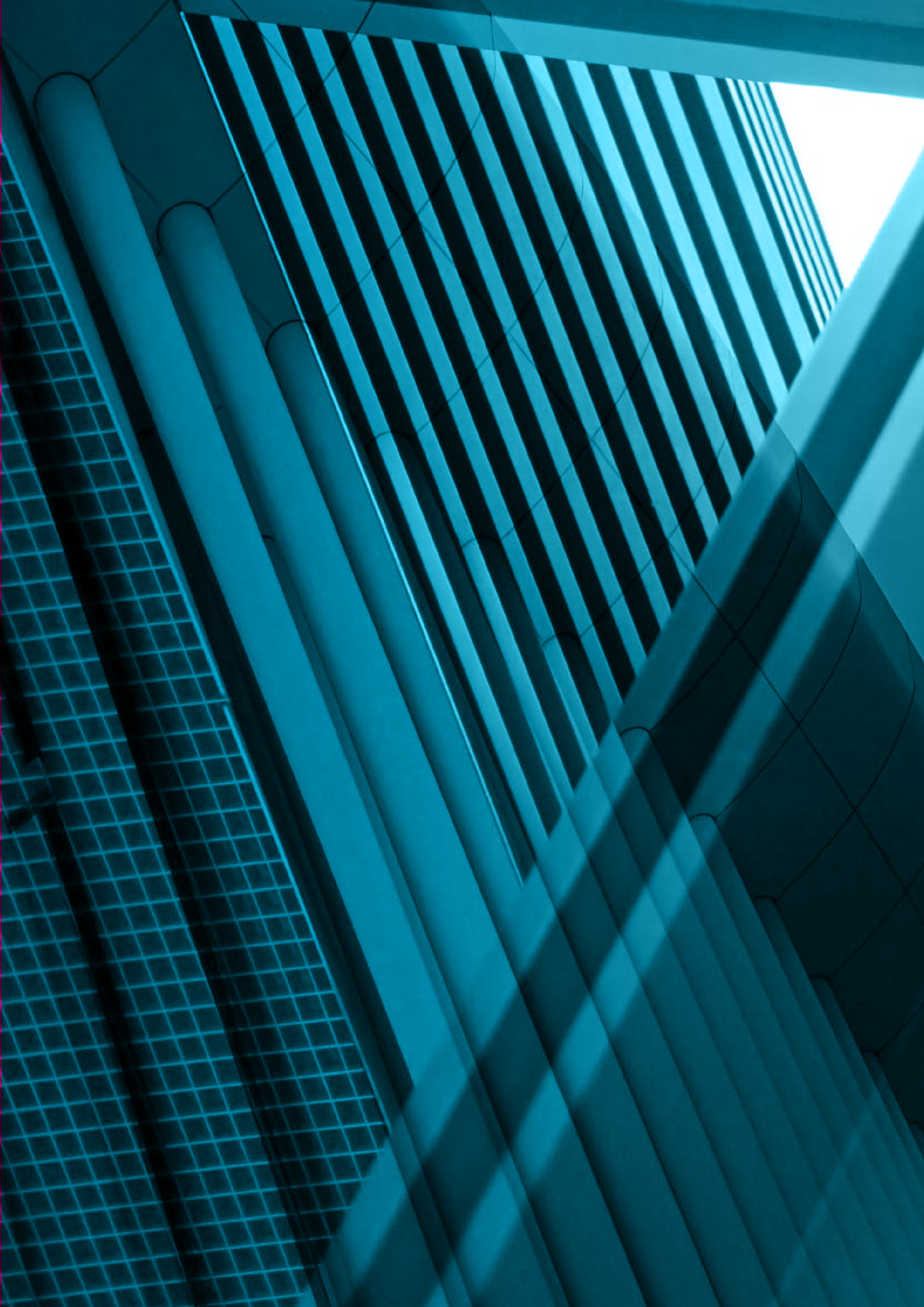
PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

ANNUAL REPORT
30 JUNE 2019

Perpetual



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PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

Board of Directors

Left to right: John Edstein, Virginia Malley, Nancy Fox (Chairman), Christine Feldmanis, David Lane

SHAREHOLDER PRESENTATIONS 2019

ANNUAL GENERAL MEETING AND INVESTOR UPDATE PRESENTATION

SYDNEY
THURSDAY 17 OCTOBER
2.00pm – 4.00pm
Perpetual Offices, Angel Place
Level 18, 123 Pitt Street, Sydney

ADELAIDE
WEDNESDAY 23 OCTOBER
10.30am - 11.30am

Perpetual Offices
Level 11,
101 Grenfell Street
Adelaide

MELBOURNE
THURSDAY 24 OCTOBER
10.30am - 11.30am

Perpetual Offices,
Rialto South Tower
Level 29,
525 Collins Street
Melbourne

BRISBANE
WEDNESDAY 30 OCTOBER
9.00am - 10.00am

Perpetual Offices,
Central Plaza 1
Level 15,
345 Queen Street
Brisbane

PERTH
FRIDAY 8 NOVEMBER
10.00am - 11.00am

Perpetual Offices,
Exchange Tower
Level 29,
2 the Esplanade
Perth

To register to attend an event closest to you visit our website www.perpetualequity.com.au

FULL YEAR 2019 KEY HIGHLIGHTS

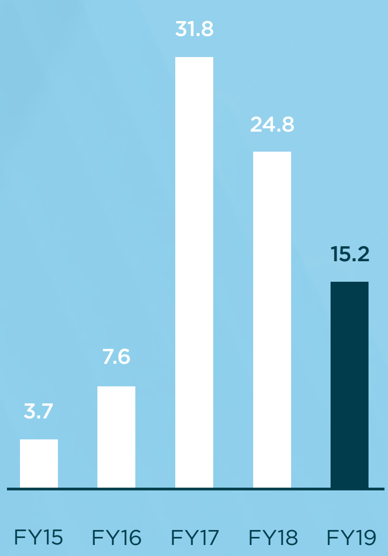
3.4 CPS
Fully franked final dividend

8.8%*
Gross dividend yield

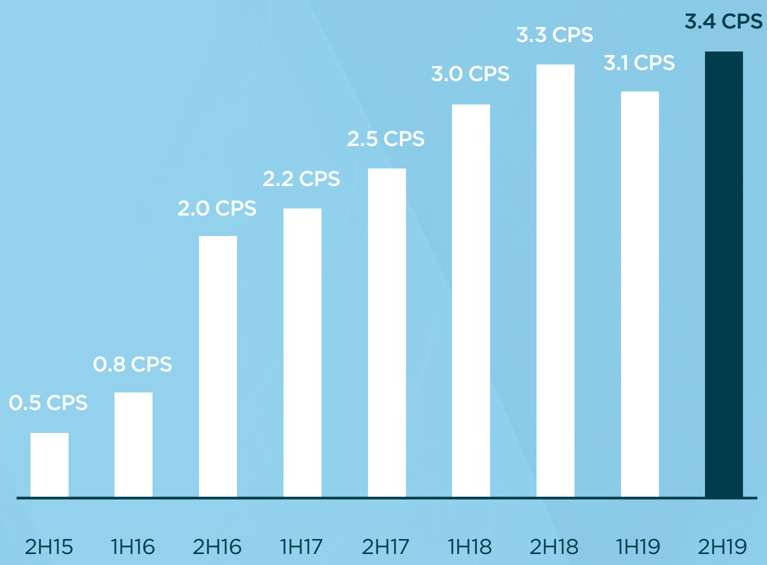
$15.2m
Operating profit after tax

$1.12^
Net tangible assets (NTA) after tax per share

NPAT, $m



DIVIDEND PER SHARE, CENTS PER SHARE (CPS)



Source: Perpetual Equity Investment Company Limited (PIC) as at 19 August 2019.

* Based on the total grossed up dividends of 9.1 cents per share (grossed up to take franking credits into account), and the closing share price of $1.04 as at 28 June 2019. Note: the interim dividend was fully franked at a tax rate of 27.5% and the final dividend was fully franked at a tax rate of 30%.

^ 'After tax' refers to tax paid and provisions for deferred tax on unrealised gains and losses in the Company's investment portfolio. NTA is calculated as at the end of day on the last business day of the month.

Past performance is not indicative of future performance.

CHAIRMAN'S REPORT AUGUST 2019

THE FIFTH ANNUAL GENERAL MEETING WILL BE HELD ON THURSDAY 17 OCTOBER 2019 FROM 2.00 – 4.00PM AT PERPETUAL'S SYDNEY OFFICE

(LEVEL 18, 123 PITT STREET, SYDNEY NSW 2000)

Dear Fellow Shareholders,

Thank you for your ongoing support of the Perpetual Equity Investment Company Limited (the Company). The Board continues to focus on its commitment to deliver long-term growth and consistent, reliable income to shareholders. Key to that commitment is the relationship the Company has with Perpetual Investment Management Limited (the Manager), one of Australia's most experienced fund managers.

The prudent approach of the Board and the Manager assists the Company in delivering long-term sustainable financial results for you, our fellow shareholders. We acknowledge that while the Company's recent share price and investment performance have been disappointing this financial year, our long-term approach still translates to a very attractive dividend yield for our shareholders.

We recognise the critical importance of franking credits to many of the Company's shareholders. We know the Federal election, including the Labor Party's proposed changes to franking credits earlier in the year, created some uncertainty for you. The Board would like to reassure shareholders the Company will continue to pass on the value of franking credits, as it has done since inception.

HIGHLIGHTS

I am pleased to share with you the following highlights for the financial year ending 30 June 2019:

- The Company has declared a fully franked final dividend of 3.4 cents per share, which brings total dividends declared for financial year 2019 (FY19) to 6.5 cents per share fully franked. This provides you with a cash dividend yield of 6.3% and a gross dividend yield of 8.8%[1].
- Net profit after tax (NPAT) of $15.2 million and an operating profit before tax of $16.3 million.
- Net Tangible Assets (NTA) after tax per share of $1.12[2,3].
- Investment returns over the year to 30 June 2019 were 4.3% net of fees, expenses and before tax paid[3,4].

1 Based on the total grossed up dividends of 9.1 cents per share (grossed up to take franking credits into account), and the closing share price of $1.04 as at 28 June 2019. Note: the interim dividend was fully franked at a tax rate of 27.5% and the final dividend was fully franked at a tax rate of 30%.

2 'After tax' refers to tax paid and provisions for deferred tax on unrealised gains and losses in the Company's investment portfolio.

