

# INVESTMENT UPDATE AND NTA REPORT

March 2020

## PORTFOLIO SNAPSHOT

### NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 31 MARCH 2020	AMOUNT
NTA after tax (cum dividend)	\$0.943
NTA before tax (cum dividend)	\$0.885

Daily NTA is available at [www.perpetualequity.com.au](http://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. As at 31 March 2020, the NTA after tax (ex dividend) was \$0.911 and the NTA before tax (ex dividend) was \$0.853. The ex dividend NTA figures are reduced by a provision for the 3.2 cents per share interim dividend that was declared on 19 February 2020. The ex date for the interim dividend is 1 April 2020 and the payment date is 24 April 2020.

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

### KEY ASX INFORMATION

#### AS AT 31 MARCH 2020

ASX Code:	PIC
Listing Date:	18 December 2014
Market Capitalisation:	\$277 million
Share Price:	\$0.80
Shares on Issue:	346,631,433

## INVESTMENT PERFORMANCE

AS AT 31 MARCH 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 Net of fees, expenses and before tax paid	-16.7%	-22.3%	-20.1%	-14.5%	-5.6%	-1.4%	2.7%	3.0%
S&P/ASX 300 Acc Index	-20.8%	-23.4%	-22.9%	-14.5%	-2.3%	-0.6%	1.4%	4.0%
Excess Returns	4.1%	1.1%	2.8%	0.1%	-3.3%	-0.8%	1.3%	-1.0%

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	5.2%
Iluka Resources Limited	5.1%
BHP Group Ltd	4.9%
AUB Group Limited	4.9%
ANZ Banking Group Ltd.	4.1%

### TOP 3 GLOBAL LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
La Francaise des Jeux SA	8.7%
Flutter Entertainment Plc	6.6%
Ferguson Plc	3.4%

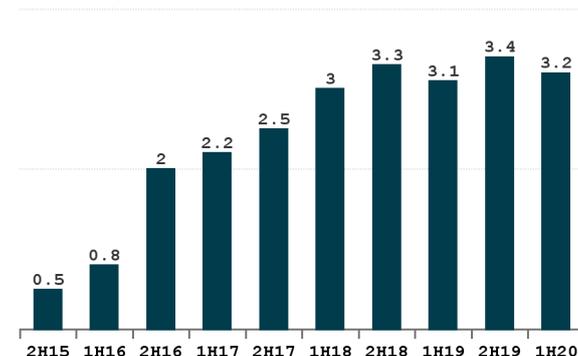
Portfolio weight based on direct investments in securities and does not include any derivative exposure

## DIVIDEND PER SHARE, CPS

Interim dividend for FY20: 3.2 cents per share

Annual dividend yield: 8.3%

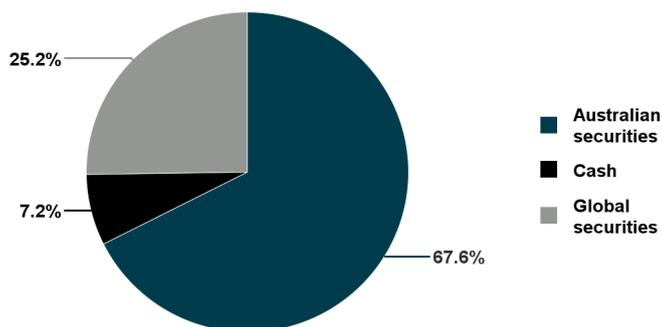
Grossed up annual dividend yield: 11.8%



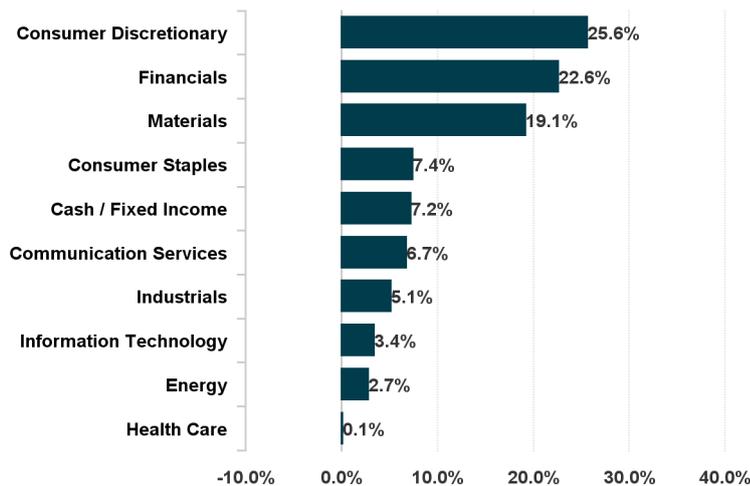
Yield is calculated based on the closing share price of \$0.80 as at 31 March 2020. Grossed up yield takes into account franking credits at a tax rate of 30%.

