

INVESTMENT UPDATE AND NTA REPORT

November 2019

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 30 NOVEMBER 2019	AMOUNT
NTA after tax	\$1.118
NTA before tax	\$1.134

Daily NTA is available at www.perpetualequity.com.au

All figures are unaudited and approximate.

The before and after tax numbers relate to provisions for deferred tax on unrealised gains and losses of the Company's investment portfolio.

NTA figures are calculated as at the end of day on the last business day of the month.

KEY ASX INFORMATION

AS AT 30 NOVEMBER 2019

ASX Code:	PIC
Listing Date:	18 December 2014
Market Capitalisation:	\$360 million
Share Price:	\$1.04
Shares on Issue:	346,631,433

INVESTMENT PERFORMANCE

AS AT 30 NOVEMBER 2019	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	3 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio Net of fees, expenses and before tax paid	3.8%	5.9%	7.5%	16.0%	6.2%	9.7%	8.8%
S&P/ASX 300 Acc Index	3.2%	4.8%	9.3%	26.0%	11.7%	12.7%	10.5%
Excess Returns	0.6%	1.2%	-1.8%	-10.0%	-5.4%	-3.0%	-1.7%

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.

TOP SECURITIES

TOP 5 AUSTRALIAN LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Commonwealth Bank of Australia	5.7%
Crown Resorts Limited	5.5%
Iluka Resources Limited	4.5%
Suncorp Group Limited	3.9%
Unibail-Rodamco-Westfield SE Stapled	3.7%

TOP 3 GLOBAL LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Flutter Entertainment Plc	5.4%
Lloyds Banking Group plc	3.5%
Ferguson Plc	3.3%

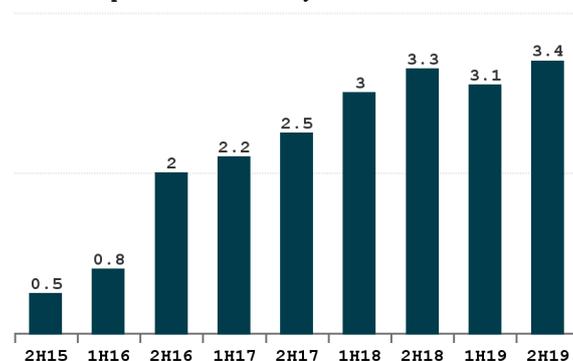
Portfolio weight based on direct investments in securities and does not include any derivative exposure

DIVIDEND PER SHARE, CPS

Final dividend for FY19: 3.4 cents per share

Annual dividend yield: 6.3%

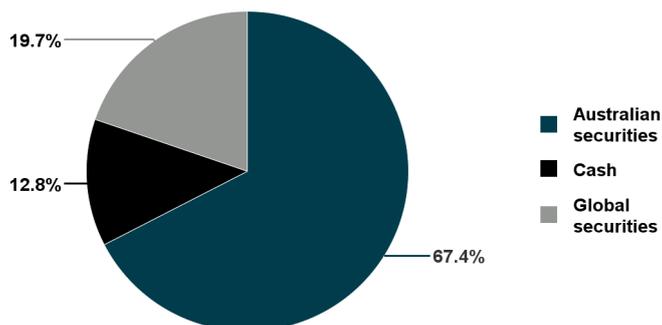
Grossed up annual dividend yield: 8.8%



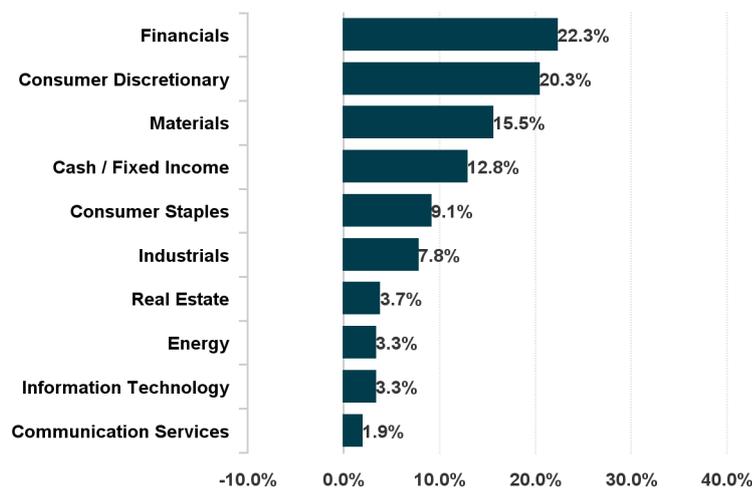
Yield is calculated using the 30 November 2019 share price of \$1.04. Grossed up yield takes into account franking credits at a tax rate of 30% for the final dividend 2H19 and 27.5% for the interim dividend 1H19.