3 NTA is calculated as at the end of day on the last business day of the month.

4 Returns have been calculated on the growth of 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.

INVESTMENT PERFORMANCE

Record low interest rates and elevated company valuations impacted the Manager's performance this year. The Manager looks for quality stocks at low prices, and in an environment where valuations are inflated, opportunities are more scarce. In this context, we are pleased to report we still achieved the investment objective of providing investors with a sustainable income stream. We remain confident in the Manager's ability to actively navigate markets and invest shareholders' capital prudently to assist in preserving value in these conditions. Whilst the Manager's investment process has been challenged in the recent conditions, it has been proven over many market cycles to generate strong long-term returns.

Portfolio Manager Vince Pezzullo, along with his team, continues to work hard to identify high quality companies with sustainable earnings, strong balance sheets and sound management, trading at attractive valuations to deliver consistent investment performance for shareholders. This is underpinned by the Manager's deep research and disciplined investment approach; which Vince discusses in detail in the Portfolio Manager's Report.

DIVIDENDS

The Board maintains its intent to pay dividends franked to 100% or to the maximum extent possible and we remain focused on achieving this for our shareholders. The Board is pleased to announce a fully franked final dividend of 3.4 cents per share, bringing total dividends declared for FY19 to 6.5 cents per share fully franked. This will provide our shareholders with a cash dividend yield of 6.3% and a gross dividend yield of 8.8%[1].

The Company is focused on paying dividends that provide a yield which compares favourably to the Australian market dividend yield. We believe the continued active and prudent management of the Company's franking account will assist us in delivering a comparable yield through a sustainable fully franked dividend in future years. Total dividends declared in FY19 represent an increase on our 6.3 cents per share total dividends declared in FY18.

The Company's Dividend Reinvestment Plan (DRP) remains available to shareholders. The DRP provides you with the choice to receive some or all of your future dividends as ordinary shares in the Company instead of cash. The DRP will be operating at a 2.5% discount for this year's final dividend.

CAPITAL RAISING

During the first half of this financial year we offered existing and new shareholders the opportunity to participate in an Offer. We received a strong response from investors, raising $101.2 million and bringing the Company's market capitalisation to $359.5 million as at 30 June 2019. The proceeds of the capital raising have been used to support the Company in expanding its portfolio and to take advantage of market opportunities as they arise. The capital raising successfully helped enhance depth and liquidity for shareholders with the number of shareholders increasing by 20% to 8,450 and the total volume of shares traded increasing by 10% during FY19.

We acknowledge the share price has dropped since the capital raising and recognise many of you, like the Board, would be disappointed with this outcome. However, the Manager was able to take advantage of weaker share prices to deploy capital and seek out opportunities to deliver value over the long-term for shareholders. I would like to thank you for your support of the capital raising and welcome our new shareholders.

1 Based on the total grossed up dividends of 9.1 cents per share (grossed up to take franking credits into account), and the closing share price of $1.04 as at 28 June 2019. Note: the interim dividend was fully franked at a tax rate of 27.5% and the final dividend was fully franked at a tax rate of 30%..

CHAIRMAN'S REPORT
CONTINUED

GOVERNANCE

The Company's highly experienced Board, which includes three independent directors with areas of expertise across financial services, regulation and risk management, undertakes rigorous governance processes over the year to ensure your money is being appropriately managed. This includes active management and review of the Company's service providers including the Manager, Registry provider (Link Market Services) and Custodian (RBC).

The Manager is required to report to the Board regularly on investment performance and the composition of the underlying portfolio. This year, a focus of questioning and challenge by the Board has been the lower exposure to global listed securities, as well as the higher relative exposure to large-cap Australian companies. The Board has confidence in the Portfolio Manager and the deep expertise of the investment team. It is reassured by the active approach the Manager takes in assessing risk (outlined in the Portfolio Manager's Report) and ensuring shareholders' interests will be protected over the long-term.

SHAREHOLDER SURVEY

During the year, we conducted a survey of all shareholders to gather feedback on what is important to you and understand what we can do to enhance the value we provide and the services we offer. We had an overwhelming response with more than 1,000 shareholders participating. Thank you to everyone who took the time to complete the survey.

Some interesting statistics from the survey include:

- 85% of you indicated franking credits were critical or important.
- We have many long-term shareholders with 43% of the shareholders who responded having been with the Company since it launched in December 2014.
- Most of you (more than 70%) said you are seeking both capital growth and dividend income.
- Investment performance and dividend growth are key motivators to further investment in the Company.
- Many of you (over 60%) are interested in receiving information on the Company's performance and the companies it is invested in.

You may have already noticed some changes in response to your feedback, including enhancements to the Monthly Investment Update and NTA Report, available on the Company's website www.perpetualequity.com.au.

SHAREHOLDER COMMUNICATIONS

The Company understands the importance of keeping shareholders informed and providing opportunities to hear from the Manager about how your capital is being invested. We encourage all shareholders to utilise our comprehensive resources, which provide transparency and keep you informed. Resources include:

- Daily NTA announcement
- Monthly Investment Update and NTA Report
- Monthly Investor Update Newsletter
- Half-year results webinar
- Annual shareholder presentations in major capital cities
- Annual General Meeting

We encourage you to update your preferences on the Company's website to ensure you are kept up to date.

Yours sincerely,

Nancy Fox

Nancy Fox
Chairman

PORTFOLIO MANAGER'S REPORT AUGUST 2019

At Perpetual Investment Management Limited (we or Perpetual), we believe value and quality are critical to making sound investment decisions that will deliver over the long-term. Current market conditions are seeing many participants too focused on what can go right, with very little consideration for what can go wrong. Growth stocks have been outperforming value stocks and investors have been willing to pay what we believe are over-inflated prices for companies, some of which are yet to make a profit. While we know that investment performance has been disappointing this year, we encourage shareholders to remain patient and have a long-term view because when market conditions turn, it is then that prudent and disciplined investment is rewarded.

INVESTMENT PHILOSOPHY AND PROCESS

Perpetual continues to maintain strict adherence to the investment philosophy and process which has defined our approach to investing for the past 50 years through all market cycles. Perpetual focuses on buying high quality companies at prices below what we perceive as fair value, based on company fundamentals and prevailing market conditions. Our large team of equities investment professionals undertake intensive research, on an ongoing basis, to determine both the quality and value of a company.

Key to our process is the use of four quality filters:

1. Quality of business – This test looks at the industry in which the company operates, its market share and barriers to entry, its products and their positioning and any issues such as social and environmental impacts.
2. Conservative debt – Involves strict balance sheet scrutiny to avoid overleveraged companies.
3. Sound management – Based on our assessment of the track record of a company's management. We are looking for management with a history of using shareholders' capital sensibly, a clear focus on maximising shareholder value and strong governance practices.
4. Recurring earnings – We look for companies that have at least a three-year track record of generating earnings and cash flows.

This investment process means we do not focus on trying to predict where markets and prices are heading, rather making investment decisions based on in-depth research which allows us to understand the fundamental risks and opportunities of each company held in the Perpetual Equity Investment Company Limited (the Company) portfolio. Through this approach we aim to minimise downside risk and protect the portfolio during periods of market stress. This approach tends to outperform the share market when it is down, which is beneficial for investors over the long-term.

Ultimately through the long-term, fundamentals will determine share prices. The discipline of investing in quality businesses at reasonable prices and avoiding the irrational exuberance seen in some pockets of the market will serve investors well. We recognise the importance of valuation in determining future returns and understand that it is fundamentals, not headlines, which drive share prices in the long-term. Importantly, at elevated prices it doesn't take much to go wrong for investors to be caught out.

MARKET OVERVIEW

This year, we saw very different market conditions play out over the first and second half of the year. In the first half, it was a pro-growth market. We saw steepening yield curves; the European Central Bank was considering the end of its quantitative easing program and commenced unwinding its balance sheet. There was fiscal stimulus generated by tax cuts in the US, and the Chinese were undertaking reform because global growth was steady.

So why did that all change?

The escalating trade war concerns between the US and China grew from a simple trade issue into dialogue about ideological issues, technology transfer, as well as broader relationship issues around how the Chinese and the American economies work together. Tariffs were imposed on many US and Chinese companies and for many companies importing to the US, their supply chains were disrupted. At the same time the trade tensions were causing global ripples, Brexit was looming large in the background, adding another layer of uncertainty.

The trade war was starting to have a more significant impact on global trade flows than expected. Markets had seen the tip of the iceberg and suddenly recognised it was so much bigger than first thought. This resulted in a sharp market correction in the December quarter, where growth was substantially weaker compared to signals from the equity market at the time.

As markets emerged from this period, there was a significant rotation into long duration, defensive assets. The market raced away, and valuations soared.

Locally, continued dry weather conditions on the East coast increased the severity of the drought and constrained agricultural stocks. Several financial institutions were punished throughout the year as a result of the findings of the Hayne Royal Commission into the sector. However, the market saw a relief rally upon release of the final report, detailing milder-than-expected recommendations for the industry. We had taken the view that bad news had been fully priced into the banks' share prices and had actively shifted the Company's portfolio into banking stocks in anticipation of this rally.

Resource stocks benefitted from gains in commodity prices, particularly iron ore which strengthened on Brazilian supply issues and increasing Chinese steel demand. Gold prices had a solid run on expectations of further global coordinated monetary stimulus amid slowing inflation and stalling global economic growth, while energy stocks struggled on falling crude oil prices.

Malcolm Turnbull's loss of party support led to heightened risk sentiment, although this was short-lived, as a leadership spill saw Scott Morrison appointed as Australia's 30th Prime Minister. Market jitters continued as US-China trade deal uncertainty prevailed over the year, and Brexit concerns lingered as the UK Parliament failed to reach an exit deal. The surprise Coalition victory in the Federal election provided further relief for equities on the grounds of the party's pro-economic policy on capital gains tax, negative gearing, and franking credits. A 25-basis point cut in the official interest rate by the Reserve Bank during June, to a record low of 1.25% (with expectations of additional cuts to come), further boosted equities towards the end of the year.

PORTFOLIO MANAGER'S REPORT
CONTINUED

PORTFOLIO COMPOSITION

The Company's investment strategy is to create a concentrated portfolio of Australian listed securities with typically a mid-cap focus as well as global listed securities. The Company's portfolio is actively managed which means that the exposure of the portfolio varies based on the market cycle and relative value of individual stocks.

As at 30 June 2019, the Company held a high-quality portfolio of 34 Australian and global listed securities. The Company's portfolio had 82.8% of capital invested in securities with the remainder invested in cash.

