

**PERPETUAL  
EQUITY  
INVESTMENT  
COMPANY**

# **INVESTOR UPDATE**

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# IMPORTANT NOTE

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## YOUR PRESENTERS



### **NANCY FOX**

Chairman,  
Perpetual Equity Investment  
Company Limited



### **VINCE PEZZULLO**

Deputy Head of Equities,  
Portfolio Manager  
Perpetual Investments



### **NICHOLAS VIDALE**

Equities Analyst,  
Perpetual Investments

## AGENDA

| Company Update

| Investment Manager Update

| Questions

# INVESTING FOR REGULAR INCOME AND LONG-TERM CAPITAL GROWTH

## MANAGER WITH PROVEN TRACK RECORD



Immediate exposure  
to an actively  
managed portfolio of  
stocks



Flexibility to invest  
25% in global listed  
securities and  
25% in cash



A regular fully  
franked  
dividend stream and long  
term capital growth



Committed to  
transparency and  
keeping investors  
informed

### INVESTMENT OBJECTIVES

- Deliver a growing income stream
- Provide long term capital growth
- Exceed its benchmark

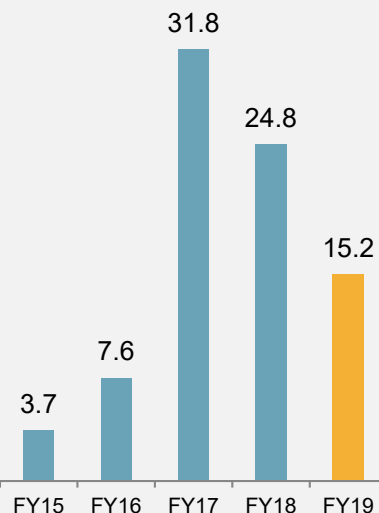
### PORTFOLIO MANAGER – VINCE PEZZULLO

- 20+ years in financial services industry
- Extensive domestic and global equity experience

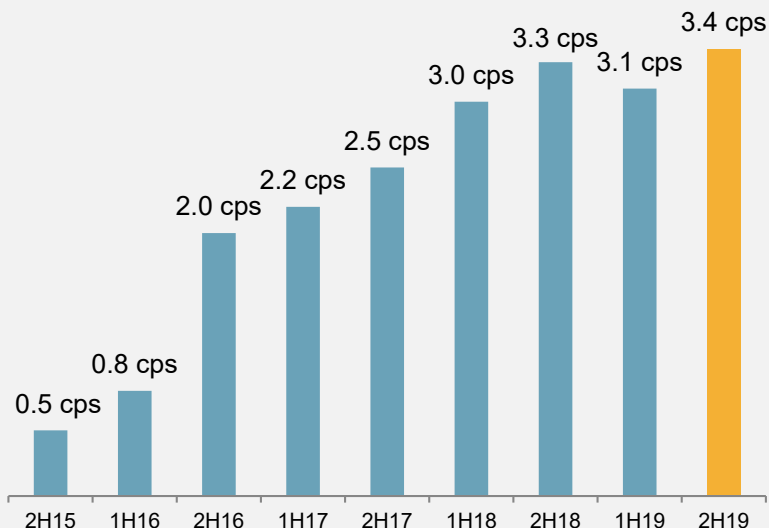
# FULL YEAR 2019 RESULTS OVERVIEW

## DELIVERING A REGULAR FULLY FRANKED DIVIDEND STREAM

**NPAT, \$m**



**DIVIDEND PER SHARE, CENTS PER SHARE (CPS)**



**3.4cps**

Fully franked final dividend

**8.8%\***

Gross dividend yield

**\$15.2m**

Operating profit after tax

**\$1.12<sup>^</sup>**

Net tangible assets (NTA) after tax per share

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%.

<sup>^</sup> '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.

# CAPITAL RAISING

## EXPANDING THE COMPANY'S PORTFOLIO & SHAREHOLDER BASE

**\$101.2m**

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Raised during  
the first  
half of FY19

**20%**

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Increase in  
number of  
shareholders<sup>^</sup>

