

INVESTMENT UPDATE AND NTA REPORT

November 2018

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE ^{1,3}

AS AT 30 NOVEMBER 2018	AMOUNT
NTA before tax ²	\$1.046
NTA after tax ²	\$1.057

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.

³A tax rate of 27.5% (previously 30%) is now applied.

KEY ASX INFORMATION AS AT 30 NOVEMBER 2018

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$367 million

Share price: \$1.065

Shares on issue: 344,840,452

INVESTMENT PERFORMANCE

AS AT 30 NOVEMBER 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 ⁴ Net of fees, expenses and before tax paid	-3.3%	-7.7%	-3.4%	-2.7%	6.6%	6.1%	7.0%
S&P/ASX 300 Acc Index	-2.2%	-9.3%	-3.8%	-1.0%	6.5%	7.7%	6.9%
Excess Returns	-1.1%	1.6%	0.5%	-1.7%	0.1%	-1.6%	0.2%

⁴Returns 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
Commonwealth Bank	8.8%
Westpac Banking Corporation	6.6%
Suncorp Group Ltd	5.9%
Woolworths Group Ltd	4.5%
Evolution Mining Ltd	4.0%

TOP 3 GLOBAL LISTED SECURITIES

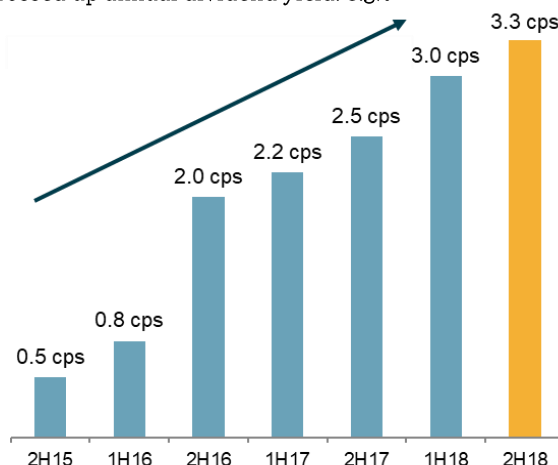
COMPANY	PORTFOLIO WEIGHT
General Electric Co	1.1%
Shire Plc	0.7%
-	-

DIVIDEND PER SHARE, CPS

2H18 final dividend: 3.3 cents per share

Annual dividend yield: 5.9%⁵

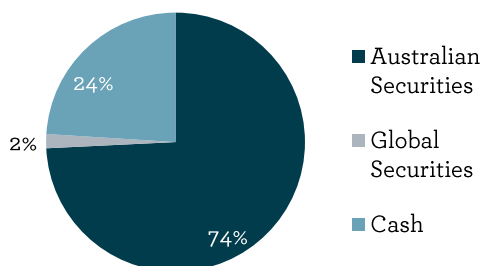
Grossed up annual dividend yield: 8.3%⁵



⁵Yield is calculated using the 30 November 2018 share price of \$1.065. Grossed up yield takes franking credits into account.

ALLOCATION OF INVESTMENTS

76% of capital invested in securities.



PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was -3.3% in November underperforming the benchmark S&P/ASX300 Accumulation Index by -1.1%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 7% per annum net of fees and expenses.

Portfolio holdings in Shire PLC, Evolution Mining and Select Harvests contributed positively to performance this month. Conversely the Company's positions in CYBG PLC, Medibank Private Limited and General Electric detracted from returns. The portfolio's cash holding assisted returns over the month.

The Manager has taken advantage of market weakness to invest the proceeds from the recent capital raising. As at 30 November 2018, the portfolio's allocation to cash was 24% and is now within the portfolio's cash limit of 25%.

STOCK NEWS

Aurizon Holding (ASX code: AZJ) is Australia's largest rail operator and has a market cap of approximately A\$8.7bn. As at 30 November 2018 the portfolio's allocation to AZJ was 2.8%.

AZJ owns and operates the Central Queensland Coal Network (CQCN), which is made up of approximately 2,670 kilometres of heavy haul rail infrastructure, linking approximately 50 mines with three major ports in Queensland. AZJ's above-rail (coal haulage) business continues to perform well with new contract wins in both NSW and QLD. AZJ continues to benefit from its dominant position in QLD and has been able to ride the wave of the ever increasing demand for Australia's high quality coal. While volumes in the east coast (Qld & NSW) have plateaued in recent years, we have seen a significant increase in prices since 2016. The Manager expects volumes for high quality Metallurgical and Thermal coal to grow in the future based on demand from emerging markets.

The Manager believes that whilst the above-rail business has continued to perform admirably, it has been the below-the-rail (i.e. the CQCN rail Network) that has caused some difficulty for the company. The Network is regulated by the Queensland Competition Authority (QCA). The Network enjoys a 4-year regulatory period where the Weighted Average Cost of Capital

and Maximum Allowable Revenue is determined. The Manager believes the regulatory risk around the Network determination has been a significant overhang on the stock over the past 3-6 months. The Manager took the view that the worst outcome was known and already priced to a large extent. The final determination that was handed down recently was slightly better than the draft and broadly in line with the Manager's expectations.

The Manager is conscious there are re-contracting risks for AZJ's above-rail business (starting in FY21). The Hunter Valley (representing approximately 28% of AZJ volumes) has some spare rolling stock capacity however QLD, with its narrow-gauge rail, has no spare capacity at all. The Manager believes that this tightness in the QLD rolling stock market should minimise any re-contracting risk over the medium term. The Manager also believes that AZJ's precision raiing strategy could deliver savings to more than offset any re-contracting risk over the next 3 years.

Free cash flow generation for AZJ is expected to remain healthy as we are past the peak-capex cycle. Based on a "sum of parts" analysis, the Manager believes the current AZJ share price implies a valuation for AZJ's above-rail business which is at the lowest point since AZJ's IPO and does not reflect current performance and opportunity. The Manager also views AZJ as trading at an attractive valuation relative to global peers.

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, continued its decline over November, ending 2.2% lower. The sell-off was driven largely by a decline in resource stocks, which struggled on the back of a slump in commodity prices. Both Brent and WTI crude declined over 20% due to a loosening of US sanctions on Iran, and increased production from OPEC and Russia, which saw an increase in global oil supplies. Coal prices also suffered, falling 3.3%, while iron ore dropped 13.4% on reduced demand from Chinese steelmakers. Base metals, however, ended higher with the London Metals Exchange Index gaining 1.9%.

In economic news, employment figures reported a 32,800 gain in positions over October while the participation rate also rose conservatively to maintain the unemployment rate at its six-year low of 5.0%. Consumer confidence rose, however business confidence fell slightly. The Reserve Bank of Australia kept the official interest rate on hold at 1.5% yet signalled that employment and inflation targets may be reached sooner than expected. Retail sales figures were stagnant, with clothing and footwear being the greatest drag, falling 1.2%. The Australian dollar rallied against most of its major trading partners, gaining 3.3% against both the US dollar and the Euro (2.3% in trade-weighted terms).

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Financials (+1.4%), Information Technology (+1.0%) and Industrials (-0.6%). The worst performers were Energy (-10.7%), Materials (-4.7%) and

Health Care (-4.0%). As a whole, industrial stocks (-1.1%) outperformed resource stocks (-6.6%) and large cap stocks (-2.0%) underperformed small cap stocks (-0.4%). Value stocks (+0.3%) outperformed growth stocks (-4.8%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

COMPANY NEWS

The Company would like to thank all our shareholders for your support during the past year and wish you a safe and prosperous 2019.

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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