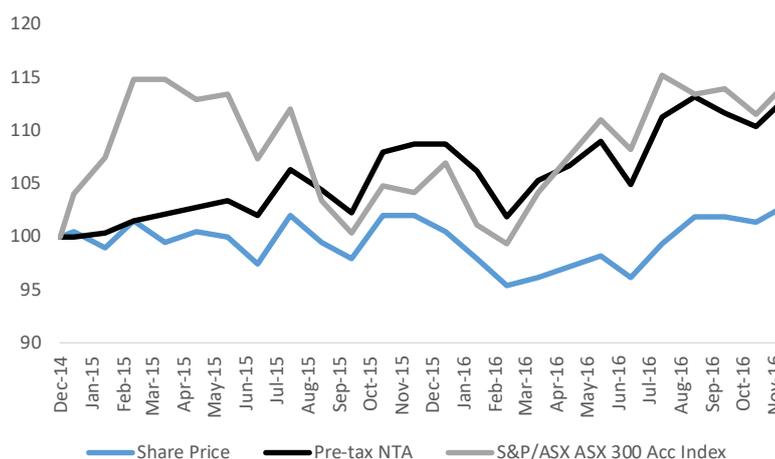
- ◆ Since listing to 30 November 2016, the portfolio (pre-tax NTA plus dividends) has increased 13.2%. This compares to the benchmark index (S&P/ASX 300 Accumulation Index) return of 14.6% over the period. While the NTA has increased, the share price has not followed suit with the share price (including dividends) only increasing 3.0% over the period.
- ◆ The company has typically traded at a discount to pre-tax NTA since being listed, with the company trading at an average discount of 5.8% to 30 November 2016.

- ◆ The company has a relatively short performance history. As such, we have looked at the other funds managed by the Portfolio Manager, of which there are two: (1) the Perpetual Industrial Share Fund; and (2) the Perpetual Direct Equity Alpha strategy. The Industrial Share Fund has performed in line with the benchmark index since Mr. Pezzullo was appointed as Co-Portfolio Manager, however the Fund has not achieved its objective of outperforming the benchmark index over a rolling three-year period on a consistent basis. The Direct Equity Alpha strategy has performed exceptionally well under Mr. Pezzullo's guidance. Given this strategy is a high conviction Australian equity strategy, this provides us with comfort around Mr. Pezzullo's stock picking abilities using the investment process employed for the PIC portfolio.
- ◆ Compared to its peers, PIC's portfolio (pre-tax NTA plus dividends) has performed around the middle of the pack since inception to 30 November 2016. From a fee perspective, the annual management fee is above the average for the peer group, however there is no performance fee paid to the Investment Manager, with an average performance fee of 12.5% for the peer group.

PERFORMANCE HISTORY

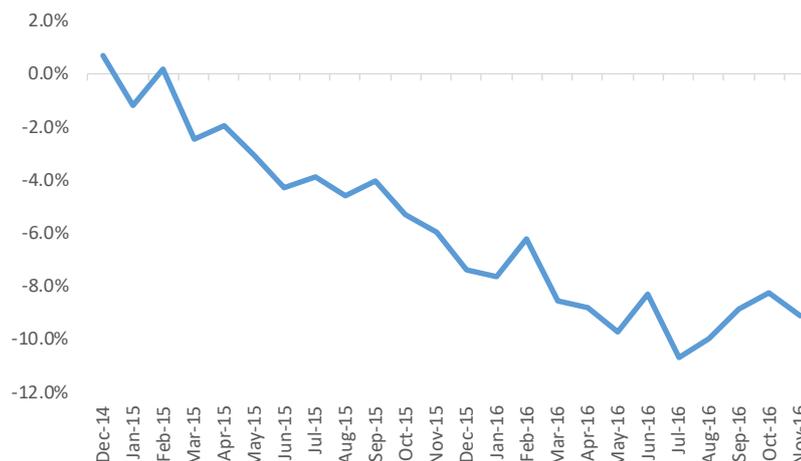
- ◆ Since listing to 30 November 2016, the portfolio (pre-tax NTA plus dividends) has increased 13.2%, underperforming the benchmark index (S&P/ASX 300 Accumulation Index) which returned 14.6% over the period. We note that the performance figures are distorted given the Manager was deploying the capital raised at the IPO. Over the 12-months to 30 November 2016, the portfolio rose 4.1%, underperforming the benchmark index by 6.0%, which increased 10.1%. While the portfolio has underperformed the benchmark index it has done so with lower volatility. The portfolio has experienced volatility of 9.0% since listing compared to the benchmark index volatility of 13.5%.
- ◆ While the portfolio has increased since inception, the share price has not followed suit, with the share price (including dividends) only increased 1.4% from inception to 31 October 2016. We attribute the lack luster share price performance partially to the fact that the company is newly listed and partially due to the fact the 1 for 1 options that were issued with shares for the IPO. These options expired in June 2016 and would have had a substantial dilutionary effect if they were to be exercised, weighing on the share price.