**10%**

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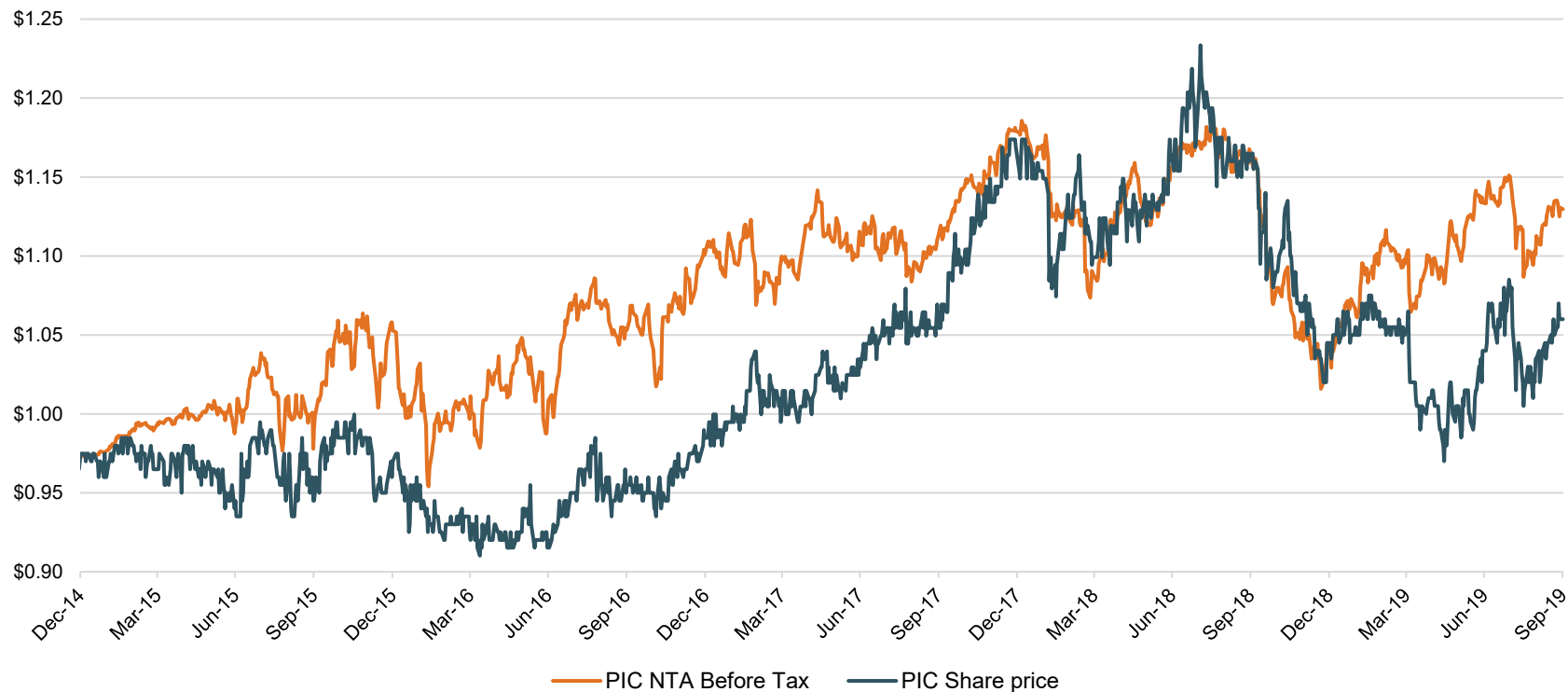
Increase in  
total volume  
of shares traded<sup>^</sup>

<sup>^</sup> During the Financial Year 2019

Source: Perpetual Equity Investment Company Limited.

# HISTORY AND TRACK RECORD

## PIC SHARE PRICE VERSUS NTA BEFORE TAX



Source: FactSet and Perpetual Equity Investment Company Limited as at 30 September 2019.  
Past performance is not indicative of future performance. Inception date is 18 December 2014.

