

INVESTMENT UPDATE AND NTA REPORT

May 2018

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE¹

| AS AT 31 MAY 2018 | AMOUNT |
|-----------------------------|---------|
| NTA before tax ² | \$1.124 |
| NTA after tax ² | \$1.117 |

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 MAY 2018

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$286 million

Share price: \$1.125

Shares on issue: 254,442,926

INVESTMENT PERFORMANCE

| AS AT 31 MAY 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 <u>before tax paid</u> | -0.2% | 2.6% | 0.7% | 9.0% | 10.9% | 9.4% | 9.2% |
| S&P/ASX 300 Acc Index | 1.2% | 1.1% | 2.9% | 10.0% | 10.4% | 6.1% | 9.1% |
| Excess Returns | -1.4% | +1.5% | -2.2% | -1.0% | +0.5% | +3.3% | +0.0% |

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. Portfolio and Index return may not sum to Excess Return due to rounding.

TOP SECURITIES

TOP 5 AUSTRALIAN LISTED SECURITIES

| COMPANY | PORTFOLIO WEIGHT |
|-----------------------------|------------------|
| Westpac Banking Corp | 8.2% |
| Woolworths Ltd | 7.3% |
| Suncorp Group Ltd | 4.7% |
| National Australia Bank Ltd | 4.6% |
| BHP Billiton Ltd | 4.0% |

TOP 3 GLOBAL LISTED SECURITIES

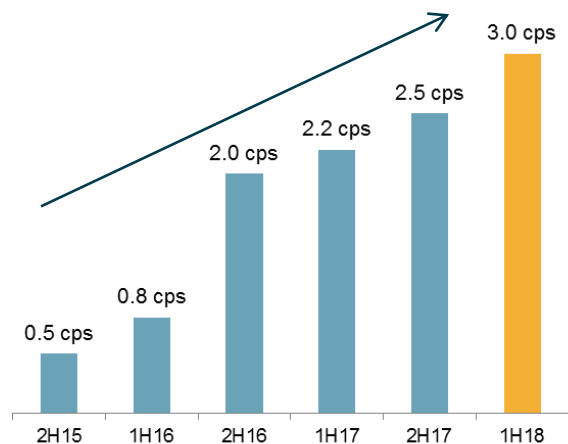
| COMPANY | PORTFOLIO WEIGHT |
|---------------------|------------------|
| Shire PLC | 12.4% |
| General Electric Co | 0.4% |
| N/A | N/A |

DIVIDEND PER SHARE, CPS

1H18 interim dividend: 3.0 cents per share

Annual dividend yield: 4.9%⁴

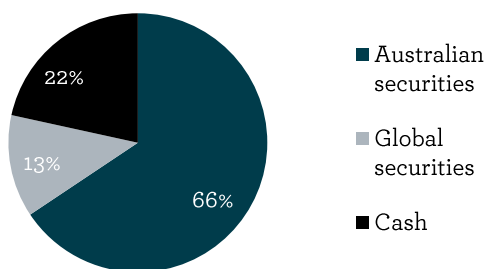
Grossed up annual dividend yield: 7.0%⁴



⁴Yield is calculated using the 31 May 2018 share price of \$1.125. Grossed up yield takes franking credits into account.

ALLOCATION OF INVESTMENTS ⁵

78% of capital invested in securities.



⁵ Allocations may not sum to 100% due to rounding.

PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was -0.2% in May underperforming the benchmark S&P/ASX300 Accumulation Index by 1.4%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 9.2% per annum net of fees and expenses.

Portfolio holdings in Shire PLC, BHP Billiton Ltd and Oil Search Ltd contributed positively to performance this month. Conversely, the portfolio's position in Incitec Pivot Ltd and Star Entertainment Group detracted from returns.

The portfolio continues to invest in companies with good business models and solid balance sheets at attractive prices. Although these quality and value criteria are not currently being rewarded, the Manager's disciplined investment process has been tested through many market cycles and the Manager believes the portfolio remains well positioned to provide shareholders with a growing income stream and long term capital growth.

