

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## Perpetual Equity Investment Company Limited (PIC)

Listed Managed Investments

March 2017 Quarterly Review

## WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

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## Rating



## LMI Type

Listed investment company

## Investment Area

Australia and International

## Investment Assets

Listed companies and other

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) as at 1 June 2017	1.02
Market cap (\$M)	258.4
Shares on issue (M)	253.4
Options on issue (M)	0.0
Shares traded (\$M p.a)	63.5
12-month L/H (\$)	0.92/1.05
Listing date	December 2014

## Fees

Management Fee (%)	1.00
Performance incentives (%)	na

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

## Premium/Discount to Pre-tax NTA

31 March 2017	-7.1%
Average since inception	-6.0%

## Dividend Yield

	%
FY14	na
FY15	0.0
FY16	1.4

## Largest Shareholders

	%
Navigator Australia Limited	5.1
Nulis Nominess (Australia) Limited	2.9

As at 31 March 2017

## COMPANY OVERVIEW

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 also 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.

## INVESTMENT OBJECTIVE

The objective 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.

## STYLE AND 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 process focuses on quality and value and 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.

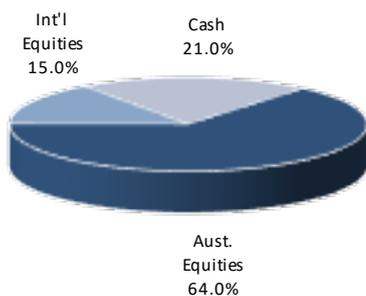
## PORTFOLIO CHARACTERISTICS

The Manager can invest up to 100% of the portfolio in listed Australian securities with this portion of the portfolio expected to typically have a mid-cap bias. However, up to 25% of the portfolio can be invested in global securities and up to 25% can be held in cash. The portfolio is actively managed and may have periods of high turnover. While there are no sector limitations, the Manager will also take into consideration the concentration to any single sector. The Manager takes high conviction positions in stocks it identifies as attractive. At 31 March 2017 the portfolio was concentrated, with the top eight holdings equating to 44.9% of the portfolio. 15% of the portfolio was invested in international equities and cash was a relatively high 21%. The Manager sold into the market rally over the quarter and is holding cash awaiting more attractive valuations.

## INDEPENDENT INVESTMENT RESEARCH COMMENTS

Given the Manager's value approach, an investment in PIC is likely to suit investors with a medium-to-long term investment timeframe. The portfolio will be concentrated with the Manager taking high conviction positions in a small number of stocks, so investors should be comfortable with the investment style and stock picking abilities of the investment team. PIC may suit investors seeking some offshore exposure but they 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 Portfolio Manager's history using the investment strategy and process 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. Over the past 12 months the portfolio has underperformed its benchmark, the S&P/ASX 300 Index. In part this reflects little or no exposure to resources and the major banks, areas of the market that have performed strongly. The build-up in the cash position also detracts from returns. Over its short history, PIC has largely traded at a discount to pre-tax NTA with an average discount of 6.0%. Elimination of the discount will depend on portfolio performance over the longer-term, establishment of a steady and growing dividend stream and investor communications. PIC paid an interim FY2017 dividend of 2.2 cents per share, fully franked, up from its previous interim dividend of 0.8 cents per share.

## Asset Weighting



## Board of Directors

Peter B Scott	Chairman & Non - Executive director
Virginia Malley	Non-Executive director
John Edstein	Non-Executive director
Christine Feldmanis	Non-Executive director
Geoff Lloyd	Executive Director

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

## PERFORMANCE ANALYTICS

Performance	March Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends	1.8%	12.9%	na	na
Peer Group Median (pre-tax NTA plus dividends)*	1.8%	10.0%	na	na
S&P/ASX 300 Acc Index	4.7%	20.4%	na	na
Out/Under performance of index	-2.9%	-7.5%	na	na
Share Price + Dividends	5.2%	14.9%	na	na
Tracking Error	7.7%	5.8%	na	na

\*Australian and International Blended Shares as classified in the IIR monthly LIC report.

