

INVESTMENT UPDATE AND NTA REPORT

June 2020

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 30 JUNE 2020	AMOUNT
NTA after tax	\$1.046
NTA before tax	\$1.039

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.

KEY ASX INFORMATION

AS AT 30 JUNE 2020

ASX Code:	PIC
Listing Date:	18 December 2014
Market Capitalisation:	\$315 million
Share Price:	\$0.905
Shares on Issue:	347,830,810

INVESTMENT PERFORMANCE

AS AT 30 JUNE 2020	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio	-0.9%	22.8%	-4.6%	-1.2%	1.5%	4.9%	7.0%	6.7%
Net of fees, expenses and before tax paid								
S&P/ASX 300 Acc Index	2.4%	16.8%	-10.5%	-7.6%	1.5%	5.2%	6.0%	6.8%
Excess Returns	-3.3%	6.0%	5.9%	6.4%	0.1%	-0.3%	1.0%	0.0%

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
Crown Resorts Limited	6.0%
AUB Group Limited	4.9%
Iluka Resources Limited	4.7%
OZ Minerals Limited	4.2%
Boral Limited	3.5%

TOP 3 GLOBAL LISTED SECURITIES

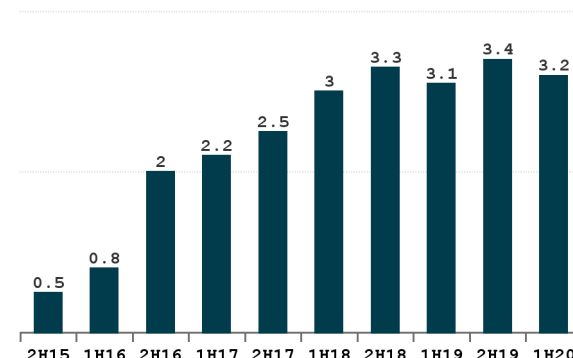
COMPANY	PORTFOLIO WEIGHT
Flutter Entertainment Plc	10.1%
La Francaise des Jeux SA	5.8%
Ferguson Plc	3.8%

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

DIVIDEND - CENTS PER SHARE

Annual dividend yield: 7.3%

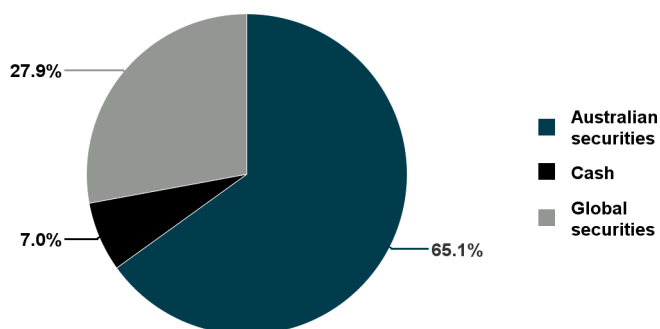
Grossed up annual dividend yield: 10.4%



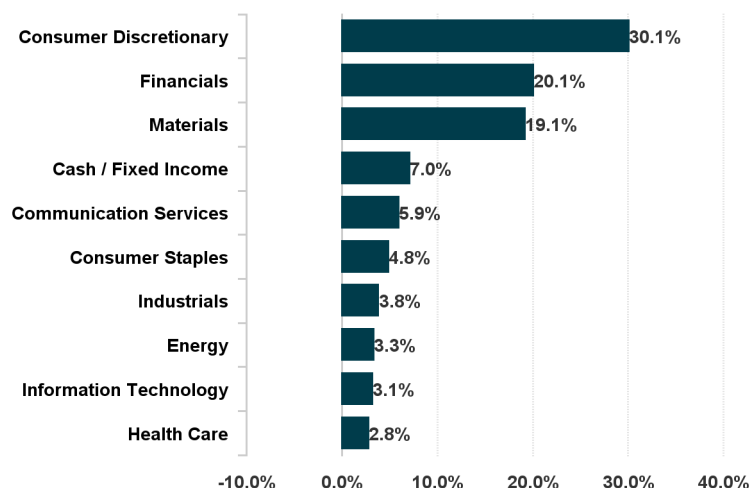
Yield is calculated based on the total dividends of 6.6 cents per share and the closing share price of \$0.905 as at 30 June 2020. Grossed up yield takes into account franking credits at a tax rate of 30%.

ALLOCATION OF INVESTMENTS[^]

93.0% 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

The Australian market continued to rebound aggressively with the S&P/ASX 300 Accumulation Index gaining 2.4% in June. This was driven by leading economic indices improving and market confidence rising as new stimulus for the building industry was accompanied by continued economic re-opening. Although there continues to be a rising number of COVID-19 cases around the world, the US Federal Reserve has been buying corporate bonds and there are talks of a new \$1 trillion infrastructure stimulus from the US government. These have helped ease concerns across the US market and positively impacted the Australian market. In Australia, the consumer discretionary, consumer staples and financial sectors were the best performers for the month whilst energy and industrials were the worst performing sectors.