- 78.3% in Australian listed securities
- 4.5% in global listed securities
- 17.2% in cash

As Manager, we remained true to the Company's concentrated and actively managed investment strategy, with turnover across listed securities of 37% over the year. Importantly, the flexibility to invest up to 25% in global securities and up to 25% in cash provides downside protection and flexibility to take advantage of opportunities when they arise.

INVESTMENT PERFORMANCE

Over the year to 30 June 2019 investment performance of the Company was +4.3%[1]. Whilst this is a positive outcome, it underperformed the benchmark return by 7.1%[2]. Contributing to this difference was the Company's cash holdings, as well as large rallies in stocks that do not pass our quality filters. That is, they do not meet our investment criteria. For example, we cannot hold two of the large movers – Transurban Group and Sydney Airport Holdings Pty Ltd – due to their high leverage ratios.

The portfolio is actively managed, not only for investment performance but also in order to optimise the Company's franking balance to generate dividend income for shareholders. We know that for some shareholders, regular dividends are even more important than investment performance and are pleased the Board has announced a dividend of 3.4 cents per share, bringing the total dividend for FY19 to 6.5 cents per share fully franked. This provides you with a cash dividend yield of 6.3% and a gross dividend yield of 8.8%[3] and represents a sustainable dividend.

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1 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. NTA is calculated as at the end of day on the last business day of the month.

2 The benchmark is the S&P/ASX 300 Accumulation Index.

3 Based on the total grossed up dividends of 9.1 cents per share (grossed up to take franking credits into account), and the closing share price of $1.04 as at 28 June 2019.
Note: the interim dividend was fully franked at a tax rate of 27.5% and the final dividend was fully franked at a tax rate of 30%.

AUSTRALIAN EQUITIES

While the investment strategy of the Company does include Australian listed securities with a typically mid-cap focus, over the past 12 months, the portfolio has also seen a higher exposure to large-cap Australian listed securities. This is in line with our view that, in many cases, large-cap stocks have represented better value relative to small or mid-cap stocks, with mid-cap stocks having rallied considerably and we believe that large caps, such as the banks had been left behind.

The portfolio benefited from its exposure to Australian listed companies Evolution Mining Ltd (ASX: EVN), Aurizon Holdings Ltd, Iluka Resources Ltd and Medibank Private Ltd (ASX: MPL), which all performed well. The portfolio's underweight position in National Australia Bank Ltd (ASX: NAB) also contributed to performance. In contrast, portfolio positions in Bega Cheese Ltd (ASX: BGA) and Fletcher Building Ltd were key detractors from relative performance over the past 12 months.

One of the best performers over 2019 was Evolution Mining Limited (ASX: EVN). EVN is a gold miner with a market cap of A$5.2 billion. EVN provides the portfolio with exposure to the gold price as well as to an asset base that has low capital intensity growth options. EVN has six mines in NSW, QLD and WA and produces around 750,000 ounces of gold per year.

The stock rallied as regulatory approval was received by EVN to commence a new exploration project at their Cowal gold operation in New South Wales. The approval will also allow EVN to perform further drilling at the recently discovered Dalwhinnie Lode. As noted in the market overview, falling interest rates on stalling global economic growth, continued trade tensions between the US and China and Brexit uncertainties, along with geopolitical tensions with Iran, contributed to the rally in the price of gold (increasing 12.6% over the year) which further assisted the stock during this period.

Medibank Private Limited (ASX: MPL) was another strong contributor over the year. MPL is one of the largest health insurers in Australia. We are very impressed with their Chief Executive Officer (CEO) Craig Drummond and whilst we were not surprised that he was being considered for the NAB CEO role, we are pleased that he is going to continue to run MPL. Under his leadership, management has turned the business around operationally and it is now best in class in the private health industry. The stock surged on the unexpected Coalition victory in the Federal election, quelling expectations of a proposed 2% p.a. cap on private health insurance premium increases, that was proposed under a Labor Government. The stock was further supported on reports that APRA has ramped up its warnings of potential forced mergers of health insurers that are facing sustainability challenges due to decreasing affordability of health insurance policies.

We continue to have a positive outlook for MPL. It has a high return on equity (ROE) investment, net cash balance sheet that can increase its dividend payout ratio, has excess capital and this is all on a market multiple. We believe MPL is best in class outperforming peers and competitors with its initiatives getting claim costs down and it is well ahead of the industry in this regard. Ultimately, it is a high-quality business that has been overlooked by the market.

Dairy producer Bega Cheese Ltd (ASX: BGA) detracted from relative performance over the 12 months to 30 June. A disappointing first-half financial result, along with weaker than expected full year earnings guidance resulted in a fall in the stock price. Earnings were impeded by severe drought conditions on the east coast, impacting the dairy industry and leading to farming-cost increases and a decline in the total milk supply. In this environment, the competition for milk supply from processors has increased the amount BGA is paying for its milk which has depressed margins. The Company continues to hold the stock as we believe BGA is currently trading at a discount to its fair value and has a strong management team that, over time, has proven itself a proficient allocator of capital.

PORTFOLIO MANAGER'S REPORT
CONTINUED

The portfolio's underweight position in diversified miner BHP Group Ltd (ASX: BHP) detracted from relative performance. The stock rallied over the financial year as iron ore rebounded, with Australian iron ore gaining +41.1% over the year, boosted on supply shortages attributed to the Vale-owned dam disaster in Brazil during January, and exacerbated by escalating US-China trade tensions. The stock was further assisted on rallying coal prices, ending +25.5% higher over the year. The successful completion of a US$5.2 billion off-market share buyback and subsequent announcement of a fully franked special dividend of A$1.42 per share additionally supported the rally in BHP.

We're excited about the investment in mid-cap stock Select Harvests Ltd (ASX: SHV). SHV is an Australian-based grower, processor and marketer of almonds and almond based value-added products. SHV exports most of its almonds and therefore the price it realises for the sale of its crop is highly leveraged to global almond prices. We believe the combination of a favourable outlook for global almond pricing due to demand / supply dynamics and growth in production will underpin ongoing earnings growth over the medium to long-term.

GLOBAL OPPORTUNITIES

As noted above, the Company can hold up to 25% of its assets in global listed securities. The exposure of the portfolio to global securities has varied over time based on global economic conditions and the availability of global securities that meet our investment criteria and represent compelling value. Over the past 12 months, we have reduced the Company's global exposure as the key positions have been sold down, including Shire PLC (Shire).

Given that global listed securities do not provide the benefits of franking credits, global opportunities need to be particularly compelling and high conviction positions. These opportunities are rare and must be in line with our strict quality and value investment process. The lower exposure to global securities during this financial year reflects that discipline.

As at 30 June 2019, the Company had a 4.5% exposure to global securities, including Siemens AG and Flutter Entertainment Plc (Flutter). Flutter (formerly Paddy Power Betfair PLC) is a UK-based international sports betting and gaming operator.

The global security that contributed most to the Company's performance over the year was Takeda Pharmaceuticals Co Ltd (Takeda). During the December quarter, the Company took profit on Shire which had been the Company's largest global exposure for some time. Shire was subject to a takeover by Takeda and the Company exited the position as we believed full value had been realised. A new position was then initiated in Takeda. The opportunity arose as Takeda's shares sold off in 2018 due to concerns around productivity gains following the departure of the previous Chief Financial Officer and Shire acquisition. Three subsequent quarterly results showed productivity gains. Takeda is a diversified global top twenty pharmaceutical company trading on nine times forward earnings. There is no equivalent exposure in Australia.

We continue to actively look for new and compelling global opportunities for the Company and will increase exposure where we have high conviction that the investment will benefit the Company's shareholders.

OUTLOOK

Perpetual has invested in Australian shares for over 50 years and has experience over many market cycles. This includes the height of the dotcom bubble and through the Global Financial Crisis. As such, we are navigating familiar territory and we remain confident that when the market does indeed reach an inflection point, our tried and tested investment process and philosophy – which emphasises quality and value – will deliver as it has over many market cycles.

As I reflect on the Company's portfolio, I am excited about the high-quality businesses that it holds. They are all solid companies that are making money, with strong balance sheets and sound management.

I also firmly believe that it is in times like these, especially late in the cycle where we are beginning to witness less rational investor behaviour, that it is important to have sensible, conservative and consistent management of your money.

Thank you for your continued support and trust.

Vince Pezzullo
Portfolio Manager

INVESTMENT PORTFOLIO

List of investments held at 30 June 2019	Market value $'000
Australian listed securities	
Amcor Limited	8,095
Bega Cheese Limited	5,521
BetaShares Australian Equities Bear Hedge Fund	3,119
Bluescope Steel Limited	7,921
Brambles Limited	6,338
Commonwealth Bank of Australia	27,899
Crown Resorts Limited	7,691
DuluxGroup Limited	7,714
Elders Limited	3,329
Event Hospitality and Entertainment Limited	2,448
Evolution Mining Limited	14,601
Fletcher Building Limited	8,550
Gaincorp Limited A Class	6,013
Iluka Resources Limited	10,766
Incitec Pivot Limited	8,574
Medibank Private Limited	14,225
National Australia Bank Limited	17,216
Oil Search Limited	5,427
Origin Energy Limited	9,189
Orora Limited	8,816
PWR Holdings Limited	809
Select Harvests Limited	8,781
Sonic Healthcare Limited	8,107
Suncorp Group Limited	18,919
Tabcorp Holdings Limited	11,497
Telstra Corporation Limited	20,153
The Star Entertainment Group Limited	6,727
Viva Energy Group Limited	5,103
Westpac Banking Corporation	20,603
Woolworths Group Limited	20,000
Total Australian listed securities	**304,151**
Global listed securities	
Ausnutria Dairy Corporation Limited	3,619
Flutter Entertainment PLC	4,728
Siemens AG	5,697
Takeda Pharmaceutical Company Limited	3,408
Total global listed securities	**17,452**
Cash and deposit products	
Cash at bank	63,647
Total cash and deposit products	**63,647**
Total	**385,250**

The total number of securities transactions entered during the year was 1,185.

The total brokerage paid during the year was $1,177,969 (GST inclusive).

DIRECTORS' REPORT

The Directors present their report together with the annual financial report of Perpetual Equity Investment Company Limited (the Company) for the year ended 30 June 2019 and the auditor's report thereon.

Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

Nancy Fox, Chairman and Non-executive Director
BA, JD (Law), FAICD

Appointed Chairman and Director on 1 July 2017.