ALLOCATION OF INVESTMENTS[^]

87.2% of capital invested in securities



PORTFOLIO SECTORS[^]



[^]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.

PORTFOLIO COMMENTARY

Top contributors to absolute performance this month were PIC's holdings in Flutter Entertainment Plc (FLTR:LON), Amcor Ltd (AMC:ASX) and Fletcher Building (FBU:ASX). The largest detractors to absolute performance were Ausnutria Dairy Corp Ltd (1717:HK) and Medibank Private Ltd (MPL:ASX).

In November, PIC Portfolio Manager Vince Pezzullo and Equities Analyst Nicholas Vidale conducted a research visit to the UK, visiting companies across multiple sectors including banking, wealth management, construction and renewable energy. The visit highlighted several investment opportunities and provided an excellent source of information on the state of the UK economy and the likely impact of the election outcome. Vince and Nicholas share their observations below.

We spent five jam packed days in the UK, visiting over 25 companies across 6 sectors. Our key observations include:

- Numerous quality businesses in the UK have been sold down and trade at attractive discounts to both their own historic valuations and compared to their Australian peers (many who have similar business models). There is a clear value opportunity in the market.
- Discounts to valuations are partly due to uncertainty around the future in relation to Brexit in general and the election. Whilst the impact of the election results is uncertain at this stage, we note that much of the worst-case scenario is already priced into stock prices.
- Going into the election, both sides of politics were promising large fiscal spending programs after nearly a decade of austerity. Our findings in the UK are that this spending is warranted, especially in the regions like the north which have suffered badly from austerity, and would help to boost GDP.
- The private sector is sitting on a lot of cash. In particular, we found small and medium enterprises (SMEs) have large cash reserves and are waiting to deploy them once the political environment stabilises. Again, this bodes well for economic growth.

All of this left us with the view that the UK, which already has low unemployment (around 3.8%) and steady growth, is likely poised for a rebound once the election impact is known. However, this rebound is not priced into equities.

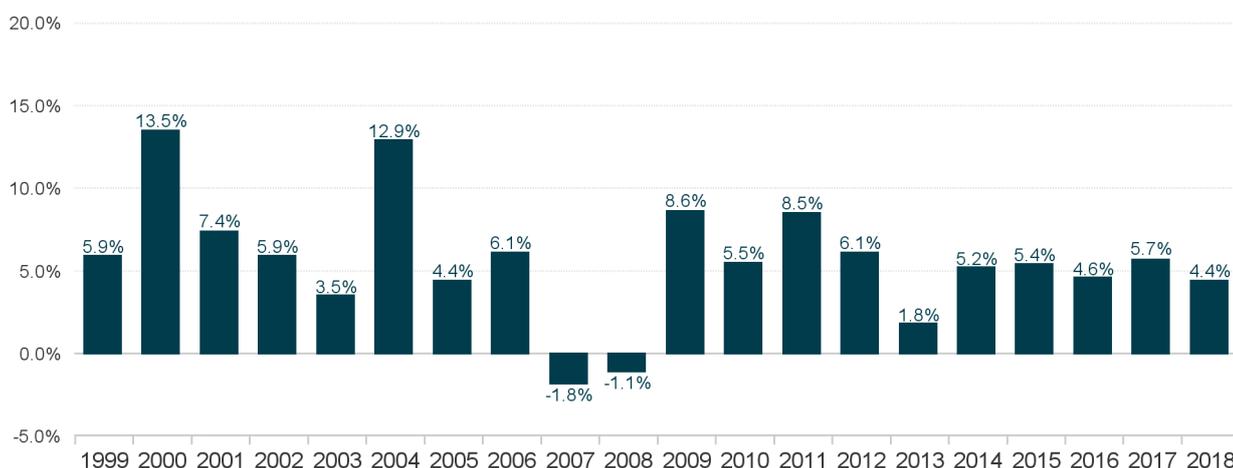
Based on the findings from our trip, some stocks we think represent excellent value and are most likely to benefit from the trends above include:

- Lloyds Banking Group (LLOY:LON): The well-known financial services business has survived centuries and trades at just 8.5x earnings - approximately half the multiple of Commonwealth Bank. Lloyds is one of the big four banks in the UK and is the largest UK mortgage player with 19% market share. They are very tactical in writing new mortgage business, have a solid focus on the SME market and strong free cash flow yield. As at 30 November 2019, LLOY represents 3.5% of the PIC portfolio.
- Close Brothers (CBG:LON): Another high quality "stalwart" financial services business which has seen multiple cycles but has de-rated alongside other UK financials. Close Brothers has the lowest leverage in the sector and a growing asset management and securities business which is likely to offset yield pressure elsewhere in the business. CBG represents 2.4% of the PIC portfolio as at 30 November 2019.