# WHAT'S IMPORTANT TO YOU?

## SHAREHOLDER SURVEY RESULTS

**+1,000**

Shareholders  
participated

**85%**

Indicated  
franking credits  
are important

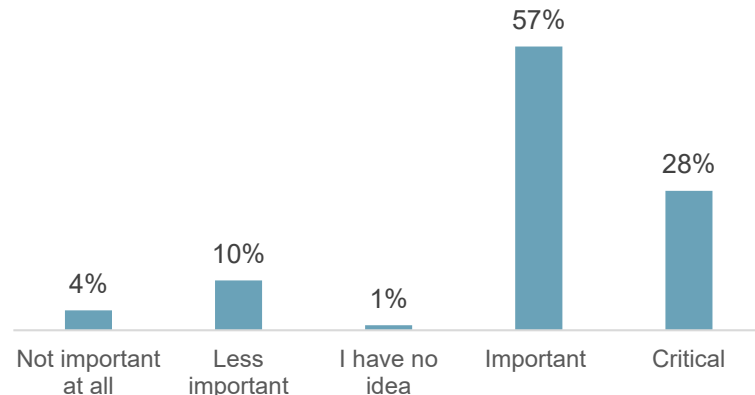
**71%**

Seeking both  
capital growth &  
dividend income

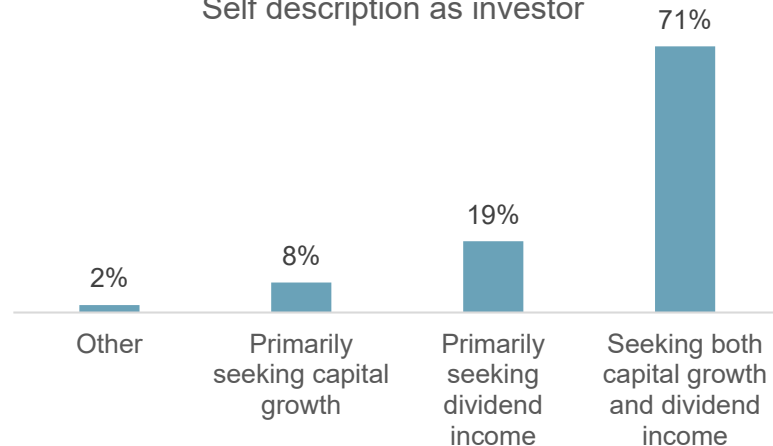
**60%**

Interested in receiving  
information on performance  
& stocks

Importance of franking credits

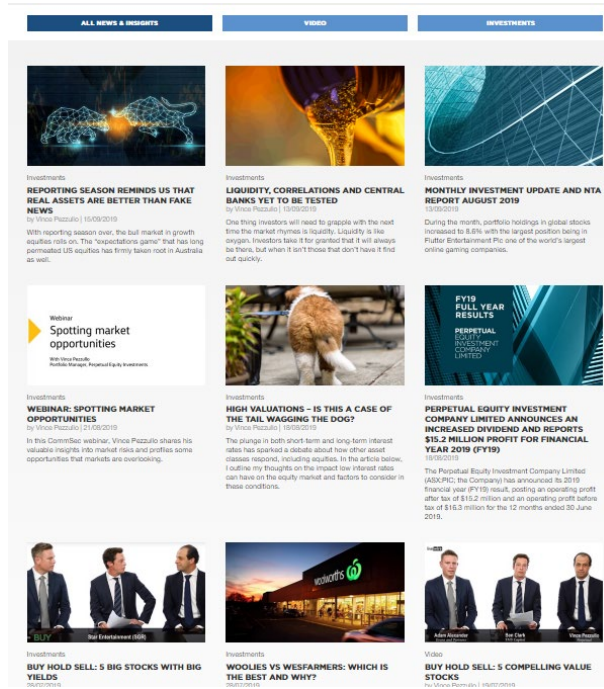


Self description as investor





# PROVIDING A REGULAR FLOW OF USEFUL INFORMATION AVAILABLE ON THE COMPANY WEBSITE



Update your  
communications  
preferences



View daily  
NTA  
announcements



Monthly investment  
update &  
NTA reports



Latest insights  
from  
the Manager

[www.perpetualequity.com.au](http://www.perpetualequity.com.au)

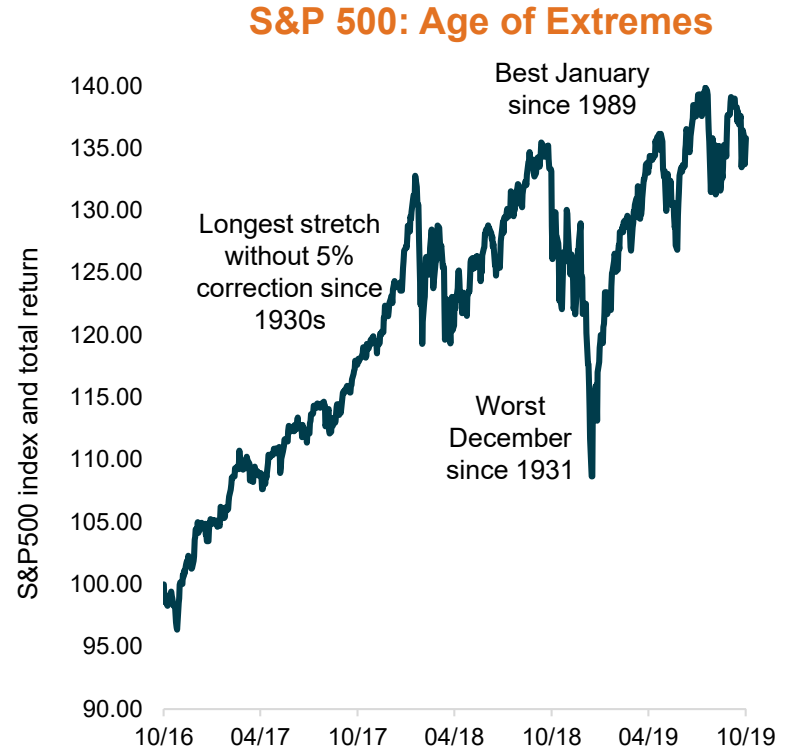
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**VINCE PEZZULLO – PORTFOLIO MANAGER**

# MACRO POLICY HAS PLAYED HAVOC WITH MARKETS

## POSITIONING FOR THE RETURN TO FUNDAMENTALS

- Last year the Fed was preparing for the end cycle
- Market had an extraordinary run into January 2018
- Fed insisted they wouldn't halt course
- Some forward indicators weakened and the Fed reversed course in 2019
- This revived the geared/yield/momentum trade
- More recently, tech IPO's failing despite favourable monetary policy
- Possible early indication of returning to valuation fundamentals