## ALLOCATION OF INVESTMENTS<sup>^</sup>

92.8% of capital invested in securities



## PORTFOLIO SECTORS<sup>^</sup>



<sup>^</sup>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

For over fifty years, the Company's Manager, Perpetual Investment Management Limited, has invested on behalf of clients through periods of market volatility and uncertainty. The Manager's demonstrated and disciplined process remains the bedrock of the investment approach. Whilst the length of the COVID-19 crisis remains uncertain, the Manager is convinced that the strength of a company's balance sheet will become the most important factor in determining those companies that survive and those that fail. The crisis has presented the highly experienced investment team with what they believe are some of the highest quality names trading at the best value they have seen in years. Shareholders should be reassured that only companies that the Manager assesses as having a strong balance sheet will be considered for the PIC portfolio.

The significant spread of COVID-19 across the globe has led to unprecedented economic times and governments taking extreme measures to limit the spread. The impacts of COVID-19, combined with a major fall in oil prices due to the oil price war between Saudi Arabia and Russia weighed heavily on the sharemarket, with the S&P/ASX 300 Accumulation Index falling -20.8% in March. Similarly, the FTSE 100 Index which represents the 100 largest companies in UK fell -13.4% in March. Unfortunately, this negative performance across markets also impacted the performance of the PIC portfolio on an absolute basis. However, in a relative sense performance was positive, returning 4.1% above benchmark for the month.

The Reserve Bank of Australia (RBA) made two cuts to the RBA cash rate during March and signaled the start of quantitative easing. The Australian government has also released three fiscal stimulus packages to curb the impacts of COVID-19 on businesses and consumers. While this may help to offset demand shocks, the Manager expects that Australia may enter into a recession and therefore companies could experience mid and long-term earnings headwinds. The Manager believes that it is more crucial than ever to focus on the strength of company balance sheets to understand the cashflow, operating leverage and exposure to debt. In turn, this will provide insight into a company's prospect of survival in this environment.

## PORTFOLIO UPDATE

The Manager has a long-standing and 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 where the Manager is identifying instances of high-quality businesses trading at discounted valuations.

Due to concerns over frothy valuations, the Manager had taken measures to protect the portfolio by increasing the cash position to 16.6% as at the end of February and purchasing put options to protect the portfolio from a falling market. The portfolio benefitted from these actions and they meant that the Manager had significant cash resources to deploy into compelling investment opportunities as equities corrected. The Manager has taken advantage of opportunities where companies with strong balance sheets, good management and potential for long-term growth have begun to trade at attractive discounts. As a result, the Manager has increased the allocation to Australian securities to 67.6% of the portfolio, global securities to 25.2% and reduced cash levels to 7.2%. The Manager has high conviction in the portfolio and believes the investment in 33 companies across Australia and UK, which are diversified across sectors and industries, are well placed to weather the Corona storm.

On 25 March 2020, the Board announced its decision to amend the Company's investment strategy to allow for an increase in the allocation to global securities to 35% of the PIC portfolio. This increase from the previous maximum 25% allocation to global securities has provided the Manager with the flexibility to actively manage the portfolio and take high conviction positions in compelling offshore opportunities. In recent years, global securities have been amongst the top contributors to absolute and relative performance of the portfolio, including companies like Takeda Pharmaceutical Co Ltd and more recently La Francaise des Jeux SAEM (PAR: FDJ) and Flutter Entertainment Plc (LON: FLTR). The Manager has also taken a new position in Auto Trader Plc (LON: AUTO) which is the UK's equivalent to Carsales.com Limited in Australia. The Manager had previously viewed AUTO as a high-quality business, however considered it to be over-valued during the bull market. As a result of market volatility, the Manager has been able to take advantage of the company trading at a discounted valuation. As at 31 March, Auto Trader Plc represents 3.1% of the portfolio.

