

INVESTMENT UPDATE AND NTA REPORT

January 2018

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE¹

AS AT 31 JANUARY 2018	AMOUNT
NTA before tax ²	\$1.161
NTA after tax ²	\$1.142

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

¹All figures are unaudited and approximate.

²The before and after tax numbers relate to provisions for deferred tax on set-up costs and on unrealised gains and losses in the Company's investment portfolio.

KEY ASX INFORMATION

AS AT 31 JANUARY 2018

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$293million

Share price: \$1.155

Shares on issue: 253,845,980

INVESTMENT PERFORMANCE

AS AT 31 JANUARY 2018	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 ³ Net of fees, expenses and before tax paid	-1.4%	2.2%	8.9%	13.2%	12.5%	10.4%	10.1%
S&P/ASX 300 Acc Index	-0.4%	3.2%	8.2%	12.4%	14.8%	7.5%	9.6%
Excess Returns	-1.0%	-1.0%	+0.7%	+0.8%	-2.3%	+2.9%	+0.5%

³Returns 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 set up costs and on unrealised gains and losses are excluded.

Past performance is not indicative of future performance. Inception date is 18 December 2014.

TOP SECURITIES

TOP 5 AUSTRALIAN LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Westpac Banking Corp	8.9%
Woolworths Ltd	8.0%
Star Entertainment Group Ltd	6.7%
Oil Search	5.8%
Medibank Private Ltd	5.1%

TOP 3 GLOBAL LISTED SECURITIES

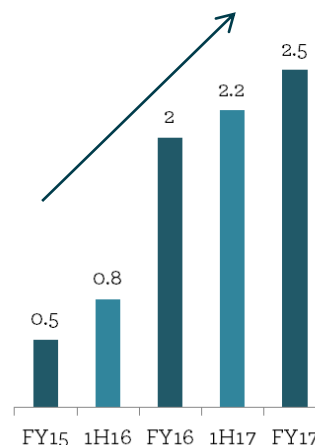
COMPANY	PORTFOLIO WEIGHT
Shire PLC	9.3%
AXA SA	4.9%
ING Groep NV	3.0%

DIVIDEND PER SHARE, CPS

FY17 final dividend: 2.5 cents per share

Annual dividend yield: 4.1%⁴

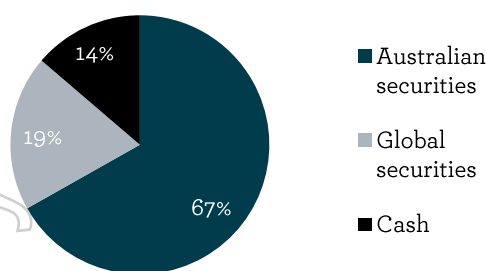
Grossed up annual dividend yield: 5.8%⁴



⁴Yield is calculated using the 31 January 2018 share price of \$1.155. Grossed up yield takes franking credits into account.

ALLOCATION OF INVESTMENTS

86% of capital invested in securities.



PORTFOLIO MANAGER INSIGHTS

RECENT MARKET VOLATILITY

The recent and sudden surge in market volatility in early February has highlighted to investors the rising disconnect between the economy and markets. For some time many asset prices have been artificially inflated by trillions of dollars in monetary stimulus and ultra-low interest rates as central banks have tried to reignite sluggish economies.

As economies begin to register strong growth on the back of tax cuts and resurgent “animal spirits”, investors have become concerned that inflation and interest rates are on the way back up and the stimulus will need to be withdrawn.

Whilst market volatility can be challenging, the Manager’s disciplined investment process has been tested through many market cycles and the Manager is very conscious of preserving shareholders’ capital. The portfolio remains invested in high quality businesses with solid balance sheets and good quality earnings. The Manager believes these companies are well positioned and will look more and more attractive as markets absorb the new realities.

Market volatility can actually provide increased opportunities to buy companies at attractive valuations. For some time the Manager has been accumulating cash reserves. These cash reserves provide a buffer to market volatility and enable the Manager to take advantage of opportunities in the market.

The Manager believes the Company continues to be well placed to provide shareholders with a growing income stream and long term capital growth in excess of the benchmark.

PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was -1.4% in January underperforming the benchmark S&P/ASX300 Accumulation Index by -1.0%. Since listing, the Perpetual Equity Investment Company Limited’s (PIC) portfolio has returned 10.1% per annum net of fees and expenses.

The best performing sectors during the month were Health Care and Information Technology. The Utilities, Real Estate and Industrial sectors lost ground over the month.