Pre-tax NTA & Share Price Performance (Including Dividends)



- ◆ Since the end of the first month of listing (December 2014), the company has typically traded at a discount to pre-tax NTA, with PIC having an average discount of 5.8% to 30 November 2016.
- ◆ The company does not have any capital management policies in place at this stage, however this may change in the event the company trades at a significant discount for any period of time.

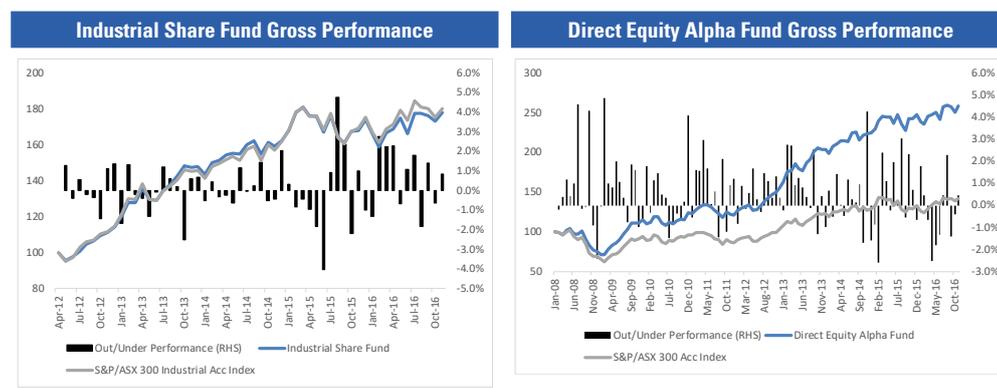
PIC Premium/Discount



Source: PIC/IRESS

PERFORMANCE OF FUNDS MANAGED BY VINCE PEZZULLO

- ◆ The Portfolio Manager of PIC is Vince Pezzullo. Mr. Pezzullo joined Perpetual Investments in July 2007 and is the Portfolio Manager for the Direct Equity Alpha strategy and until being promoted in December 2016 to the Deputy Head of Equities was the Co-Portfolio Manager of the Industrial Share Fund, the largest Perpetual fund with \$5.713b FUM at 30 September 2016. Mr. Pezzullo was appointed as the Portfolio Manager of the Direct Equity Alpha Fund in January 2008 and as the Co-Portfolio Manager of the Industrial Share Fund in April 2012.
- ◆ The same investment process is applied to all equity investment mandates at Perpetual Investments and as such the performance of the portfolio's while Mr. Pezzullo was responsible for picking stocks provides a good indication of Mr. Pezzullo's ability to generate alpha using the investment process.
- ◆ The Direct Equity Alpha Strategy seeks to provide a highly concentrated portfolio, typically between 10 and 15 securities, of ASX-listed shares. The Industrial Share Fund invests in a portfolio of ASX-listed Industrial shares and seeks to outperform the S&P/ASX 300 Industrials Index over rolling three year periods, before fees.
- ◆ Since Mr. Pezzullo was appointed the Portfolio Manager for the Direct Equity Alpha Fund, the Fund has outperformed the benchmark index (S&P/ASX 300 Accumulation Index), generating 11.4% p.a compared to the benchmark index return of 4.1% p.a. The Industrial Share Fund has performed in line with the benchmark index (S&P/ASX 300 Industrial Accumulation Index) since Mr. Pezzullo was appointed Co-Portfolio Manager. Since his appointment, the Fund has not achieved its objective of outperforming the benchmark index over rolling three-year periods to 30 November 2016 on a consistent basis, with the Fund only outperforming the benchmark index over a rolling three-year period in 55% of months.



Source: Perpetual Investments

Gross Returns				
	Industrial Share Fund	S&P/ASX 300 Industrial Acc Index	Direct Equity Alpha Fund	S&P/ASX 300 Acc Index
1 Year	5.9%	6.3%	6.5%	10.1%
3 Year	6.4%	7.5%	8.3%	5.4%
5 Year	na	na	16.3%	10.4%
Since Inception	13.4%	13.7%	11.4%	4.1%
Average Rolling Annual Returns	13.7%	14.0%	14.6%	6.7%

PEER COMPARISON

- ◆ We have compared the performance and structural elements of PIC to a group of peers, however we reiterate that the performance figures from inception are distorted given the lack of exposure to the market over the first 12-months.
- ◆ The peer group all invest in ASX-listed stocks. We view peers that invest in ASX-listed stocks are the most appropriate comparison given PIC invests primarily in domestic listed stocks.
- ◆ Compared to the peer group, PIC has an above average annual management fee however does not charge a performance fee in line with two other LICs in the peer group. We view the lack of a performance fee as a positive for investors given the alignment of interest is strong through compensation arrangements.