Nancy Fox is currently a Non-executive Director of Perpetual Limited, a member of Perpetual's Audit, Risk and Compliance Committee and People and Remuneration Committee. She is also a Non-executive Director of ING Bank Australia and Lawcover Pty Ltd, and Deputy Chairman of the Board of Taronga Conservation Society Australia.

Nancy Fox has more than 30 years of experience in financial services, securitisation and risk management gained in Australia, the US and across Asia. A lawyer by training, she was Managing Director for Ambac Assurance Corporation from 2001 to 2011 and previously Managing Director of ABN Amro Australia from 1997 to 2001.

Listed company directorship held during the past three financial years:

• Perpetual Limited (from September 2015 to present)

Virginia Malley, Non-executive Director
BA, MAppFin, Juris Doctor, GradDipEnvLaw, LLM, FAICD

Appointed Director on 25 August 2014. Virginia Malley is a member of the Company's Nomination and Corporate Governance Committee and the Audit and Risk Committee.

Virginia Malley is currently a Non-executive Director of Perpetual Superannuation Limited, a member of several Perpetual Compliance Committees and the Sydney Airport Trust Compliance Committee, Deputy Chair of The NSW Biodiversity Conservation Trust, Member of the Clean Energy Regulator and Non-Executive Director of Morphic Ethical Equities Limited.

Virginia Malley has 30 plus years of experience in the investment and banking sectors, including more than 16 years as a company director. Her areas of expertise are financial and environmental markets and governance, superannuation, risk management and regulatory compliance. She previously worked at Macquarie Group from 1987 to 2012 where her roles included Chief Risk Officer and membership of the Clean Technology, Asia/Pacific, Private Equity and Global/Advisory Investment Committees at Macquarie Funds Management Group.

Listed company directorship held during the past three financial years:

• Morphic Ethical Equities Limited (from March 2017 to present)
• 1-Page Limited (from June 2016 to December 2016)

Directors (continued)

John Edstein, Non-executive Director
BEc, LLB, LLM (Hons)

Appointed Director on 26 September 2014. John Edstein is also the Chairman of the Nomination and Corporate Governance Committee and a member of the Audit and Risk Committee of the Company.

John Edstein is currently a Director of Macquarie Investment Management Limited (appointed 1 July 2013) and now Chairman of that Board (appointed 16 November 2017) and is a Director of Retail Employees Superannuation Pty Ltd (Trustee of the Retail Employees Superannuation Trust, appointed 4 October 2013). He is also a Senior Legal Consultant for Carroll & O'Dea Lawyers and Special Counsel for Walsh Bay Partners Pty Ltd (a family office for high net worth individuals, families and foundations).

John Edstein has more than 35 years of experience as a legal practitioner. His primary practice areas have been superannuation, life insurance and trusts and the tax aspects of those areas. That experience has included extensive consideration of corporate law, corporate governance and the legal aspects of investment structures. He was formerly a partner in the Tax and Superannuation Group of King & Wood Mallesons (formerly Mallesons Stephen Jaques) from 1990 to 2012 and was National Practice Team Leader of that group from 2006 to 2011. He was a member of the Law Council of Australia Superannuation Committee from 1988 to 2008 and is now an Emeritus Member and, is a member of the Tax Institute of Australia and is a Chartered Tax Adviser.

Christine Feldmanis, Non-executive Director
FAICD, SFFin, TFASFA, CPA, CSA, BComm, MAppFin, JP

Appointed Director on 26 September 2014. Christine Feldmanis is also the Chairman of the Audit and Risk Committee and a member of the Nomination and Corporate Governance Committee of the Company.

Christine Feldmanis is currently a Non-executive Director and Chair of the Audit and Risk Committees of Hunter Water Corporation, IMF Bentham Limited and FIIG Securities Limited. She is also a Director of Uniting Financial Services and Bell Asset Management Limited.

Christine Feldmanis has more than 30 years of experience in the financial arena, with both government and private sectors. She has extensive experience in investment management, finance, accounting and risk management, legal and regulatory compliance, governance and business building in both the listed and unlisted financial products markets. She formerly held senior executive and C suite positions with firms including Deloitte, Elders Finance, Bankers Trust, NSW TCorp and Treasury Group Limited.

Listed company directorship held during the past three financial years:

• IMF Bentham Limited (from 1 November 2018 to present)

David Lane, Executive Director
BEc, GAICD

Appointed Director on 20 November 2017.

David Lane is the Group Executive of Perpetual Investments (a division of Perpetual Limited) and a Director of Perpetual Investment Management Limited.

David Lane has more than 20 years of experience in asset management, wealth management and investment banking, and a deep understanding of the local and global financial services landscape. Before Perpetual, he spent five years as CEO of Count Financial after initially joining the Commonwealth Bank of Australia in the role of General Manager - Wealth Management Strategic Development. Prior to this he held COO positions at both Neuberger Berman and Liberty View Capital where he was responsible for managing a number of multi-billion-dollar hedge funds. He has also held roles at Aetos Capital, JP Morgan and Goldman Sachs.

Company secretaries

Sylvie Dimarco
LLB, GIA (Cert), MAICD

Appointed Company Secretary on 25 August 2014.

Sylvie Dimarco joined Perpetual Limited in March 2014 and is the Deputy Company Secretary. She has over twelve years of experience in company secretariat practice and administration. She previously practiced as a commercial lawyer.

Eleanor Padman
BA(Hons), OXON, AGIA, ACIS

Appointed Company Secretary on 20 November 2017.

Eleanor Padman joined Perpetual Limited in July 2017 as the General Manager, Legal, Compliance and Company Secretariat. Prior to joining Perpetual, she was the General Counsel and Company Secretary at Pinnacle Investment Management Limited. She is a lawyer with over 20 years of commercial experience gained in house and in private practice, both in the UK and Australia. She has also served on a number of boards in the public, private and not for profit arenas.

Directors' meetings

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2019:

	Board		Audit and Risk Committee		Nomination and Corporate Governance Committee	
	Held	Attended	Held	Attended	Held	Attended
Directors						
Nancy Fox	6	6	-	-	-	-
Virginia Malley	6	5	4	4	3	3
John Edstein	6	6	4	4	3	3
Christine Feldmanis	6	6	4	4	3	3
David Lane	6	5	-	-	-	-

Corporate Governance Statement

The Company's Corporate Governance Statement, which meets the requirements of Australian Securities Exchange Listing Rule 4.10.3, is provided on the Company's website at www.perpetualequity.com.au.

Principal activities

The Company is a listed investment company established to invest in a concentrated and actively managed portfolio of Australian listed securities with typically a mid-cap focus and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. 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.

Review of operations

	30 June 2019 $'000	30 June 2018 $'000
Profit/(loss) before income tax	**16,272**	32,260
Income tax benefit/(expense)	**(1,053)**	(7,433)
Profit/(loss) for the year attributable to shareholders	**15,219**	24,827

For the year ended 30 June 2019, the Company's Net Tangible Asset (NTA) after tax decreased by 1.9% to $1.12 per share, which is predominantly attributable to the market weakness during the first half of the year and the recovery of investment return in the second half of the year. In addition, the Company paid two fully franked dividends totalling 6.4 cents per share during the year. Both dividends were fully franked at a tax rate of 27.5%.

In accordance with the *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017*, the Company was previously expected to meet the base rate entity definition and therefore the lower tax rate of 27.5% was applied for the tax provision calculation in its NTA and dividend payments during the year. Upon the finalisation of the tax provision calculation for the year ended 30 June 2019, the Company did not meet the definition. As a result, the applicable tax rate of 30% was used for the calculation of the current tax and deferred tax in the financial report for the year ended 30 June 2019.

During the year the Company conducted a capital raising for existing and prospective shareholders via an Entitlement Offer, Shortfall Offer and General Offer (collectively, referred to as the Offer). In total the Company raised $101,245,229 by the issue of 90,397,526 fully paid ordinary shares at an issue price of $1.12 per share. The additional capital has been used to grow the Company's portfolio by undertaking investments consistent with the Company's current investment policy, objectives and guidelines.

The Manager's investment process continues to identify high quality businesses with recurring earnings, conservative debt and sound management, trading at attractive valuations to deliver a regular income stream and long-term capital growth for shareholders. This is underpinned by the Manager's deep research and disciplined investment approach.

Further information on the operating and financial review of the Company and its prospects is contained in the Chairman's Report and Portfolio Manager's Report.

Dividends

Dividends paid or provided by the Company to shareholders since the end of the previous financial year were:

	Cents per share	Total amount $'000	Payment date
Declared and paid during the financial year 2019			
Final 2018 dividend	**3.3**	**11,380**	**2 November 2018**
Interim 2019 dividend	**3.1**	**10,690**	**26 April 2019**
Declared after the end of financial year 2019			
On 19 August 2019, the Directors declared :			
Final 2019 dividend	**3.4**	**11,754**	**18 October 2019**

Dividends declared and paid during the year ended 30 June 2019 were fully franked at a tax rate of 27.5%. The final 2019 dividend declared after year end is fully franked at a tax rate of 30%.

The financial effect of dividends declared after year end is not reflected in the financial report for the year ended 30 June 2019 and will be recognised in the subsequent financial report.

The issue price for the Dividend Reinvestment Plan (DRP) has been set at a 2.5% discount to the average market price.

State of affairs

There were no significant changes in the state of affairs of the Company during the financial year other than the matter previously disclosed under the review of operations.

Events subsequent to reporting date

The Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report that has or may significantly affect the operations of the Company, the results of these operations or the state of affairs of the Company in the subsequent financial years.

Likely developments

The Company will continue to be managed in accordance with the investment objectives and guidelines as set out in the Replacement Prospectus dated 14 October 2014 and in accordance with the provisions of the Company's Constitution.

Environmental regulation

The operations of the Company are not subject to any particular or significant environmental regulations under a law of the Commonwealth, or of a State or Territory.

Indemnification of directors and officers

The Company indemnifies, to the extent permitted by law, each Director in respect of certain liabilities which the Director may incur as a result of being or acting as an officer of the Company, including legal expenses. The auditor of the Company is in no way indemnified out of the assets of the Company.

Insurance

In accordance with the provisions of the *Corporations Act 2001*, the Company has a directors and officers' liability policy of insurance which covers all Directors and officers of the Company. The insurance policy covers the Directors for the period that they are officers and for seven years after they cease to act as officers. The terms of the policy specifically prohibit disclosure of details of the amount of the insurance cover and the premium paid.

Remuneration report: Audited

This report sets out the remuneration arrangements for all Key Management Personnel, being the Non-executive Directors and the Executive Director of Perpetual Equity Investment Company Limited for the year ended 30 June 2019.