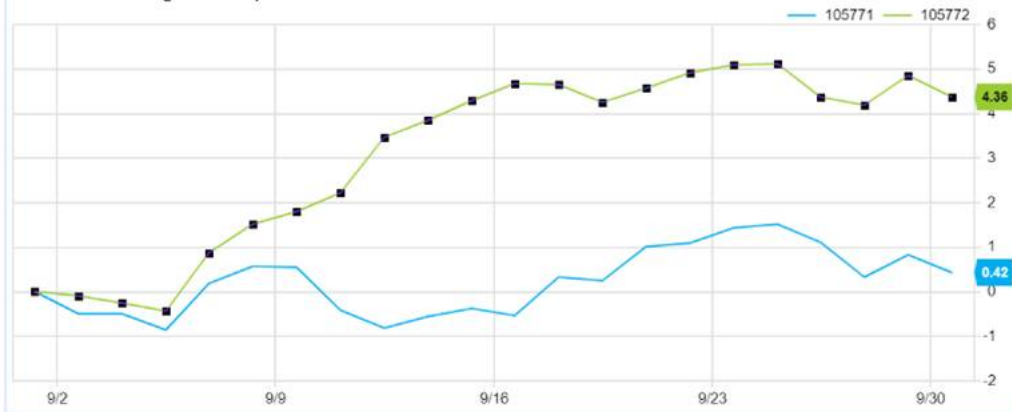


# A HINT OF THINGS TO COME? MAJOR SEPTEMBER ROTATION

FULL MONTH OF SEPT: VALUE = +4.36%, GROWTH = +0.42%

MSCI Australia Value (105772) A\$3,928.55

Total Return: 30 Aug '19 - 30 Sep '19



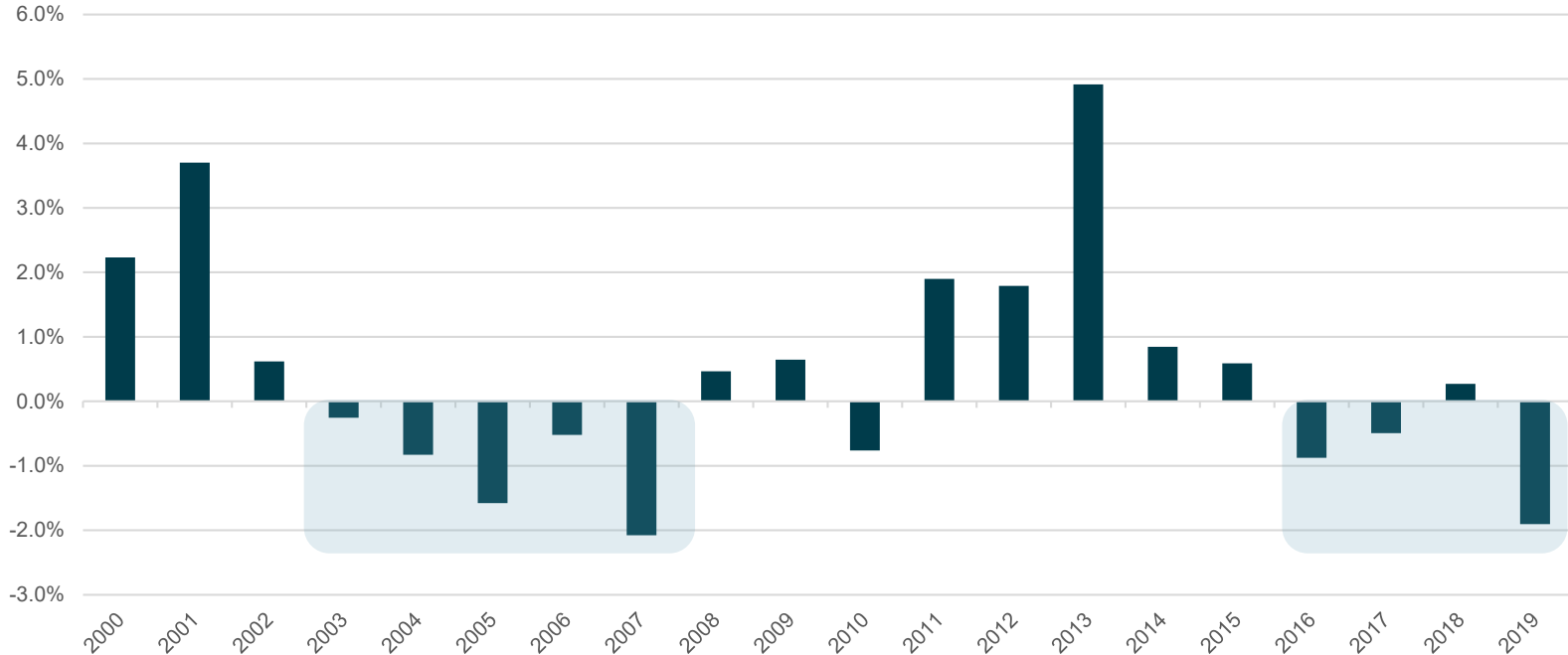
## Comparable Returns

	Price Change (%)		Total Return (%)	
	Cum	Ann (CGR)	Cum	Ann (CGR)
— MSCI Australia Value	3.74	54.10	4.36	65.31
— MSCI Australia Growth	-0.10	-1.20	0.42	5.01

- Rising bond yields saw rapid style rotation
- Happened quickly: caught market off guard
- Value stocks rose sharply: Fletcher Building +30%, Origin Energy +15%
- Growth stocks fell: Appen -24%, Pro Medicus -19%, Nanosonics -14%
- Investors need to be ready for this to become the norm, not just a one off

# QUALITY FACTOR RETURNS IN RECENT FINANCIAL YEARS

Quality Universe Performance  
Perpetual Investments Quality Universe – Calendar Year Excess Returns