The portfolio’s cash exposure assisted relative performance, whilst stock selection within the Healthcare sector detracted from returns.

Portfolio holdings in ASX SA, Deutsche Boerse and Medibank contributed positively to performance this month.

Conversely, the portfolio’s positions in Shire PLC and Oil Search detracted from returns.

STOCK NEWS

As at 31 January 2018 the Company held 8.9% in Westpac Banking Group (ASX code:WBC). The Manager has increased exposure to Westpac following a significant de-rating in Westpac’s share price in the middle of calendar year 2017. The de-rating in Westpac’s share price was driven by concerns over the bank’s excessive exposure to interest only lending, an area that the banking regulator, APRA, had expressed concern with, and then introduced caps on new interest only loan growth for the banks.

Subsequent to the prudential regulatory measures introduced by APRA, APRA relaxed the definition of what was to be deemed a new interest only loan, which removed refinancing risk for most interest only borrowers. All the banks also took proactive steps to reduce their exposure to interest only lending by encouraging customers to switch into principal loans by re-pricing different mortgage products. Banks were also quick to reduce new mortgage flow to less than 30% of lending. Westpac has reduced its interest only exposure risk, and continues to have a superior consumer banking franchise assisted by its peer-leading investment in technology, including the development of the wealth management platform Panorama. For these reasons the Manager sees an opportunity for Westpac to outperform its peers in the Australian banking sector.

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, dipped slightly during January to finish the month 0.4% lower, dragged down by utilities and REITs which underperformed amidst concerns of rising bond yields. Mining stocks were boosted as commodities continued their run into the new year, with the London Metals Exchange Index gaining 0.4%, led by tin (+8.8%), zinc (+7.7%) and nickel (+6.7%) which rallied upon supply concerns. Oil prices continued to rise on prevailing US and OECD inventory drawdowns, allowing small-cap energy stocks to finish ahead despite the top end of the sector closing weaker. Iron ore increased 4.8% and gold rallied 3.2% on the back of a weakened US dollar.

In economic news, employment growth exceeded expectations with 34,000 jobs added during December, yet the unemployment rate nudged higher to 5.5% from 5.4%. Q4 core inflation figures released during January remained soft. Consumer confidence reached its highest level since December 2013, combined with stronger-than-expected retail sales and a solid Christmas trading period providing a boost for the Retail sector. The Construction sector was supported by unexpectedly stronger residential building approvals.

The Australian dollar climbed against most currencies, sustained by favourable economic activity, and was strongest against the US dollar, rising 3.2% over the month though dipped slightly against the Euro (-0.3%). Global equities had a good start to the year, as the MSCI World Total Return index returned 1.7% in Australian dollar terms led by Consumer Discretionary and Information Technology sectors. Most global markets ended the month in positive territory, particularly the emerging markets (+6.8%) as China topped the list with the MSCI China price

index returning 12.5%, followed by the Hang Seng (+9.9%) and the S&P 500 (+5.7%). UK stocks ended in the red with the FTSE 100 falling -2.0%.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Health Care (+3.1%), Information Technology (+2.5%) and Telecommunication Services (+0.8%). The worst performers were Utilities (-4.3%), Real Estate (-3.2%) and Industrials (-2.0%). As a whole, industrial stocks (-0.7%) underperformed resource stocks (+0.8%) and large cap stocks (-0.4%) outperformed small cap stocks (-0.5%). Value stocks (-1.1%) underperformed growth stocks (-0.1%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

NEWS & INSIGHTS

COMMSEC EXECUTIVE SERIES

Vince Pezzullo, Portfolio Manager, recently spoke to CommSec's Tom Piotrowski about his views on recent market movements, how PIC is positioning its portfolio and key drivers of performance. [Click here](#) to find out what he had to say.



KEEPING YOU INFORMED

HALF YEAR RESULTS TELECONFERENCE

PIC would like to extend an invitation to all shareholders and interested parties to register for our Half Year Results teleconference on Wednesday 7th March at 12noon (AEDT).

To register for the event please [click here](#) or visit www.perpetualequity.com.au

David Lane, Group Executive, Perpetual Investments and Executive Director PIC will join Vince Pezzullo, Portfolio Manager to present an update on the Company and the portfolio.

Questions are welcomed and can be submitted upon registration. A copy of the presentation slides will be made available on the 7th March prior to the teleconference. Finally if you are unable to join us at this time the presentation slides and audio will be posted on www.perpetualequity.com.au

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, has outperformed consistently 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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No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) nor the Company guarantees the performance of the Company or the return of an investor's capital.

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