For PIC during the month of June, top absolute contributors to performance were OZ Minerals Limited (ASX: OZL), Boral Ltd (ASX: BLD), AUB Group Ltd (ASX: AUB) and Iluka Resources Limited (ASX: ILU). OZL benefited from a strong recovery in copper prices as economic reopening gathered pace. On 15 June 2020, BLD announced the appointment of a new CEO, effective 1 July 2020 who signalled nothing was off the table regarding unlocking value at the company. As a result, the stock rallied from deeply oversold levels. Whilst ILU may be impacted by softer demand for their products, the Manager is of the view that the company continues to be undervalued given the value from the proposed demerger of the Mining Area C (MAC) Royalty is yet to be unlocked. During the month, AUB also delivered solid earnings guidance ahead of its full year results announcement in August.

While the Australian market rose in June, offshore stocks in the portfolio detracted from performance. The share price for La Francaise des Jeux SAEM (PAR: FDJ) fell -11.6% in June and became the top absolute detractor to performance. The Manager first invested in FDJ as part of the IPO in November 2019. From the IPO to the end of May 2020 the stock had returned +58% (AUD) in the portfolio so put into this context a fall of -11.6% is not too concerning to the Manager, particularly in the current market conditions. Despite the share price for FDJ falling in June, the Manager believes it will benefit from an acceleration in performance as a result of the long term shift to its digital business. The company's net cash balance sheet also gives the Manager comfort around the stock's defensive qualities.

The Manager continues to employ a long-term investment approach that focuses on value and quality. This includes investing in companies where the Manager believes the market is overly discounting the underlying, intrinsic value of those companies. In particular, the sell-off meant that the Manager had the opportunity to assess – and invest in – companies that might have short term headwinds or share price corrections as a result of the impacts of COVID-19 but the Manager believes are long term winners. Key questions the Manager is asking are “Which sectors and companies will take longer to recover or never recover?” and “Are we overestimating the recovery in certain companies?” While the performance of certain stocks in the PIC portfolio have detracted from performance in June, the Manager is confident they provide structural advantages over the long term.

Accordingly, the portfolio has been positioned with:

1. Companies which the Manager considers are well positioned for realistic future growth and trading at reasonable valuations today. For example, Flutter Entertainment Plc (LON: FLTR) which represents 10.1% of the PIC portfolio, generates 80% of its business from online sports betting. In the Manager's view, FLTR was always well positioned for long term structural growth as gaming shifted increasingly online but COVID-19 simply accelerated that shift.
2. Deep cyclicals: These are businesses that rise and fall with the business cycle. Right now, many cyclical businesses find themselves trading at steep discounts to mid cycle valuation. This is despite many being what the Manager would consider as high quality, well managed market leaders in good financial positions. This provides value managers including PIC's Manager with a number of opportunities to invest in stocks at reasonable value. An example is BLD, a dominant supplier of material to the building industry. The Manager purchased this stock at what it believes is good value compared to the assessment of its true worth. At the end of June, BLD represented 3.5% of the PIC portfolio.

Despite the ongoing market volatility, the Manager continues to follow a disciplined investment process that assesses companies on four quality filters: sound management, conservative debt, quality of business and recurring earnings. These factors remain particularly relevant in the current market conditions and are the bedrock of the research conducted by the Manager's Investment Team to identify opportunities relating to existing and potential new companies for the portfolio. This research is more important than ever before given many companies are not expected to provide more information or guidance until full year reporting season in August.

CME GROUP INC (NASDAQ: CME) (ANALYST: TARIQ CHOTANI)

One of the recent global additions to the PIC portfolio is CME Group Inc (NASDAQ: CME). CME is the largest derivatives operator in the world and is listed in the US. CME comprises of four exchanges – CME, CBOT, NYMEX and COMEX which offer a range of global benchmark products across all major asset classes including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural products and metals. CME is a defensive business operating as a near monopoly in the interest rates market and a strong duopoly in the crude oil market. This has created deep competitive moats for CME which refers to the company's advantages over its competitors and allows it to protect market share and profitability.

CME has consistently delivered market leading margins and the Manager expects that to continue as synergies are developed from recent acquisitions. For example, CME agreed to acquire NEX Group, a UK based operator of electronic financial markets for US\$5.5 billion in late 2018. It is expected that cost and revenue synergies will be delivered as these two businesses complement each other.

CME has historically traded at a significant premium multiple relative to its peers and to the S&P 500. The 5 year average for CME has been approximately a 44% premium to the S&P 500 whereas it is currently trading at a 10% premium. Market volumes are key for CME. The Manager believes that CME should be a beneficiary of the significant issuance that the US Treasury will undertake to fund its budget. The need for hedging remains a vital function and a steepening curve increases trading and hedging requirement for all market participants. Therefore, the Manager considers CME to be an attractive opportunity given it is trading relatively lower compared to historical levels and the expectation that CME will benefit from new issuance. CME also has a unique capital deployment program where it typically pays a quarterly dividend as well as an annual variable dividend. Since the introduction of the annual variable dividend in 2012, CME has distributed excess cash.

At the end of June, CME represented 2.6% of the PIC portfolio.

COMPANY NEWS

ANNUAL RESULTS

The Company's full year results for financial year 2020, including any dividend announcement, will be announced on 26 August 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 25 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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