**Quality stock universe has been subdued**

# CONTRIBUTORS & DETRACTORS TO PERFORMANCE

12 MONTHS TO 30 SEPTEMBER 2019

## CONTRIBUTORS

Select Harvests Ltd

Commonwealth Bank of Australia

Woolworths Group Ltd

Takeda Pharmaceutical Co Ltd

Telstra Corporation Ltd

Evolution Mining Ltd

Medibank Private Ltd

National Australia Bank Ltd

## DETRACTORS

CYBG PLC

General Electric Co

Ausnutria Dairy Corp

Bega Cheese Ltd

Oil Search Ltd

# OUR INVESTMENT PHILOSOPHY

## QUALITY & VALUE FOCUS

### OUR FOCUS

1

Quality business

2

Conservative debt

3

Sound management

4

Recurring earnings

### THIS MEANS:



We seek quality companies  
at attractive valuations

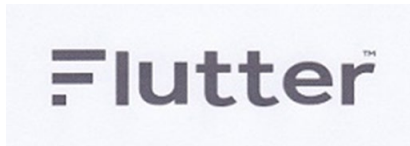


We cautiously  
deploy your capital

# TOP 3 GLOBAL GAMING BUSINESS

## FLUTTER ENTERTAINMENT PLC

- UK listed bookmaking business created by the 2015 merger of Paddy Power & Betfair
- High quality operators with proven track record: 1 of the top 2 operators in all of its markets including US
- Attractive earnings outlook: ~90% of profits generated online
- Balance sheet in excellent shape: provides optionality compared to peers. Net debt £160m at FY18 result (0.35x EBITDA)
- Lowest risk and most advanced US strategy
  - Now largest online sports gaming operator in US
  - Approximately 50% market share in New Jersey and strong early progress in Pennsylvania





# THE FUNDAMENTALS – WHY WE LIKE IT

## FLUTTER ENTERTAINMENT PLC

- **Solid 1H19 result**
  - Australia - Sportsbet
  - US - FanDuel
- **Merger with Stars**
  - Strong balance sheet enabled takeover
  - Leadership positions in key markets globally
  - Significant cost synergies
  - Accelerate growth into US



# VALUATION – COMPELLING WITH OR WITHOUT MERGER

## FLUTTER ENTERTAINMENT PLC

	Flutter *			Flutter Post Deal **		
	FY20	FY21	FY22	FY20	FY21	FY22
EPS	3.4	4.2	5.1	5.2	6.8	7.7
EPS Growth	9%	25%	20%	67%	31%	13%
US EBITDA contribution (\$m)	- 55	- 8	53	-88	-28	53
PE	22	18	15	15	11	10
PE ex US	19	17	16	13	11	10
EV/EBITDA ex US	15	12	10	12	10	8
ND/EBITDA (x)	0.5	0.2	-0.2	2.9	2.1	1.4

\*PPT forecasts

\*\*PPT forecasts, assumes merger completes 1 July 2020

- If merger does not go ahead – Flutter is trading on 17x FY21 price to earnings ratio (excluding US losses)
- If merger does go ahead – Flutter is trading on 11x FY21 price to earnings ratio (excluding US losses)
- We view as attractive either way, noting these multiples ascribe 0 value to the US start up businesses

# WHAT COULD THE UNITED STATES BE WORTH?

## FLUTTER ENTERTAINMENT PLC

Here is the illustration we showed you in March...

	\$bn
Sports Market GGR at 10x New Jersey <sup>1</sup>	~6.0
Potential Market Share <sup>2</sup>	20%
Gross Revenue	1.2
Bonuses at 20%	(0.2)
Net Revenue	1.0
Contribution at 40% Margin	0.4
Contribution from Existing Businesses	0.2
<b>Total Contribution<sup>3</sup></b>	<b>\$0.6bn</b>

And here is where we are today...

	Population % of US	Multiple of NJ	Implied market size \$bn
Live today	6.7%	2.4x	1.4
Upcoming	12.2%	4.3x	2.6
	<b>18.9%</b>	<b>6.7x</b>	<b>\$4.0</b>

- Based on regulatory progress to date our 10x market size illustration could quickly be surpassed
- FanDuel very well positioned to take advantage of this market opportunity

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**NICHOLAS VIDALE – EQUITIES ANALYST**

# INVESTING IN BANKS IN A LOW INTEREST RATE ENVIRONMENT

WHAT IS AN INTEREST RATE?



# THE ROLE OF CENTRAL BANKS

“The Reserve Bank of Australia (RBA) is Australia's central bank and derives its functions and powers from the Reserve Bank Act 1959 . Its duty is to contribute to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people”

# WHY ARE INTEREST RATES SO LOW?

## QE 'valuable' with fiscal support: Lowe



**John Kehoe**

Senior Writer

Oct 8, 2019 — 5:30am



Save



Share

Reserve Bank of Australia (RBA) governor Philip Lowe has endorsed "valuable" crisis-era central bank tools, such as buying financial assets and negative interest rates to protect economies from recession, but warned their use must be supported by the government and prudential regulator.

In a landmark international report chaired by the RBA governor and released on Tuesday, a [week after he cut the official cash rate to just 0.75 per cent](#), Dr Lowe noted unconventional monetary policy would become more common around the world as interest rates hovered near zero.



RBA governor Philip Lowe led the Bank for International Settlements report on unconventional monetary policy. [Louise Douvis](#)

Source: <https://www.afr.com/policy/economy/qe-valuable-with-fiscal-support-low-20191007-p52yaz>

## ARE LOW INTEREST RATES HERE TO STAY?

“The tools have provided stimulus to the real economy and helped to avoid the un-anchoring of inflation expectations once policy rates reached the Effective Lower Bound. They provided additional policy space when conventional monetary policy was constrained, thereby forestalling deflationary risks and supporting economic recoveries. They are also seen as effective in overcoming impairments in the transmission channels of monetary policy and in containing risk premia in stressed markets, thus contributing to economic and financial stability”