Peer Comparison					
LIC Name	ASX Code	Investment Universe	Management Fee (%p.a)	Performance Fee (%)	Performance Fee Hurdle
Amcil Limited	AMH	All cap	0.67%	na	na
Barrack St Investments Limited	BST	Ex top 50 stocks	1.0%	20.0%	Returns above 8.0% p.a
CBG Capital Limited	CBC	All cap	1.0%	20.0%	S&P/ASX 200 Acc Index
Contango Income Generator Limited	CIE	Ex top 30 stocks	0.95%	na	na
Flagship Investments Limited	FSI	All cap	0.0%	15.0%	UBS Bank Bill Index
WAM Capital Limited	WAM	All Cap	1.0%	20.0%	ASX All Ordinaries Acc Index
Average			0.77%	12.5%	
Perpetual Equity Investment Company Limited	PIC	All cap with mid cap focus	1.0%	na	na

- ◆ From a performance perspective, PIC's portfolio has been in the middle of the pack over both the 23 month and 12 month period to 30 November 2016. We note that the company is still in its infancy with only two years of performance history.
- ◆ The company, like all but one LIC, has traded at a discount on average over the two years to 30 November 2016. FSI and BST have traded at the greatest discount to pre-tax NTA over the two-year period with an average discount of 17.7% and 16.5%, respectively.

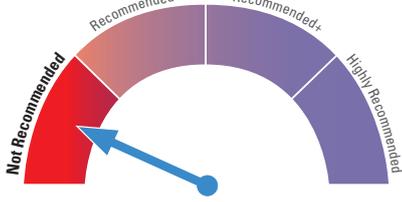
Portfolio (Pre-tax NTA plus Dividends) Performance - 31 December 2014 to 30 November 2016					
LIC Name	ASX Code	1 Year (%)	23 Months (%)	Dividend Yield (%)*	Average Premium/ (Discount) to Pre-tax NTA (%)
Amcil Limited	AMH	2.6	13.5	3.72	(1.5)
Barrack St Investments Limited	BST	-8.5	11.8	2.72	(16.8)
CBG Capital Limited	CBC	-5.3	0.7	3.48	(7.0)
Contango Income Generator Limited	CIE	3.0	na	6.84	(3.2)
Flagship Investments Limited	FSI	4.0	12.2	4.48	(18.0)
WAM Capital Limited	WAM	11.4	29.3	6.02	10.9
Perpetual Equity Investment Company Limited	PIC	4.1	13.1	2.80	(5.8)

*As at 4 January 2017.

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

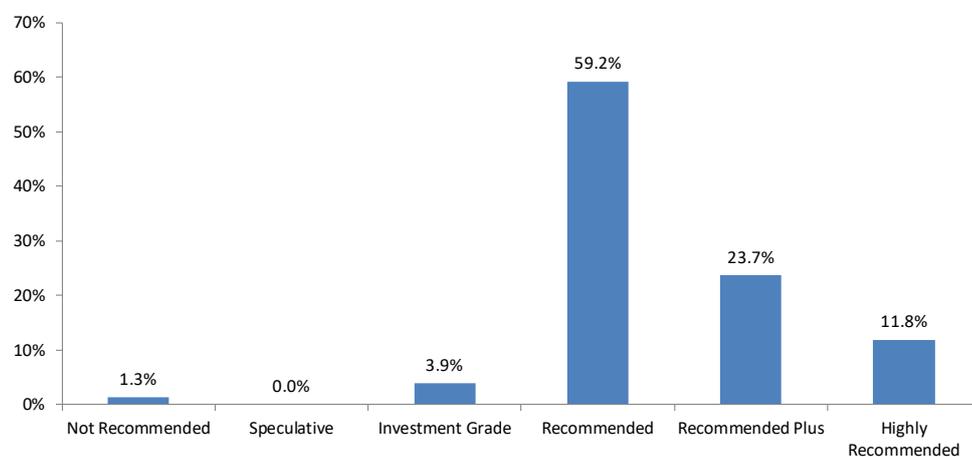
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>60–78</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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