The information in this Remuneration report has been audited by the Company's auditor, KPMG, as required by section 308(3C) of the *Corporations Act 2001*.

(a) Key management personnel

Below are the Company's Key Management Personnel for the year ended 30 June 2019:

Name	Position	Term
Nancy Fox	Chairman and Non-executive Director	Full year
Virginia Malley	Non-executive Director	Full year
John Edstein	Non-executive Director	Full year
Christine Feldmanis	Non-executive Director	Full year
David Lane	Executive Director	Full year

Remuneration report: Audited (continued)

(b) Remuneration of directors

Remuneration policy

The Board, with the recommendation of the Nomination and Corporate Governance Committee, determines the size and composition of the Board and its Committees. The Company has not established a remuneration committee as the Board has determined it is not necessary to establish a separate remuneration committee given there are no paid employees.

The Board reviews and approves the remuneration of individual Board members. Remuneration paid to the Non-executive Directors aims to ensure the Company can attract and retain suitably skilled, experienced and committed individuals.

Non-executive Directors do not receive performance-related remuneration and are not entitled to participate in equity-based incentive plans.

The Executive Director, David Lane is not entitled to Directors' fees or any other form of remuneration from the Company for his services. He is the Group Executive of Perpetual Investments (a division of Perpetual Limited) and a Director of Perpetual Investment Management Limited (the Manager). His remuneration is governed by the remuneration policy of Perpetual Limited, the parent company of the Manager.

Fee framework

Non-executive Directors receive a base fee. They do not receive additional fees for participating in Board Committees.

Total remuneration available to the Directors is a maximum of $250,000 as set out in the Company's Constitution (excluding the Executive Director). The aggregate amount of Directors' remuneration was set in 2014 at $170,000 per annum (including superannuation). Effective from 1 July 2018, the Directors' remuneration increased to a combined total of $187,000 per annum (including superannuation). Any increase in the aggregate amount of Directors' fees over $250,000 must be approved by a resolution of the shareholders as required by the Company's Constitution.

	30 June 2019 $	30 June 2018 $
Non-executive Directors' fees		
Chairman	**55,000**	50,000
Directors	**44,000**	40,000
Audit and Risk Committee	**-**	-
Nomination and Corporate Governance Committee	**-**	-

The fees above are inclusive of superannuation contributions, capped at the maximum prescribed under Superannuation Guarantee legislation. Non-executive Directors may also salary-sacrifice superannuation contributions out of their base fees if they so wish.

Remuneration report: Audited (continued)

(b) Remuneration of directors (continued)

Remuneration of directors

The following table sets out the Directors’ remuneration paid and accrued by the Company for the years ended 30 June 2019 and 30 June 2018.

Directors	Directors' fees $	Superannuation $	Total $
Nancy Fox			
2019	**50,228**	**4,772**	**55,000**
2018	45,662	4,338	50,000
Virginia Malley			
2019	**36,164**	**7,836**	**44,000**
2018	32,877	7,123	40,000
John Edstein			
2019	**40,183**	**3,817**	**44,000**
2018	36,530	3,470	40,000
	-		
Christine Feldmanis			
2019	**40,183**	**3,817**	**44,000**
2018	36,530	3,470	40,000
David Lane			
2019	**-**	**-**	**-**
2018	-	-	-
Total 2019	**166,758**	**20,242**	**187,000**
Total 2018	151,599	18,401	170,000

Non-executive Directors do not receive any non-cash benefits as part of their remuneration.

David Lane was not entitled to Directors' fees or any other form of remuneration from the Company for his services. He is remunerated by Perpetual Limited, the parent company of the Manager.

(c) Retirement policy

Directors who have been in office for three years since their last election must retire and may seek re-election at the Company's next Annual General Meeting of shareholders.

The Company's Board Tenure and Performance Policy provides that in order to revitalise the Board, Directors should not seek re-election after three elected terms of three years (i.e. a total of 9 years on the Board) unless the Board (through the Nomination and Corporate Governance Committee) requests them to do so.

Remuneration report: Audited (continued)

(d) Key Management Personnel shareholdings held directly or indirectly

The relevant interests in ordinary shares of the Company that each Director held (in number of shares) at the reporting date were:

Directors	Balance at 1 July 2018	Number of shares acquired	Number of shares disposed	Balance at 30 June 2019
Nancy Fox	157,833	55,950	-	213,783
Virginia Malley	99,387	28,737	-	128,124
John Edstein	98,268	24,567	-	122,835
Christine Feldmanis	218,971	63,313	-	282,284
David Lane	-	18,497	-	18,497

End of Remuneration Report: Audited

Non-audit services

There were no fees paid to KPMG for non-audit services for the year ended 30 June 2019 and 30 June 2018.

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Rounding of amounts to the nearest thousand dollars

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in the Directors' report and annual financial report have been rounded to the nearest thousand dollars in accordance with the Legislative Instrument, unless otherwise indicated.

Signed on behalf and in accordance with a resolution of the Directors:

Nancy Fox

Chairman

Sydney
19 August 2019

Director

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Perpetual Equity Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Perpetual Equity Investment Company Limited for the financial year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Martin McGrath

Partner

Sydney

19 August 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	30 June 2019 $'000	30 June 2018 $'000
Investment income			
Dividends		**15,924**	7,529
Interest		**1,044**	755
Net gains/(losses) on financial instruments at fair value through profit or loss	3(c)	**5,228**	28,345
Net foreign exchange gains/(losses)		**(78)**	(38)
Other operating income		**-**	2
Total investment income		**22,118**	36,593
Expenses			
Management fees	4(a)	**3,610**	2,973
Other expenses	4(b)	**2,236**	1,360
Total expenses		**5,846**	4,333
Profit/(loss) before income tax		**16,272**	32,260
Income tax benefit/(expense)	5(a)	**(1,053)**	(7,433)
Profit/(loss) after income tax		**15,219**	24,827
Other comprehensive income		**-**	-
Total comprehensive income for the year		**15,219**	24,827
Earnings per share*			
Basic earnings per share (cents per share)	6	**4.73**	9.68
Diluted earnings per share (cents per share)	6	**4.73**	9.68

*Prior period comparative earnings per share were adjusted retrospectively in accordance with Australian Accounting Standards due to the bonus element of the capital raising. Refer to note 6.

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019 $'000**	30 June 2018 $'000
Assets			
Cash and cash equivalents	12(c)	**63,647**	69,093
Financial assets at fair value through profit or loss	9	**321,603**	224,382
Receivables	10	**6,243**	1,590
Current tax receivable		**3,640**	-
Total assets		**395,133**	295,065
Liabilities			
Current tax payable		**-**	531
Payables	11	**3,644**	388
Deferred tax liability	5(c)	**6,264**	4,159
Total liabilities		**9,908**	5,078
Net assets		**385,225**	289,987
Equity			
Contributed equity	8(a)	**351,950**	249,861
Retained earnings		**13,358**	10,403
Profit reserve		**19,917**	29,723
Total equity		**385,225**	289,987

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

	Notes	Contributed Equity $'000	Retained Earnings $'000	Profit Reserve $'000	Total $'000
Balance at 1 July 2018		**249,861**	**10,403**	**29,723**	**289,987**
Total comprehensive income for the year		**-**	**15,219**	**-**	**15,219**
Transfers to profit reserve		**-**	**(12,264)**	**12,264**	**-**
Transactions with members in their capacity as shareholders:					
Shares issued from capital raising	8(a)	**101,245**			**101,245**
Shares issued from dividend reinvestment plan	8(a)	**844**	**-**	**-**	**844**
Dividends paid	7(a)	**-**	**-**	**(22,070)**	**(22,070)**
Balance at 30 June 2019		**351,950**	**13,358**	**19,917**	**385,225**

	Notes	Contributed Equity $'000	Retained Earnings $'000	Profit Reserve $'000	Total $'000
Balance at 1 July 2017		248,712	6,541	22,707	277,960
Total comprehensive income for the year		-	24,827	-	24,827
Transfers to profit reserve		-	(20,965)	20,965	-
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	8(a)	1,149	-	-	1,149
Dividends paid	7(a)	-	-	(13,949)	(13,949)
Balance at 30 June 2018		249,861	10,403	29,723	289,987

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Notes	30 June 2019 $'000	30 June 2018 $'000
Cash flows from operating activities			
Dividends received		**16,846**	6,433
Interest received		**1,045**	754
Other income received		**322**	293
Management fees paid		**(3,803)**	(3,196)
Income tax paid		**(3,119)**	(10,992)
Other expenses paid		**(2,362)**	(1,411)
Net cash from operating activities	12(a)	**8,929**	(8,119)
Cash flows from investing activities			
Proceeds from sale of investments		**305,180**	228,179
Payments for purchase of investments		**(399,574)**	(199,588)
Net cash from investing activities		**(94,394)**	28,591
Cash flows from financing activities			
Proceeds from issue of shares under capital raising		**101,245**	-
Dividends paid - net of dividend reinvestment plan		**(21,226)**	(12,800)
Net cash from financing activities		**80,019**	(12,800)
Net increase/(decrease) in cash and cash equivalents		**(5,446)**	7,672
Cash and cash equivalents held at the beginning of the year		**69,093**	61,421
Cash and cash equivalents at the end of the year	12(c)	**63,647**	69,093

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

Notes to and forming part of the financial statements for the year ended 30 June 2019

1 Reporting entity

Perpetual Equity Investment Company Limited (the Company) is domiciled in Australia. The Company was incorporated on 25 August 2014. The address of the Company's registered office is at Level 18, 123 Pitt Street, Sydney NSW 2000.

The Company is a listed investment company established to invest in a concentrated and actively managed portfolio of Australian listed securities with typically a mid-cap focus and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. 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. The investment activities of the Company are managed by Perpetual Investment Management Limited (the Manager).

The annual financial report for the year ended 30 June 2019 was authorised for issue by the Directors on 19 August 2019.

2 Basis of preparation

The annual financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the annual financial report.

The annual financial report has been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

Compliance with International Financial Reporting Standards

The annual financial report also complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

Use of estimates

Management makes estimates and assumptions that affect the reported amounts in the financial statements. Estimates and associated assumptions are continuously evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

For the majority of the Company's financial instruments, quoted market prices are readily available. However, when certain financial instruments are fair valued using valuation techniques (for example, pricing models), observable data is used to the extent practicable. Management may be required to make estimates which may be based on assumptions and any changes in assumptions would affect the reported fair value of financial instruments.