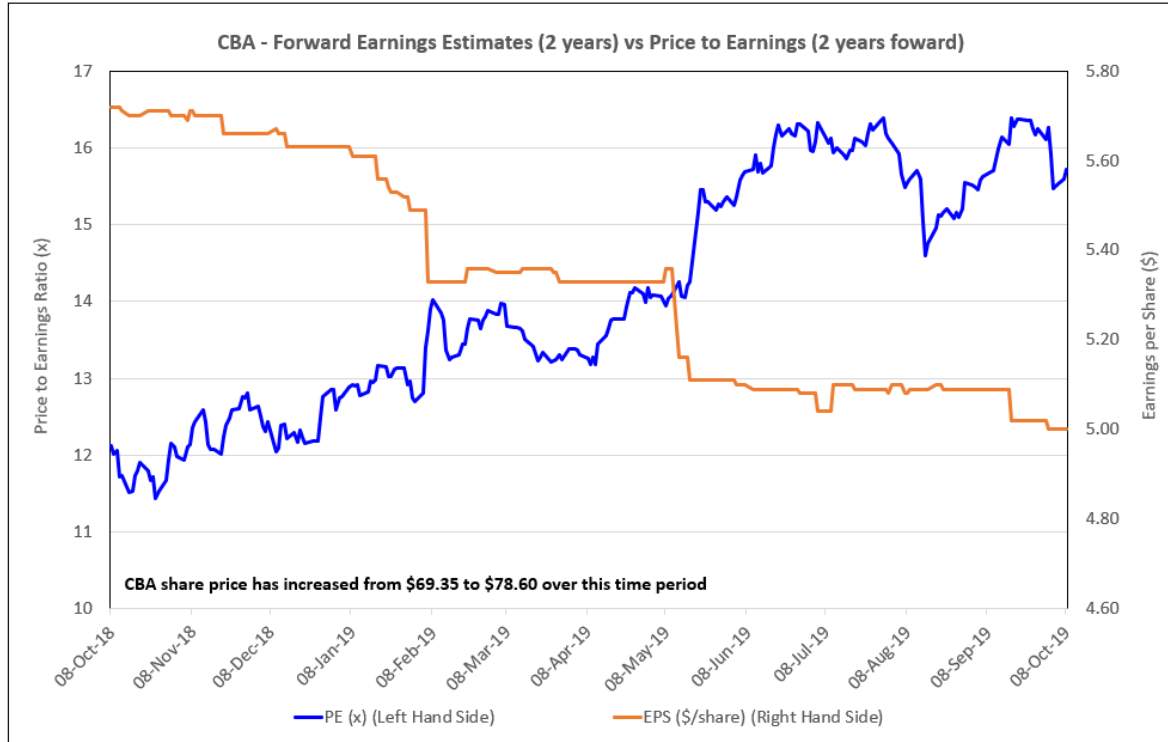
*Bank for International Settlements, October 2019*



# AUSTRALIAN MAJOR BANKS

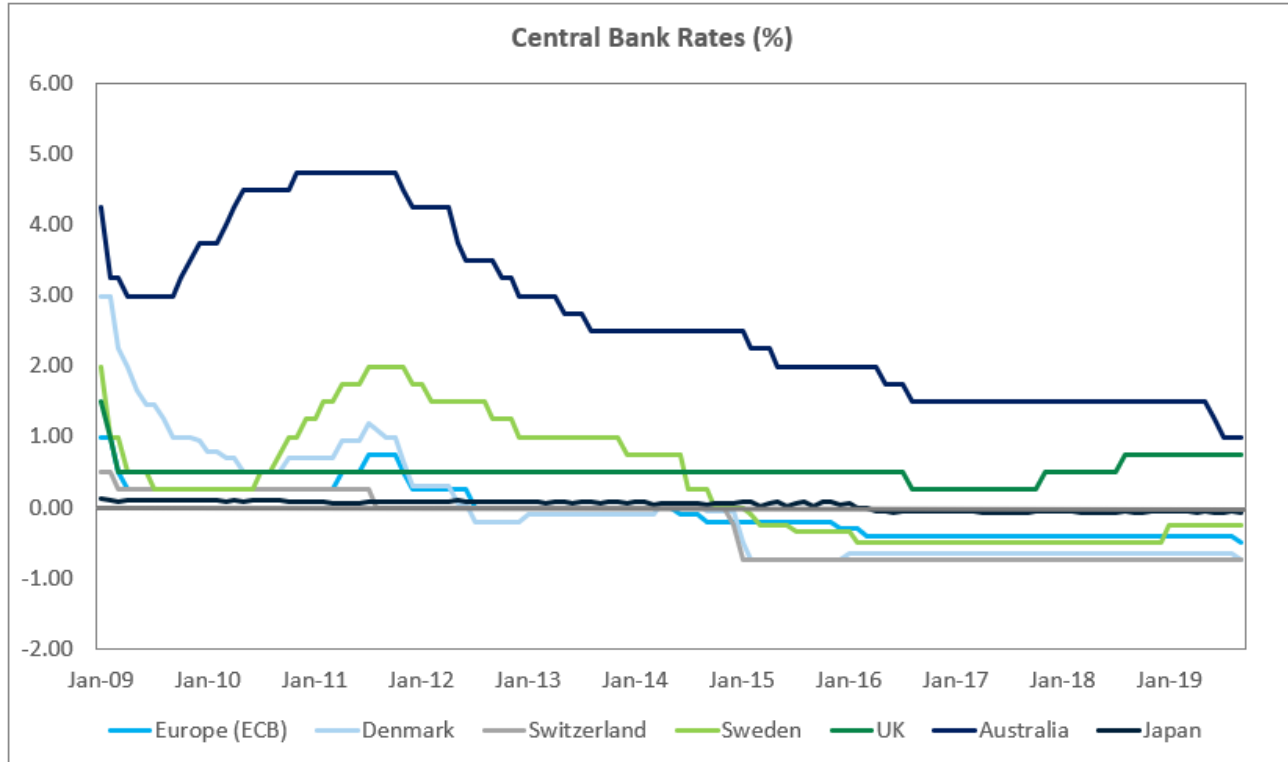
- Australia Deposits ~ \$1.6T
  - ...of which ~\$400B are either paying 0%, or close to 0% interest
- An RBA rate cut of 0.25% costs the majors about \$1B in revenue
- Banks will need to recoup this cost through either lowering time deposit rates, accessing cheaper wholesale funding, or choosing not to pass on the rate cuts to customers
- \$1B is equivalent to 2.5% - 3.0% of sector earnings. As RBA rates approach zero, there could be at least another \$3B - \$4B of profit at risk, or up to a further 10% earnings downgrades