## OTHER DATA

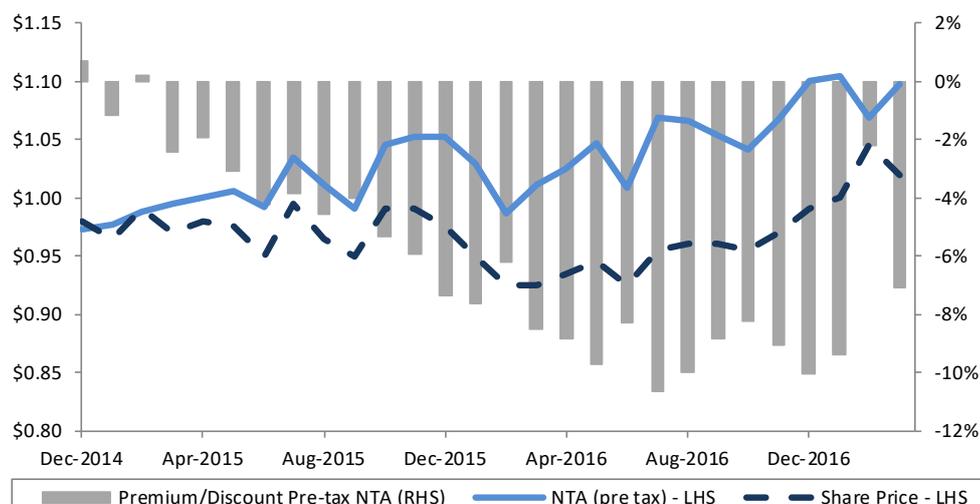
- ◆ **Dividend policy** – The company seeks to pay dividends semi-annually, franked to the maximum extent possible.
- ◆ **Capital management policy** – na
- ◆ **LIC tax concessions** – na
- ◆ **DRP available** – Yes

## PIC's Portfolio (Top 8) Weighting

Code	Portfolio (%)	Listing
Woolworths Ltd	10.5	Australia
Star Entertainment Group	6.1	Australia
Deutsche Boerse AG	5.6	International
CYBG PLC	5.5	Australia
Medibank Private Ltd	5.3	Australia
Suncorp Group Ltd	4.5	Australia
Bank of America	4.3	International
Icon PLC	3.1	International
	<b>44.9</b>	

Source all figures: PIC/Independent Investment Research/IRESS.  
All data as at 31 March 2017 unless otherwise specified.

## NTA & Share Price Performance



## 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: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

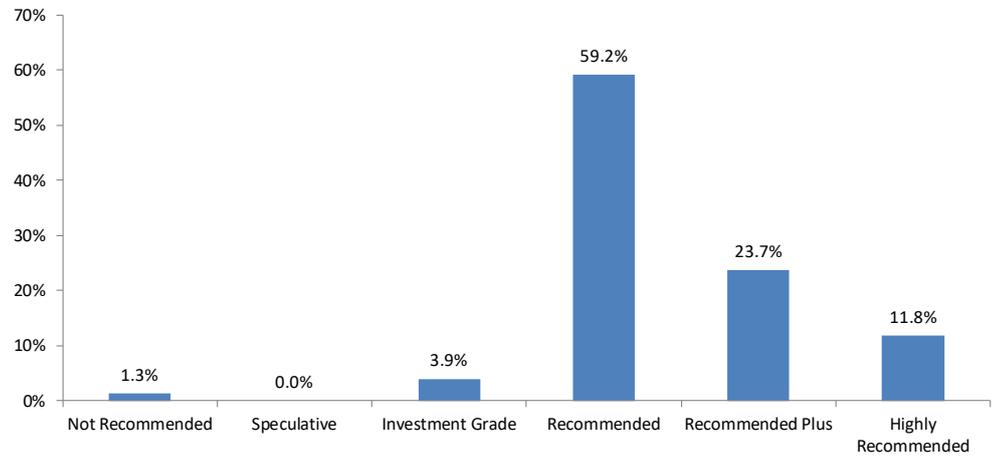
LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high 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><b>Recommended +</b></p> 	<p><b>79–82</b></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><b>Recommended</b></p> 	<p><b>60–78</b></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><b>Not Recommended</b></p> 	<p><b>&lt;60</b></p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

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## 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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