The adoption of AASB 9 introduced a new expected credit loss (ECL) impairment model, which has not materially impacted the Company (refer to note 10).

Functional and presentation currency

The annual financial report is presented in Australian dollars, which is the Company's functional currency.

Notes to and forming part of the financial statements for the year ended 30 June 2019

2 Basis of preparation (continued)

New and amended accounting standards adopted by the Company

The following Australian Accounting Standards have been adopted by the Company for the reporting period beginning 1 July 2018:

(i) AASB 9 *Financial Instruments*

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It replaces the multiple classification and measurement models in AASB 139 with a new model that classifies financial instruments based on the business model within which the financial instruments are managed, and whether the contractual cash flows under the instrument solely represent the payment of principal and interest. It also introduces revised rules around hedge accounting and impairment.

Under AASB 9, financial instruments are classified as:

• Amortised cost if the objective of the business model is to hold the financial instruments to collect contractual cash flows only and the contractual cash flows under the instrument represent solely payments of principal and interest (SPPI);

• Fair value through other comprehensive income if the objective of the business model is to hold the financial instruments both to collect contractual cash flows from SPPI and for the purpose of sale; or

• All other financial instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument represent solely payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell.

All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

AASB 9 has been applied retrospectively (without restating comparatives) by the Company from 1 July 2018 and it did not result in a change to the measurement of financial instruments. The Company’s investment portfolio continues to be measured at fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. The derecognition rules have not been changed from previous requirements and the Company does not apply hedge accounting. As the Company’s investments are all at fair value through profit or loss, the change in impairment rules will not have a material impact on the Company. The Company's cash and cash equivalents and receivables which had previously been classified as loans and receivables and measured at amortised cost under AASB 139 are now classified as amortised cost and continue to be measured at amortised cost under AASB 9. The impact of any expected credit losses (ECL) is not material.

Notes to and forming part of the financial statements for the year ended 30 June 2019

2 Basis of preparation (continued)

New and amended accounting standards adopted by the Company (continued)

(ii) AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a single revenue recognition framework using a five-step model based on the transfer of goods and services and the consideration expected to be received in return for that transfer.

The Company's main source of income is investment income, in the form of gains on financial instruments at fair value as well as interest and dividend income. All these income types are outside the scope of the standard. Accordingly, the adoption of new revenue recognition rules did not have a material impact on the Company's accounting policies or the amounts recognised in the financial statements.

New accounting standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 1 January 2019. Management has made an assessment and concluded that none of these are expected to have a material impact on the financial statements.

3 Investment income

(a) Dividend income

Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss when the Company's right to receive payment is established.

(b) Interest income

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents.

(c) Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) arising from changes in the fair value measurement comprise:

	30 June 2019 $'000	30 June 2018 $'000
Net unrealised gains/(losses) on financial instruments at fair value through profit or loss	**5,058**	5,448
Net realised gains/(losses) on financial instruments at fair value through profit or loss	**170**	22,897
Net gains/(losses) on financial instruments at fair value through profit or loss	**5,228**	28,345

(d) Other income

Other income is brought to account on an accruals basis.

(e) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as net foreign exchange gains/(losses).

Translation differences on financial assets and liabilities carried at fair value are reported as part of their fair value gain or loss.

Notes to and forming part of the financial statements for the year ended 30 June 2019

4 Expenses

All expenses are recognised, net of the amount of Goods and Services Tax (GST) recoverable from the taxation authority, in profit or loss on an accruals basis.

(a) Management fees

The Manager, Perpetual Investment Management Limited, receives a management fee of 1.00% per annum (plus GST) for the first $1 billion of the Portfolio Net Asset Value, and 0.85% per annum (plus GST) of the Portfolio Net Asset Value in excess of $1 billion. In accordance with the Replacement Prospectus dated 14 October 2014, the Portfolio Net Asset Value means the market value of the assets of the Portfolio, reduced by any accrued but unpaid expenses of the Company, but not provisions for tax payable or unpaid dividends of the Company, and after subtracting any borrowings drawndown. The management fees are calculated and accrued daily and paid monthly in arrears.

	30 June 2019	30 June 2019
Management fees	**3,610**	2,973

The Manager is appointed for an initial term of five years unless terminated earlier. The Management Agreement will be automatically extended for a further five-year term on the expiry of the initial term unless terminated earlier in accordance with its terms.

If the Management Agreement is terminated during the extended term, then in certain circumstances the Manager will be entitled to a termination payment equal to 5.0%, reduced by one sixtieth (1/60) for each whole calendar month elapsed between the commencement of the extended term and the termination date, of the net tangible asset backing of each share in each class of shares in the Company as calculated under the ASX Listing Rules multiplied by the number of shares on issue in that class of shares as at the termination date.

In addition, the Manager agreed to pay all of the costs incurred in raising additional capital under the Offer in accordance with the Prospectus dated 20 August 2018. If the Management Agreement is terminated during the initial or extended term, then in certain circumstances the Manager will be entitled to be reimbursed for these costs, multiplied by the number of days in the period from the date of termination to the last day of the extended term and divided by the number of days in the period from the date of issue of the new shares to the last day of the extended term.

(b) Other expenses

	30 June 2019 $'000	30 June 2018 $'000
Directors' remuneration	**187**	170
Auditors' remuneration	**82**	80
ASX fees	**101**	78
Registry services	**203**	116
Custody administration fees	**84**	63
Brokerage	**1,109**	639
Other operating expenses	**470**	214
Total other expenses	**2,236**	1,360

4 Expenses (continued)

(c) Auditor's remuneration

	30 June 2019 $	30 June 2018 $
Amount received or due and receivable by KPMG:		
Audit and review of financial statements	**81,766**	80,158

5 Income tax

In accordance with the *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017*, the Company is subject to 30% tax on its earnings and any tax payments for the year ended 30 June 2019 (2018: 30%).

The Company was previously expected to meet the base rate entity definition and therefore the lower tax rate of 27.5% was applied for the tax provision calculation in its NTA and dividend payment during the year. Upon the finalisation of the tax provision calculation for the year ended 30 June 2019, the Company did not meet the definition. As a result, both current tax and deferred tax were calculated using 30% tax rate in the financial report for the year ended 30 June 2019 (2018: current tax was calculated at 30% tax and deferred tax was calculated at 27.5% tax).

(a) Income tax benefit/(expense)

	30 June 2019 $'000	30 June 2018 $'000
Current tax		
Current income tax benefit/(expense)	**1,052**	(5,841)
Adjustment for prior years	**-**	(2)
Deferred tax		
Temporary differences	**(2,105)**	(1,590)
Total income tax benefit/(expense)	**(1,053)**	(7,433)

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and, where applicable, any adjustment to tax payable in respect of previous periods. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is explained in note 5(c).

5 Income tax (continued)

(b) Reconciliation of income tax benefit/(expense) to prima facie tax payable

	30 June 2019 $'000	30 June 2018 $'000
Profit/(loss) before income tax	**16,272**	32,260
Prima facie income tax calculated at Company's tax rate of 30%	**(4,882)**	(9,678)
(Increase)/decrease tax payable		
Franking credits	**4,393**	1,794
Foreign income tax offsets	**32**	75
Tax adjustment from participating in buy back	**(217)**	-
Adjustment in the deferred tax due to tax rate changes	**(379)**	378
Adjustment for prior years	**-**	(2)
Income tax benefit/(expense)	**(1,053)**	(7,433)

(c) Deferred tax asset/(liability)

The balance comprises temporary differences attributable to:

	30 June 2019 $'000	30 June 2018 $'000
Net unrealised (gains)/losses	**(6,251)**	(4,515)
Auditors' remuneration	**-**	15
Dividends receivable	**(13)**	(37)
Transaction costs on the IPO - future tax deductions	**-**	378
Total deferred tax asset/(liability)	**(6,264)**	(4,159)

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax liability is recognised when there is a taxable temporary difference between the tax base of an asset or liability and its corresponding carrying amount in the statement of financial position. This arises when the carrying amount of an asset exceeds its tax base.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset deferred tax assets and liabilities and the deferred tax balances relate to the same taxation authority.

Notes to and forming part of the financial statements for the year ended 30 June 2019

6 Earnings per share

	30 June 2019	30 June 2018*
Basic earnings per share (cents per share)	**4.73**	9.68
Diluted earnings per share (cents per share)	**4.73**	9.68
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**321,589,770**	256,519,835
Earnings used in the calculation of basic and diluted earnings per share ($'000)	**15,219**	24,827

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue and ordinary shares that the Company expects to issue.

* The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for the comparative period has been adjusted retrospectively in accordance with Australian Accounting Standards following the capital raising announced on 20 August 2018. The capital raising was conducted at a discount to market price (bonus element), resulting in a theoretical dilution of existing ordinary shares on issue and a decrease in basic and diluted earnings per share.

7 Dividends

The Company currently intends to pay a dividend twice a year. The amount of the dividend will be at the discretion of the Board and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors that the Board deems relevant. It is the Board's intention that all dividends paid will be franked to 100% or to the maximum extent possible.

(a) Dividends paid

	Cents per share	**Total amount $'000**	**Franking**	**Payment date**
30 June 2019				
Final 2018 ordinary	**3.3**	**11,380**	**100%**	**2 November 2018**
Interim 2019 ordinary	**3.1**	**10,690**	**100%**	**26 April 2019**
Total	**6.4**	**22,070**		

	Cents per share	Total amount $'000	Franking	Payment date
30 June 2018				
Final 2017 ordinary	2.5	6,334	100%	8 September 2017
Interim 2018 ordinary	3.0	7,615	100%	11 April 2018
Total	5.5	13,949		

All dividends paid during the year were fully franked at a tax rate of 27.5% (2018: 30%) and paid out of the profit reserve.

7 Dividends (continued)

(b) Subsequent events

On 19 August 2019, the Directors declared the following dividend.

	Cents per share	Total amount $'000	Franking	Payment date
Final 2019 ordinary	**3.4**	**11,754**	**100%**	**18 October 2019**

The final dividend is fully franked based on the tax rate of 30%.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2019 and will be recognised in the subsequent financial statements.

(c) Franking account

	30 June 2019 $'000	30 June 2018 $'000
The available balance in the franking account at the reporting date	**6,500**	9,649
Impact on franking account of the final dividend declared after the reporting date but not recognised as a liability at the reporting date	**5,037**	(4,316)
The available balance in the franking account after the adjustment for the final dividend declared	**1,463**	5,333

The available balance in the franking account includes the adjustments for franking credits that will arise from the payment of current tax liabilities, and franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which eligible shareholders may elect to have all or part of their dividend entitlements satisfied by the issue of ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 2.5% discount to the average market price.