# INVESTOR DILEMMA – VALUATION VS EARNINGS



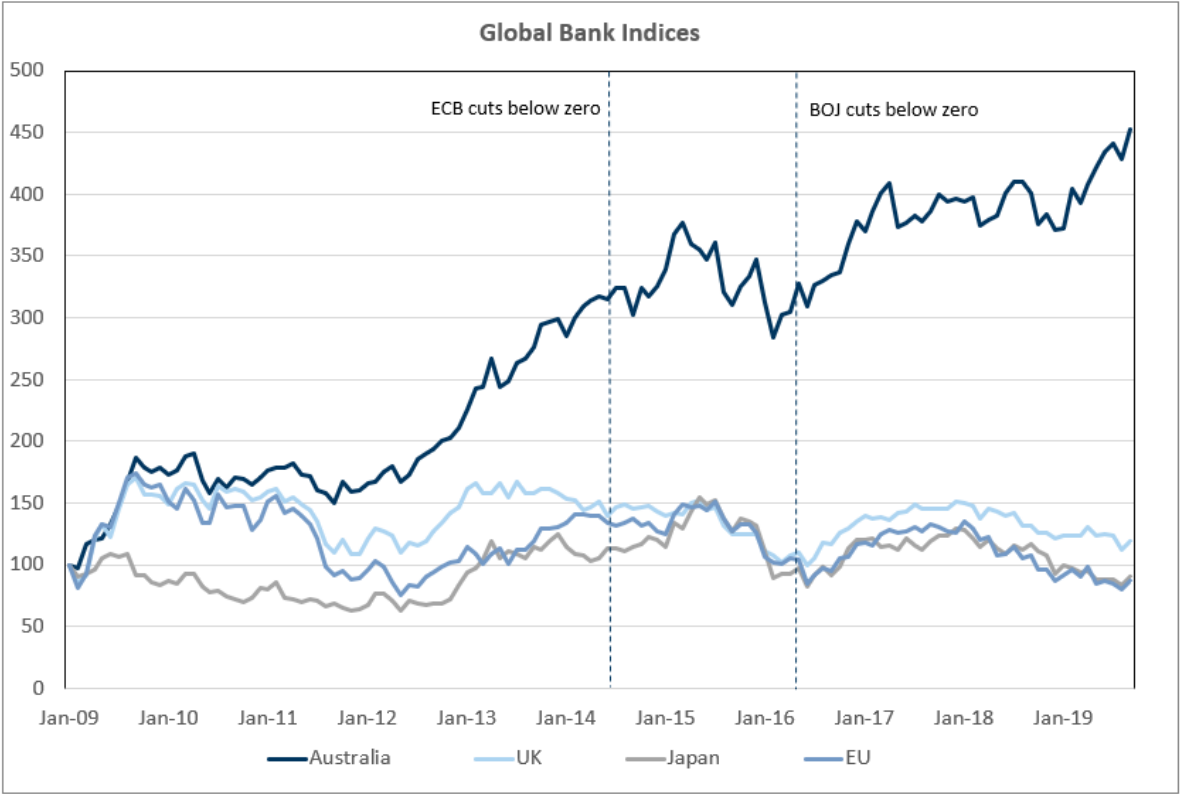
Source: FactSet

# INTERNATIONAL EXPERIENCE



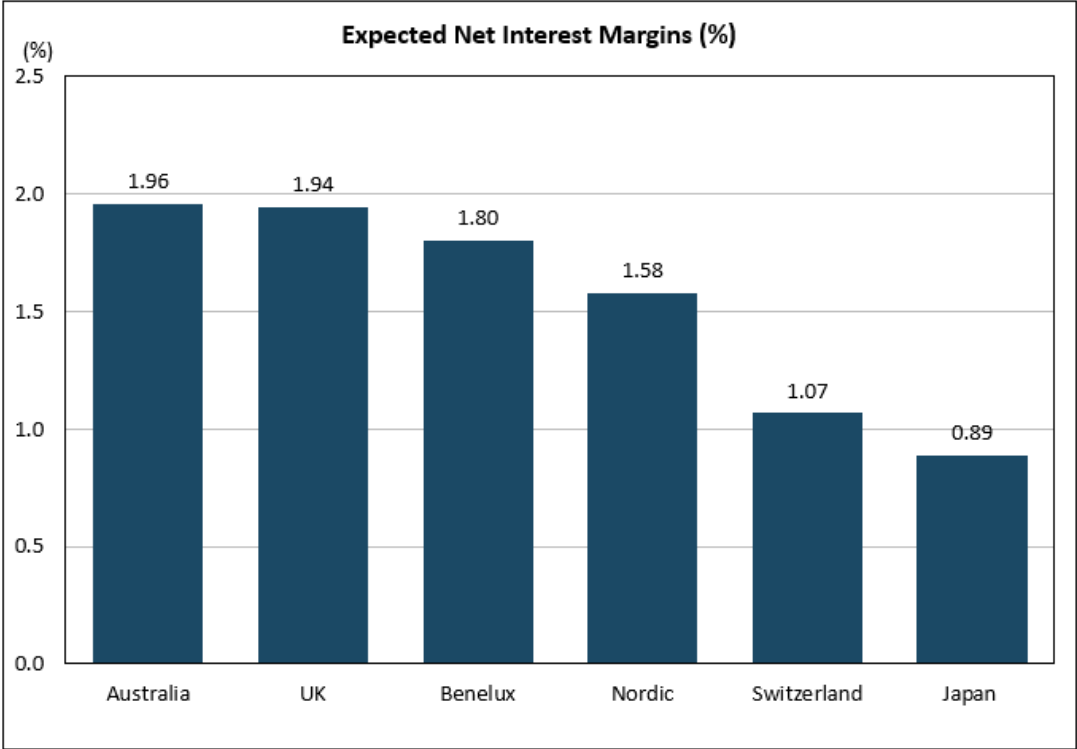
Source: Goldman Sachs Investment Research, Bloomberg

# INTERNATIONAL EXPERIENCE



Source: Goldman Sachs Investment Research, Bloomberg

# INTERNATIONAL EXPERIENCE



Source: UBS

# SUMMARY

- Low rates = Net Interest Margin pressure = Revenue pressure
- Increased need for cost reductions or industry consolidation
- Falling ROE potentially means dividends are at risk
- International experience has been bad
- We actively consider these risks when investing

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**VINCE PEZZULLO – PORTFOLIO MANAGER**

# INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 2019

	1 MTH	3 MTHS	6 MTHS	1 YEAR P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
<b>PIC Investment Portfolio<sup>1</sup></b> Net of fees, expenses and <u>before tax paid</u>	1.9%	0.7%	7.0%	3.8%	8.9%	8.2%
<b>S&amp;P/ASX 300 Accumulation Index</b>	1.9%	2.6%	10.8%	12.6%	11.9%	10.2%
<b>Excess Returns</b>	0.0%	-1.9%	-3.8%	-8.8%	-2.9%	-2.0%