The Manager had no exposure to emerging markets at the end of March with all the global holdings located in the UK and France. Despite elevated market volatility and the outbreak of COVID-19, the Manager remains confident in the UK given the government's plans for fiscal stimulus and infrastructure spending. In particular, the Manager sees good relative value in the UK with a number of companies trading at lower valuations than their Australian counterparts.

## PORTFOLIO COMPOSITION

Top contributors to absolute performance this month came from Saracen Mineral Holdings Limited (ASX: SAR) and United Malt Group (ASX: UMG). The largest detractors to absolute performance were from the financial sector, being ANZ Banking Group Ltd (ASX: ANZ) and Lloyds Banking Group (LON: LLOY). In regard to relative performance, which is measured against the S&P/ASX 300 Accumulation Index, contributions came from European stocks La Francaise des Jeux SAEM (PAR: FDJ) and Flutter Entertainment Plc (LON: FLTR), while detractors included LLOY and CSL (not held). CSL has not been held in the portfolio due to its high valuation but has been a strong performer in the S&P/ASX 300 Accumulation Index.

Consumer discretionary is the largest allocation by sector and represents 25.6% of the portfolio. The top holdings include FDJ, FLTR and Crown Resorts Limited (ASX: CWN). While the share price performance of these companies may be impacted in the short-term by COVID-19, the Manager believes they will be resilient to market stress. Their strong balance sheets will provide a buffer and will mean they are well positioned to ride out a period of shutdown. Although Crown Melbourne and Crown Perth entertainment complexes have ceased operating their gaming activities, food, beverage and conference facilities, they continue to operate the hotel business, albeit in a reduced capacity. Importantly, the solid balance sheet and capital resources of CWN provides confidence to the Manager that the company is able to support a shutdown for several months if required. The Manager also believes that gaming companies, such as those held in the portfolio, will be poised to resume operations more quickly and recover faster than many other companies and industry sectors.

22.6% of the portfolio is invested in the financial sector. Holdings in this sector include ANZ, LLOY and AUB Group (ASX: AUB). AUB is a provider of risk management, advice and solutions in Australia and New Zealand with business areas across insurance broking networks, underwriting agencies and risk services.

During the month, the portfolio's exposure to the materials sector has increased from 12.2% in February to 19.1% at the end of March. The Manager was of the view that the portfolio was underweight in resources and has taken the opportunity to invest in this sector as a number of companies moved to trading at attractive prices to provide diversification to the portfolio. In particular, the Manager has taken a new position in Saracen Mineral Holdings Limited (ASX: SAR) which is producer and explorer of gold. The Manager has also increased positions in BHP Group Limited (ASX: BHP) and Iluka Resources Limited (ASX: ILU) as iron ore prices have remained steady during the period of market volatility. China is also gradually returning to economic activity with businesses resuming operations after being the first to experience the spread of COVID-19. The Manager therefore believes that the demand from China for iron ore will continue and provide upside potential for BHP and ILU.

The Manager reduced slightly the exposure to companies in the consumer staples sector which now makes up 7.4% of the portfolio. Exposures include Elders Ltd (ASX: ELD) where the recent rainfall on the East Coast of Australia has materially improved outlook and Graincorp Limited (ASX: GNC) which has successfully completed the demerger of its malt business, United Malt Group (ASX: UMG). UMG listed on the ASX on 24 March 2020. These two independently operated agribusiness companies, GNC and UMG, have the potential to unlock significant value for shareholders. Following the demerger, UMG is now the fourth largest independent commercial maltster, with malting houses in Canada, the United States, Australia and the United Kingdom.

## COMPANY NEWS

### INCREASE IN GLOBAL ALLOCATION UNIT

On 25 March 2020, the Board announced its decision to amend the Company's investment strategy to increase the maximum allowable investment in global securities from 25% to 35% of the PIC portfolio. The allocations for Australian securities and cash remain unchanged.

These changes to the investment strategy were effective immediately and details of the amendments are set out in the table below.

Allocation	Current Investment Strategy	New Investment Strategy
Australian Securities	50% - 100%	50% - 100%
Global Securities	0% - 25%	0% - 35%
Cash	0% - 25%	0% - 25%

The full announcement can be viewed [here](#) and is available on the Company website.

### 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.

The News and Insights section of the PIC website also includes a link to information about the Manager's response to the COVID-19 pandemic.

## 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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