Notes to and forming part of the financial statements for the year ended 30 June 2019

8 Equity

(a) Share capital

	30 June 2019 Number of shares	**30 June 2019** $'000	30 June 2018 Number of shares	30 June 2018 $'000
Opening balance	**254,442,926**	**249,861**	253,366,220	248,712
Shares issued from dividend reinvestment plan	**852,593**	**844**	1,076,706	1,149
Shares issued from capital raising	**90,397,526**	**101,245**	-	-
Shares on issue	**345,693,045**	**351,950**	254,442,926	249,861

Ordinary shares

Ordinary shares entitle the holders to receive dividends as declared and one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after creditors and are fully entitled to any surplus capital.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Capital raising

On 20 August 2018, the Company conducted a capital raising for existing and prospective shareholders via an Entitlement Offer, Shortfall Offer and General Offer (collectively, referred to as the Offer). In total the Company raised $101,245,229 by the issue of 90,397,526 fully paid ordinary shares at an issue price of $1.12 per share. The additional capital was used to grow the Company's portfolio by undertaking investments consistent with the Company's current investment policy, objectives and guidelines.

All expenses incurred for the capital raising under the Offer were paid by the Manager in accordance with the Prospectus dated 20 August 2018.

(b) Profit reserve

The profit reserve represents profit, transferred from retained earnings, available for distribution as a dividend. Profit includes investment income earned and gains or losses realised, other revenue earned from ordinary business and trading activities less current income tax expense. Dividends declared subsequent to the reporting date will be paid out of the profit reserve and any outstanding balance is available for future dividend payments.

(c) Capital risk management

The Company's objective in managing capital is to provide shareholders with a growing income stream and long-term capital growth, by investing in a portfolio of typically 20 to 40 quality securities, underpinned by the Manager’s fundamental, in-depth, bottom-up research. The Company considers its capital to comprise ordinary share capital, profit reserve and accumulated retained earnings. Borrowing does not form part of the investment strategy of the Manager, however, the Company retains the right to leverage up to 10% of the investment portfolio at the Board’s discretion.

9 Financial assets and liabilities at fair value through profit or loss

	30 June 2019 $'000	30 June 2018 $'000
Mandatorily at fair value through profit or loss (2018: Designated at fair value through profit or loss)		
Listed equities	**321,603**	224,382
Total financial assets at fair value through profit or loss	**321,603**	224,382

Classification

The Company classifies its investments based on its business model for managing those financial assets and their contractual cash flow characteristics. The Company's portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company evaluates the information about its investments on a fair value basis together with other related financial information.

The Company holds equity securities which had previously been designated at fair value through profit or loss. On adoption of AASB 9 these securities are now mandatorily classified as fair value through profit or loss.

Recognition/derecognition

The Company recognises financial assets and liabilities on the date it becomes party to the purchase contractual agreement (trade date). Financial assets and liabilities are derecognised on the date the Company becomes party to the sale contractual agreement (trade date).

Fair value measurement

At initial recognition, the Company measures the financial assets and liabilities at fair value. Transaction costs are expensed in profit or loss as incurred. Subsequently, all financial assets and liabilities are measured at fair value without any deduction for estimated future selling costs. Gains and losses arising from changes in the fair value measurement are included in profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the end of the reporting date without any deductions for the estimated future selling cost. Listed securities and exchange traded derivatives are valued at the last traded price.

(ii) Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to and forming part of the financial statements for the year ended 30 June 2019

10 Receivables

	30 June 2019 $'000	30 June 2018 $'000
Dividends receivable	**521**	1,443
Interest receivable	**2**	3
GST receivable	**122**	84
Withholding tax receivable	**62**	60
Proceeds from sales of financial assets	**5,536**	-
Total receivables	**6,243**	1,590

Receivables are recognised when a right to receive payment is established.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Company shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Receivables are stated inclusive of the amount of GST.

11 Payables

	30 June 2019 $'000	30 June 2018 $'000
Payables for securities purchased	**3,215**	-
Accrued expenses comprising:		
Management fees	**324**	253
Directors' remuneration	**47**	43
Other payables	**58**	92
Total payables	**3,644**	388

Payables are recognised when the Company becomes liable.

Payables are stated inclusive of the amount of GST.

Notes to and forming part of the financial statements for the year ended 30 June 2019

12 Notes to the statement of cash flows

	30 June 2019 $'000	30 June 2018 $'000
(a) Reconciliation of profit/(loss) after income tax to net cash flows from operating activities		
Profit/(loss) after income tax	**15,219**	24,827
(Increase)/decrease in dividends receivable	**922**	(1,096)
(Increase)/decrease in interest receivable	**1**	(1)
(Increase)/decrease in other receivables	**(38)**	9
(Increase)/decrease in current tax receivable	**(3,640)**	-
Increase/(decrease) in current tax payable	**(531)**	(5,149)
Increase/(decrease) in deferred tax liability	**2,105**	1,590
Increase/(decrease) in accrued expenses	**41**	8
Net (gains)/losses on financial instruments at fair value through profit or loss	**(5,228)**	(28,345)
Net foreign exchange (gains)/losses	**78**	38
Net cash flows from operating activities	**8,929**	(8,119)

Cash flows are presented on a gross basis. The GST components of cash flows arising from operating and investing activities, which are recovered from the taxation authority, are recognised separately as other income received in the operating cash flows.

(b) Non-cash financing activities

During the year, the following dividend payments were satisfied by the issue of shares under the dividend reinvestment plan	**844**	1,149

(c) Components of cash and cash equivalents

Cash at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:

Cash at bank	**63,647**	69,093

Cash and cash equivalents include cash at bank, deposits held at call and other short term deposits with a maturity period of three months or less from the date of acquisition, which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

13 Financial risk management

This note presents information about the Company's objectives, policies and processes for measuring and managing risks.

The Company's activities expose it to a variety of financial risks. These risks include market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Manager has been given the discretionary authority to manage and undertake investments in line with the Company's investment objective, investment strategy and guidelines detailed in the Replacement Prospectus dated 14 October 2014.

The Manager is required to act in accordance with the Management Agreement and to report to the Board quarterly on the portfolio's performance, material actions of the Manager during the quarter and an explanation of the Manager's material proposed actions for the upcoming quarter. The Manager is also responsible for designing and implementing day to day risk management and internal control systems which identify material risks for the Company.

The oversight and management of the Company's risk management program has been conferred upon the Audit and Risk Committee. The Committee is responsible for reviewing that the Company maintains effective risk management and internal control systems and processes and providing regular reports to the Board. The Board will review the effectiveness of the Company's risk management and internal control system annually.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices such as equity prices, foreign exchange rates, interest rates and credit spreads.

The Company is predominantly exposed to market risk from its investment activities. The Company seeks to reduce the risk by a policy of diversification of investments across industries and companies operating in various sectors of the market. The Company's market risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place.

The Company may use derivative instruments to manage its exposure to market risk. Derivatives are not permitted to be used for gearing purposes.

(i) Price risk

Market prices fluctuate due to a range of factors specific to the individual investment or factors affecting the market in general. Price risk exposure arises from the Company's investment portfolio which comprises predominantly Australian listed securities with some opportunistic allocation to global securities.

The Company aims to manage price risk via its stock selection and investment processes, and by diversification of holdings. The Manager's securities selection process is fundamental to the management of price risk. The Manager undertakes fundamental, in-depth, bottom-up research to identify high quality and attractively valued securities using a disciplined investment process. The investment process first assesses companies on four key quality filters: sound management, conservative debt, quality business and recurring earnings. The companies are then valued according to the differing natures of their business and ranked on a scale of one (strong overweight) to five (sell). Price risk is also managed on the basis that the Company is limited to a maximum holding in any individual security to 15% of the portfolio's net asset value. The Company's investment strategy allows the flexibility to invest up to 25% of its investment portfolio in cash and deposit products to provide downward protection and to take investment opportunities when they arise.

13 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

Price risk sensitivity analysis

An increase of 10% (2018: 10%) in market prices applicable at the reporting date would have increased the Company's profit and net assets by $32,160,313 (2018: $22,438,194). A decrease of 10% (2018: 10%) in market prices would have an equal but opposite effect. This analysis assumes that all other variables remain constant.

The sensitivity of the Company's profit and net asset to price risk is estimated based on the historical levels of movements of the Company's benchmark (S&P/ASX 300 Accumulation Index) with the consideration of the future outlook of the economy, markets and securities that the Company invests in. The analysis assumes that the prices of Company's investments in equity securities move in correlation with the index. The actual movement in security prices may vary significantly to the movement in the index.

(ii) Currency risk

The Company is exposed to the movements in exchange rates that may have an adverse effect on the fair value or future cash flows of the Company's financial assets or financial liabilities denominated in currencies other than Australian dollars. This exposure arises from its investments in global listed securities and any transactions that are denominated in foreign currency. The Company's investment strategy allows up to 25% of its investment portfolio in global listed securities.

The Manager considers currency valuations at the entity level when analysing securities, however the Company's investment portfolio is typically unhedged. Currency exposure may be hedged defensively where the Manager sees a significant risk of currency weakness.

The Company did not hold any derivative instruments to manage its exposure to currency risk at the reporting date.

The following table summarises the Company's exposure to currency risk arising from its financial assets and financial liabilities, monetary and non-monetary, at the reporting date:

	30 June 2019 $'000	30 June 2018 $'000
British Pound	**4,728**	23,588
United States Dollar	**-**	2,524
Euro	**5,759**	60
Hong Kong Dollar	**3,619**	-
Japanese Yen	**3,408**	-
Total foreign currency exposure	**17,514**	26,172

Currency risk sensitivity analysis

The following table analyses the impact on the Company's profit and net assets from possible movements in exchange rates. The analysis is based on the assumption that the Australian dollar is strengthened or weakened by the sensitivity rates against the other currencies. The sensitivity rates represent the Manager's estimate of a reasonably possible movement in foreign currency exchange rates given the current exchange rates and the historic volatility.