<sup>1</sup> 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. Inception date is 18 December 2014. Portfolio and Index return may not sum to Excess Return due to rounding. All figures are unaudited and approximate.

Source: Perpetual Equity Investment Company Limited



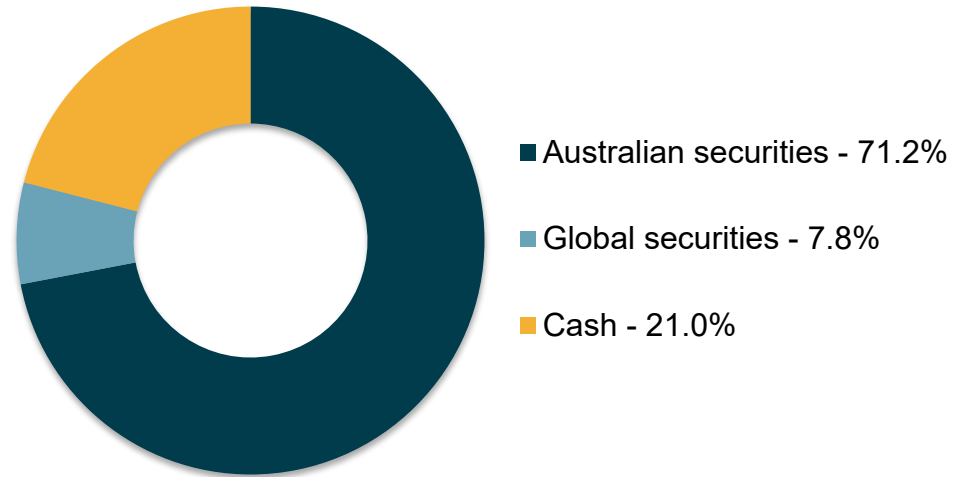
# ALLOCATION OF INVESTMENTS

## AS AT 30 SEPTEMBER 2019

79% of the Portfolio's capital invested in securities

Cash is used to protect the portfolio and take advantage of attractive opportunities

Patient and prudent investment style



# NEW POSITIONS

SINCE 30 JUNE 2019



## AUSTRALIAN SECURITIES

### COMPANY

Unibail Rodamco Westfield

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Platinum Asset Management Ltd

---

QUBE holdings Ltd

---

Oz Minerals Limited

---

Noni B Limited

---

G.U.D Holdings Limited

---

Link Administration Holdings Ltd

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## GLOBAL SECURITIES

### COMPANY

Ferguson PLC

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**QUESTIONS?**

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