

**FEBRUARY 2015**  
**MONTHLY INVESTMENT UPDATE AND NTA REPORT**

**MONTH IN REVIEW**

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose 6.9% during February. Global equity markets rallied hard during the month across all major regions. In the US stocks moved higher as companies reported better than expected 4Q14 earnings, and Federal Reserve Chair, Janet Yellen delivered an upbeat assessment on the economy. European markets rallied as Greece secured an eleventh hour agreement for a four month bailout extension with the Eurozone. The People's Bank of China cut the required reserve ratio for financial institutions by 50bps and later announced a 25bps cut to one-year benchmark deposit and lending rates. Commodity prices remained volatile with crude oil staging a recovery, iron ore trading flat and most base metals falling throughout the month. In Australia the Reserve Bank cut interest rates by 25bps to 2.25% and announced that it expects sub-trend growth to continue for longer than previously anticipated.

**PERPETUAL EQUITY INVESTMENT  
COMPANY LIMITED**

As at 28 February 2015  
ASX code: PIC  
Listing date: 18 December 2014  
Market capitalisation: \$248.19 million  
Share price: 0.99  
Shares on issue: 250,696,278  
Options on issue: 250,092,277  
Options ASX Code: PICO  
Options expiry date: 10 June 2016  
Options Share price: 0.044

**PORTFOLIO COMMENTARY**

We continued to add to the Portfolio holdings during February as we identified companies trading at attractive prices. As at the end of February we have deployed 20% of our capital with the remainder of the Portfolio invested in cash. The short term underperformance of the Portfolio is reflective of the current high cash weighting and we expect this to reverse as the Portfolio builds out its equity holdings.

A recent addition to the Portfolio has been Sky Network Television. Sky enjoys a monopoly position in the New Zealand Pay TV market with almost 50% of households subscribing to the service. The strength of the business has been built around Sky's ability to aggregate, produce and broadcast premium sporting content (All Black, Super XV Rugby, NRL, Formula 1) as well as high quality TV shows and movies. Sport is of huge importance to the New Zealand market with 71% of subscribers on the "Sports Tier". Sky has secured the exclusive broadcasting rights to the rugby out to 2021, Cricket to 2020 as well as long term deals with the NRL, Formula 1 and an exclusive four year deal with HBO.

The Pay TV market has become increasingly competitive with the impending arrival of Netflix, the US streaming giant, as well as local competition from local streaming services such as Lightbox (Spark) and Coliseum (now also in a JV with Spark). We think that the share market has over done the potential impact of these services and look to the US where Netflix with its low price point (US\$7.99 p/m) has proven more complimentary than a substitute to Pay TV.

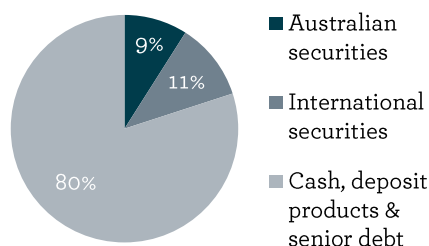
Quality of content will determine the eventual winner of this battle and we see Sky as the best placed to succeed. What the competition does however, is increase the price Sky has to pay for the content and rights when they come up for renewal. This cost pressure is difficult to offset by increasing subscription prices in an environment where customers have more choice and with a market that is mature and largely penetrated growing the subscriber base is also difficult.

These concerns have seen this high quality business sell off 15% over the past 6 months and it now trades at less than 12.5 x FY15 consensus earnings with a 5% dividend yield. This is close to a 30% discount to the NZX50 which we believe is unjustified for one of the best management teams in the market, with key events in 2015 such as the Cricket and Rugby World Cups as well as the Rio Olympics in 2016 likely to hold the subscriber base. The business is producing strong free cashflow generation, has a solid balance sheet and we believe SKY TV is an ideal defensive stock for the Portfolio.

Overall valuations in the Australian market are looking stretched, with investors' persistent demand for yield during a period of sustained low interest rates leading to increased capital flows into equity markets. This has led to PE expansion across the market as investors continue to pay increasing amounts for future earnings and cash flows. Despite rich valuations we are however identifying buying opportunities and we remain committed to patiently deploying capital as we identify quality stocks trading at attractive prices.

## PORTFOLIO PROFILE

### ALLOCATION OF INVESTMENTS



### 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.

### TOP SECURITIES

The Manager may take up to approximately three to six months to fully invest the Portfolio to within the investment guidelines. When the Portfolio is fully invested the Company will disclose the top 10 Australian securities and top 5 International securities and their weightings in the Portfolio.

### NET TANGIBLE ASSET (NTA) BACKING PER ORDINARY SHARE<sup>1</sup>

	AMOUNT
NTA before tax <sup>2</sup>	\$0.988
NTA after tax	\$0.992

Daily NTA is available on the website.

<sup>1</sup>All figures are unaudited and approximate.

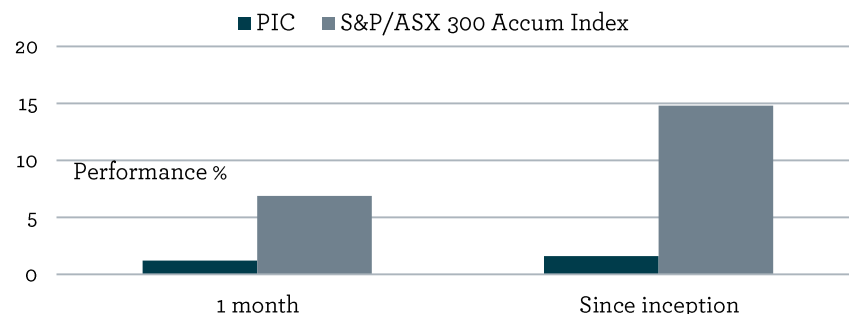
<sup>2</sup>The before and after tax numbers relate to the provision for deferred tax on the unrealised gains in the Company's investment portfolio.

### PERFORMANCE - NET OF FEES, EXPENSES AND TAX PAID

PERFORMANCE	1 MONTH	SINCE INCEPTION
PIC	1.2%	1.6%
S&P/ASX 300 Accumulation Index	6.9%	14.8%
Performance Relative to benchmark	-5.7%	-13.2%

Inception date is 18 December 2014.

### PERFORMANCE - PIC VS BENCHMARK



Returns shown for the company have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees, any income tax and any realised capital gains tax) and assuming reinvestment of dividends. Past performance is not indicative of future performance.

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