Notes to and forming part of the financial statements for the year ended 30 June 2019

13 Financial risk management (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

	AUD strengthened/ (weakened) %	**30 June 2019 $'000**	30 June 2018 $'000
British Pound	**+10**	**(473)**	(2,359)
	-10	**473**	2,359
United States Dollar	**+10**	**-**	(252)
	-10	**-**	252
Euro	**+8**	**(461)**	(5)
	-8	**461**	5
Hong Kong Dollar	**+10**	**(362)**	-
	-10	**362**	-
Japanese Yen	**+10**	**(341)**	-
	-10	**341**	-

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company can hold up to 25% of its investment portfolio in cash, deposit products and senior debts with less than one year to maturity (including any exposure to such investments gained by investing into cash management trusts). Consequently, the Company is exposed to the changes in market interest rates that may have a negative impact, either directly or indirectly, on the investment return.

The following table summarises the Company's exposure to interest rate risk at the reporting date:

	30 June 2019 $'000	30 June 2018 $'000
Cash at bank	**63,647**	69,093

Interest rate risk sensitivity analysis

An increase of 0.5% in interest rates applicable at the reporting date would have increased the Company's profit and net assets by $318,233 (2018: an increase of 1% in interest rates would have increased the Company's profit and net assets by $690,933). A decrease of 0.5% in interest rates would have an equal but opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

13 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of a counterparty failing to meet its financial obligations or contractual commitments resulting in a financial loss to the Company.

The maximum exposure to credit risk for derivatives is any unrealised profit and margins paid on the positions that the Company held at the reporting date. The credit risk exposure for cash, deposit holdings and debt securities is the carrying amount at the reporting date.

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A or higher (as determined by Standard & Poor's). The Manager regularly monitors the credit rating of counterparties.

Transactions in listed securities are entered with approved brokers. The risk of default is considered low because payment is only made once a broker has received the securities and delivery of securities sold only occurs once the broker receives the payment.

The Company determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers relevant historical analysis and forward looking information in determining any expected credit loss. As cash and cash equivalents are callable on demand and all receivables are due within 30 days, the probability of default is considered low. No loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Company.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The following tables summarise the contractual maturity of the Company's financial liabilities at the reporting date:

	Carrying amount $'000	**Contractual cash flow $'000**	**At call $'000**	**6 months or less $'000**
30 June 2019				
Non-derivative financial liabilities				
Payables	**3,644**	**3,644**	**-**	**3,644**
Total	**3,644**	**3,644**	**-**	**3,644**

	Carrying amount $'000	Contractual cash flow $'000	At call $'000	6 months or less $'000
30 June 2018				
Non-derivative financial liabilities				
Current tax payable	531	531	-	531
Payables	388	388	-	388
Total	919	919	-	919

The Company has sufficient liquidity to meet these liabilities as the majority of its investment portfolio is considered readily realisable.

Notes to and forming part of the financial statements for the year ended 30 June 2019

13 Financial risk management (continued)

(d) Fair value measurement

The Company classifies fair value measurement of its financial assets and liabilities using a fair value hierarchy model that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy model, the Company's financial assets and liabilities measured at fair value at the reporting date:

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
30 June 2019				
Financial assets				
Financial assets mandatorily at fair value through profit or loss:				
Listed equities	**321,603**	**-**	**-**	**321,603**
Total	**321,603**	**-**	**-**	**321,603**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2018				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	224,382	-	-	224,382
Total	224,382	-	-	224,382

Rationale for classification of financial assets as level 1

All listed equities held by the Company are valued using unadjusted quoted prices in active markets and are classified as level 1 in the fair value hierarchy model.

Transfers between levels

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

There were no transfers between levels for the years ended 30 June 2019 and 30 June 2018.

Notes to and forming part of the financial statements for the year ended 30 June 2019

14 Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions.

(a) Total Directors' remuneration paid and payable (including superannuation) for the year ended 30 June 2019 was $187,000 (2018: $170,000). Details of remuneration are disclosed in the Directors' report.

(b) Directors' interests in the Company held directly or indirectly are disclosed in the Directors' report.

(c) Nancy Fox (Chairman and Non-executive Director) and David Lane (Executive Director) are not independent in accordance with the requirements for independence set out in Principle (2) of the ASX Corporate Governance Principles. Nancy Fox is a Non-executive Director of Perpetual Limited, the parent company of the Manager. David Lane is the Group Executive of Perpetual Investments (a division of Perpetual Limited) and a Director of Perpetual Investment Management Limited (the Manager).

15 Segment information

The Company is organised into one main operating segment with only one key function, being the investment of funds predominantly in Australia together with opportunistic investments globally.

16 Commitments and contingencies

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2019 and 30 June 2018.

17 Events occurring after the reporting period

Since the end of the financial year, the Directors have declared a fully franked final dividend payment of 3.4 cents per share payable on 18 October 2019 (refer to note 7).

No other significant events have occurred since the reporting date which would have an impact on the financial position of the Company disclosed in the statement of financial position as at 30 June 2019 or on the results and cash flows of the Company for the year ended on that date.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Perpetual Equity Investment Company Limited (the Company):

   (a) the financial statements and notes, set out on pages 24 to 45, and the Remuneration Report within the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

   (b) the financial report also complies with International Financial Reporting Standards as discussed in note 2.

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the persons performing the functions of the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2019.

Signed in accordance with a resolution of the Directors.

Nancy Fox

Chairman

Director

Sydney
19 August 2019

Independent Auditor's Report

To the shareholders of Perpetual Equity Investment Company Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Perpetual Equity Investment Company Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2019
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation and existence of financial assets at fair value through profit or loss ($321.6m)	
Refer to Note 9 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Financial assets at fair value through profit or loss are comprised of investments in listed equities. The Company outsources certain processes and controls relevant to its financial reporting over the valuation and existence of these assets to external service organisations, including the custodian, the fund administrator and the investment manager. Valuation and existence of investments in listed equities is a key audit matter due to: • The size of the Company's portfolio of listed equities. These assets represent 81% of the Company's total assets at year end; and • the importance of the performance of these assets in driving the Company's investment income and capital performance, as reported in the Financial Report. As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.	Our procedures included: • We obtained and read the Company's custodian's and fund administrator's GS007 (*Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services*) assurance report to assess the custodian's and fund administrator's processes and controls to record and value the Company's investments. • We obtained and read the Company's investment manager's GS007 assurance report to assess the investment manager's processes and controls to record and provide transactional information to the Company's custodian. • We assessed the reputation, professional competence and independence of the auditors of the GS007 assurance reports. • We checked the valuation of the investments, as recorded in the general ledger, to independently sourced prices from relevant stock exchanges. • We checked the ownership and quantity of the investments held to external custody reports as at 30 June 2019.

Other Information

Other Information is financial and non-financial information in Perpetual Equity Investment Company Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Perpetual Equity Investment Company Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 19 to 22 of the Directors' report for the year ended 30 June 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Martin McGrath

Partner

Sydney

19 August 2019

SHAREHOLDER INFORMATION

The 2019 Annual General Meeting of the Company will be held at the Company's registered office, Level 18, 123 Pitt Street, Sydney on 17 October 2019 commencing at 2:00 pm.

The ordinary shares of Perpetual Equity Investment Company Limited are listed on the Australian Securities Exchange under the ASX code PIC with Sydney being the home exchange.

Twenty largest shareholders

The names of the twenty largest holders of ordinary shares as at 31 July 2019 are listed below:

	Number of ordinary shares	%
Navigator Australia Limited	**11,548,123**	**3.34**
Nulis Nominees (Australia) Limited	**9,780,608**	**2.83**
Netwealth Investments Limited (Wrap Services A/C)	**8,456,812**	**2.45**
HSBC Custody Nominees (Australia) Limited	**4,745,999**	**1.37**
National Nominees Limited	**3,561,395**	**1.03**
Mr Victor John Plummer	**3,125,000**	**0.90**
Netwealth Investments Limited (Super Services A/C)	**2,577,965**	**0.75**
Boksburg Nominees Pty Ltd	**2,211,967**	**0.64**
Mrs Anne Marie Thornton & Mr Brian Edmond Thornton	**2,108,449**	**0.61**
BNP Paribas Nominees Pty Ltd	**1,673,112**	**0.48**
D E C Investments Pty Ltd	**1,665,547**	**0.48**
Walmsley Developments Pty Ltd	**1,550,000**	**0.45**
Australian Executor Trustees Limited	**1,418,750**	**0.41**
Lawvan Pty Ltd	**1,000,000**	**0.29**
Magnet Investments Pty Ltd	**838,301**	**0.24**
Megfam Investment Company Pty Ltd	**775,000**	**0.22**
J P Morgan Nominees Australia	**747,080**	**0.22**
Iain Livingstone Investments Pty Ltd	**730,000**	**0.21**
Yalambie Pty Ltd	**723,438**	**0.21**
Invia Custodian Pty Ltd	**718,118**	**0.21**

Substantial shareholders

No substantial shareholder appeared in the Company's Register of Substantial Shareholders maintained in accordance with section 671B of the *Corporations Act 2001* as at 31 July 2019.

Distribution of securities

Schedule of holdings As at 31 July 2019	Number of shareholders	Number of ordinary shares
1 - 1,000 shares	**204**	**91,688**
1,001 - 5,000 shares	**1,032**	**3,507,254**
5,001 - 10,000 shares	**1,397**	**11,189,271**
10,001 - 100,000 shares	**5,360**	**183,652,840**
100,001 shares and over	**496**	**147,251,992**
Total	**8,489**	**345,693,045**

The number of shareholders holding less than a marketable parcel is 92 and they hold 7,823 securities.

Other information

Perpetual Equity Investment Company Limited, incorporated and domiciled in Australia, is a publicly listed investment company limited by shares.

Voting rights

Each share will confer on its holder the right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on shares (at present there are none).

On-market buy back

There is no current on-market buy back.

Final dividend

The final dividend of 3.4 cents per share will be paid on 18 October 2019 to shareholders entitled to receive dividends and registered on 3 October 2019 being the record date.

DIRECTORY

COMPANY
Perpetual Equity Investment Company Limited
ACN 601 406 419

DIRECTORS
Nancy Fox - Chairman
Virginia Malley
John Edstein
Christine Feldmanis
David Lane

COMPANY SECRETARIES
Sylvie Dimarco
Eleanor Padman

MANAGER
Perpetual Investment Management Limited
Level 18, 123 Pitt Street
Sydney NSW 2000
(AFSL 234426)

REGISTERED OFFICE
Level 18, 123 Pitt Street
Sydney NSW 2000
Phone 1800 022 033

AUDITOR
KPMG
International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000

AUSTRALIAN SECURITIES EXCHANGE CODE
Shares: PIC

SHARE REGISTRY
Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138
Phone: 1800 421 712

WEBSITE
www.perpetualequity.com.au

Perpetual

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