Using the insights gained on the trip to the UK, the Manager has continued to increase the portfolio allocation to global securities during the month to 19.7% (up from 12.5% in October). Another new addition to the PIC portfolio is La Francaise Des Jeux Saem (FDJ:PAR) which represents 2.2% of the PIC portfolio as at 30 November 2019.

The Manager recently participated in the Initial Public Offering (IPO) of FDJ, a French Listed lottery and sports betting operator that has, up until the IPO, been owned and operated by the French Government. FDJ holds a highly attractive 25-year monopoly license to operate the French lotteries and has a 45% market share in the French sports-betting market including the exclusive license to operate off-line sports-betting (also 25 years). Whilst sports-betting is a high growth division for FDJ, 85% of group earnings are derived from the lotteries business which is core to our investment thesis. Analysis of FDJ's lotteries business, shows a similar profile to Tabcorp's (TAH:ASX) with consistent growth in total ticket sales over a long period of time translating to earnings growth and strong cash flow conversion which the Manager expects to continue moving forward.

FDJ STAKES YEAR ON YEAR GROWTH



Source: FDJ Prospectus 2019

One of the major attractions of FDJ is the potential for earnings growth if the business can increase its digital penetration in lotteries. Sales through the digital channel are at a higher margin for a lottery operator when compared to sales through the retail channel where the operator is required to pay an agent a commission on the sale. Further to this, due to the requirement for online players to register with the lottery operator, the operators can get closer to the customer and better understand customer behaviour and purchasing patterns which can improve marketing efficiency. Based on the Manager's estimates, FDJ's online sales accounted for only 2-3% of total sales in FY19. This compares to global peers who index at materially higher levels, as per below.

- Tabcorp – 26%
- Sisal (Italian lottery) – 10%
- Camelot (UK lottery) – 24%
- Norsk Tipping (Norway lottery) – 53%

In preparation for a strategic push to increase the digital penetration, FDJ has invested €250m over 2015-2020 in upgrading its proprietary technology stack and launching new apps and websites. The Manager believes this investment, the structural shift in consumer behaviour to online and the strategic focus of the management team will result in improved digital penetration, margin expansion and earnings growth over time.

On listing, FDJ was priced at an attractive 19.5x FY19 Price to Earnings Multiple (P/E) and a 4.1% dividend yield with a net cash balance sheet. The Manager believes the business is undervalued at this price given the infrastructure like qualities of the asset and the upside opportunity from improving digital penetration.

COMPANY NEWS

The Company would like to thank all shareholders for their support during 2019 and wish you a safe and prosperous 2020.

KEY DATES 2020

The Company's indicative key dates for 2020 are now available on the PIC [website](#). The Company's half year results for financial year 2020, including any dividend announcement, will be announced on 17 February 2020.

SHAREHOLDER COMMUNICATIONS

The Company website hosts a range of information aimed at keeping shareholders and other interested parties up to date with the latest Company news. Via the website, you can also update your communication preferences to receive various Company alerts via email at <https://www.perpetualequity.com.au/tools-and-resources/email-alerts>. We encourage to ensure your communication preferences are up to date so that you have access to all the information you need.

REMINDER: TAX CERTIFICATION COMPLETION

Under the Australian Government's participation in Automatic Exchange of Information (AEOI) regimes, PIC is required to collect FATCA/CRS certification information and an investor's tax residency from shareholders. The information in certain circumstances may be reported to the Australian Taxation Office (ATO) which in turn reports to various global tax authorities.

Please check that you have completed your FATCA/CRS certification by logging into the Link investor portal [here](#).

From there, under the Payments & Tax tab you will find 'FATCA/CRS', where you can fill in the Self Certification. Completing this information online is straightforward as the questions will guide you, and in some instances, it is only a couple of steps.

If you do not certify, PIC may be required to provide information about your account to the ATO. For more information on the self-certification process via Link please [click here](#). For further information on FATCA and CRS, please visit [here](#).

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, 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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