STOCK NEWS

New Hope Coal (NHC) is an ASX-listed coal company with a market capitalisation of A\$2.0bn. As at 31 May 2018 the portfolio's allocation to New Hope was 0.3%.

New Hope offers exposure to thermal coal. The majority of its product is exported to Asia and sold to electricity producers. The company produces high calorific value coal with relatively low impurities. This type of coal is expected to command a premium in the long term because it allows power plants to operate more efficiently and reduce emissions.

New Hope's key assets are the New Acland mine in Queensland and a 40% stake in the Bengalla mine in NSW. Bengalla is one of the largest, lowest cost thermal coal mines in Australia. New Hope acquired its interest in Bengalla from Rio Tinto in early 2016, when the seaborne thermal coal price was approximately 50% lower than it is today.

The Manager sees three potential areas of upside for New Hope. Firstly, continued thermal coal price strength. A substantial government-mandated rationalisation of the

Chinese coal mining industry has resulted in reduced supply, which has increased demand for seaborne coal. Secondly, New Hope is seeking a permit for an extension to its New Acland mine in Queensland. If permitted, the mine's life could be extended by up to 10 years. Thirdly, the company could increase its ownership in the Bengalla mine. New Hope currently owns 40% of the operation. Wesfarmers, which also holds 40%, has indicated it will consider selling its stake.

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, ended higher over May, rising 1.2% with gains from Health Care and Consumer Discretionary stocks offsetting losses incurred from the Financials and Telecommunication sectors. Release of the Federal Budget early in the month reinforced the Government's intention of reducing corporate and income taxes. Increased infrastructure spending over 2018/2019 and anticipation of a return to fiscal surplus earlier than expected were also highlighted in the Budget. The third round of public hearings from the Hayne Royal Commission into the banking, superannuation and financial services industry commenced, putting the banks into the spotlight once again.

Resource stocks outperformed over the month, boosted by strengthening commodity prices, particularly nickel and thermal coal, gaining 11.5% and 10.8%, respectively. Brent Crude oil reached a four-year high, increasing 10.8% on the back of global supply-side concerns involving the US withdrawing from the Iran nuclear deal. Iron ore declined during May (-1.5%) despite rising Chinese steel prices. The boost in commodity prices assisted the Australian dollar, finishing higher against most major currencies and performing strongest against the Euro (+3.8%), closing 0.5% higher against the US dollar and by 1.1% on trade weighted terms.

In economic news, wage growth continued to drag, falling to its lowest in more than a decade, rising only 0.5% over the first quarter. The RBA kept the official cash rate on hold at 1.5% and restated its expectations of average economic growth at a rate slightly higher than 3% over 2018 and 2019. Employment figures reported during May showed a 23,000 increase in job numbers, however, the unemployment rate increased by 0.1% to 5.6% as consumer confidence also softened. The Australian Market outperformed global markets on average, with the MSCI World total return index posting a 0.4% gain in Australian dollar terms, boosted by the US and UK, returning +2.1% and +2.8%, respectively. European equities, however, fell amidst fears of heightened political risk in Italy and Spain. The emerging markets weakened on the back of a rallying US dollar and the Australian 10-year bond yield fell 9.5 basis points to 2.7%.

The best performing local sectors over the month, as measured from the S&P/ASX 300 Accumulation Index, were

Health Care (+5.5%), Consumer Discretionary (+5.3%) and Real Estate (+3.0%). The worst performers were Telecommunication Services (-10.1%), Financials (-0.1%), and Consumer Staples (-0.0%). As a whole, industrial stocks (+0.8%) underperformed resource stocks (+2.6%) and large cap stocks (+1.0%) underperformed small cap stocks (+3.7%). Value stocks (-0.8%) underperformed growth stocks (+2.8%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

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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