

# INVESTMENT UPDATE AND NTA REPORT

## SEPTEMBER 2023

### PORTFOLIO SNAPSHOT

#### NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 30 SEPTEMBER 2023	AMOUNT
NTA after tax	\$1.202
NTA before tax	\$1.198

Daily NTA is available at [www.perpetualequity.com.au](http://www.perpetualequity.com.au)

All figures are unaudited and approximate.

The before and after tax numbers relate to provisions for deferred tax on unrealised gains and losses of the Company's investment portfolio. The NTA figures above have been reduced by a provision for the 4.0 cents per share final dividend with ex date 26 September 2023 and payment date 18 October 2023.

NTA figures are calculated as at the end of day on the last business day of the month.

### KEY ASX INFORMATION

#### AS AT 30 SEPTEMBER 2023

ASX Code:	PIC
Structure:	Listed Investment Company
Listing Date:	18 December 2014
Market Capitalisation:	\$452 million
Share Price:	\$1.195
Shares on Issue:	378,388,340
Dividends:	Half-yearly
Management Fee	1.00% p.a.*
Manager	Perpetual Investment Management Limited

\* exclusive of GST

### INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 2023	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS p.a.	3 YRS p.a.	5 YRS p.a.	7 YRS p.a.	SINCE INCEP p.a.
PIC Investment Portfolio <small>Net of fees, expenses and before tax paid</small>	-4.0%	-4.2%	-3.1%	9.3%	-0.7%	12.0%	8.5%	9.4%	8.9%
S&P/ASX 300 Acc Index	-2.9%	-0.8%	0.1%	12.9%	1.9%	10.8%	6.6%	8.0%	7.9%
Excess Returns	-1.1%	-3.3%	-3.3%	-3.6%	-2.7%	1.2%	1.9%	1.4%	1.0%

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.

#### TOP 10 STOCK HOLDINGS

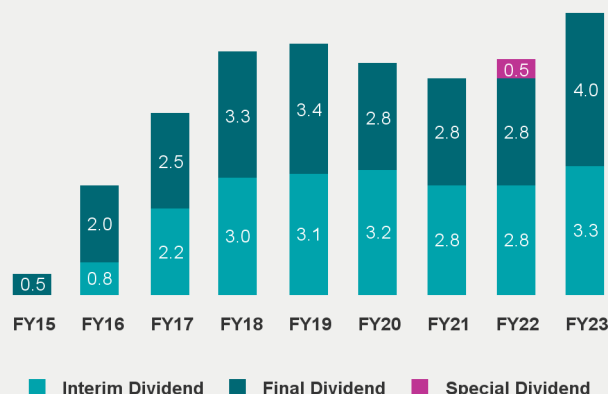
COMPANY	PORTFOLIO WEIGHT
BHP Group Ltd	9.6%
National Australia Bank Limited	7.3%
Commonwealth Bank of Australia	6.5%
Insurance Australia Group Ltd	6.2%
Flutter Entertainment Plc	5.4%
Goodman Group	5.0%
Iluka Resources Limited	4.3%
Endeavour Group Ltd	3.4%
Ramsay Health Care Limited	3.3%
Bapcor Ltd	3.2%

Portfolio weight based on direct investments in securities and does not include any derivative exposure

#### DIVIDENDS IN CENTS PER SHARE

Annual dividend yield: 6.1%

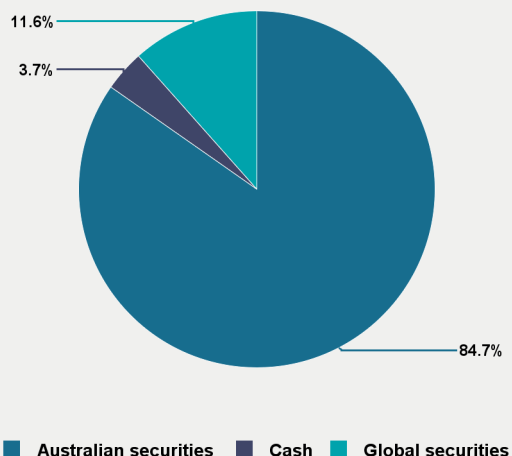
Grossed up annual dividend yield: 8.7%



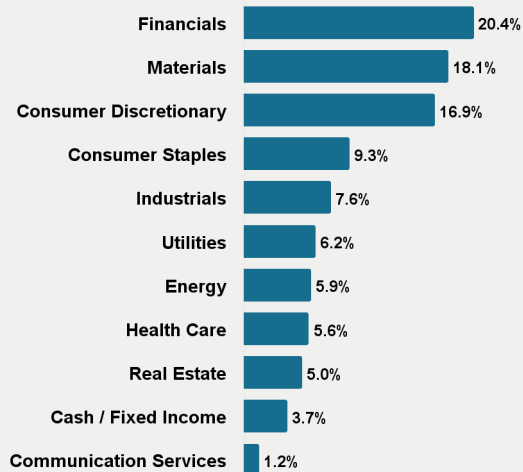
Yield is calculated based on the total dividends of 7.3 cents per share and the closing share price of \$1.195 as at 30 September 2023. Grossed up yield takes into account franking credits at a tax rate of 30%.

## ALLOCATION OF INVESTMENTS<sup>^</sup>

96.3% of capital invested in securities



## PORTFOLIO SECTORS<sup>^</sup>



<sup>^</sup>Weightings calculated based on direct investments in securities and any indirect exposure via S&P /ASX 200 related derivatives. All figures are unaudited and approximate. Allocations may not sum to 100% due to rounding.

## COMPANY NEWS

### ANNUAL GENERAL MEETING & INVESTMENT MANAGER UPDATE

The AGM & Investment Manager Update will be held on Thursday, 19 October 2023 at 3:00pm (Sydney time) online and in-person at the Blaxland Ballroom, Swissotel Sydney, 68 Market Street Sydney, NSW 2000.

The Notice of Meeting is available [here](#)

Shareholders and interested parties can register for the Investment Manager Update now by clicking [here](#)

## PORTFOLIO COMMENTARY

### Market overview

Bond yields continued their steady ascent, helping drag down equity markets with the S&P/ASX300 Accumulation Index falling -2.9% in September. Conversely, the Australian dollar continued its steady descent against the US dollar. The RBA cash rate remained unchanged for the quarter at 4.1%, with newly installed RBA governor Michelle Bullock seeing no need to act at her debut meeting. Recent data suggests inflation is past the peak but well above the desired range.

In September, Energy was the best performing sector (+2.2%) as oil and coal prices rose. Real Estate Investment Trusts (-8.5%), Information Technology (-7.7%) and Healthcare (-6.4%) all fell sharply in response to rising rates.

### Portfolio overview

The PIC portfolio delivered a net return of -4.0%<sup>^</sup> during the month as some long term holdings suffered some short term turbulence.

Santos contributed to performance in the month (+3.0%) during which the oil price rallied. In addition, Santos sold an initial 2.6% of PNG LNG (Papua New Guinea Liquefied Natural Gas) to Kumul Petroleum (which represents the PNG government) who also have an option to acquire another 2.4%. The total consideration from the 2.6% is \$576 million cash and the assumption of approximately \$160 million of project finance debt. This strengthens the balance sheet at a time Santos is undertaking substantial capex. The business remains our favoured oil and gas producer given more material operational catalysts and more attractive relative valuation. Santos is a global energy company with strategic assets across Australia, Papua New Guinea, Timor Leste and USA that aims to play a key role in helping the world decarbonise to reach net-zero emissions through reliable, affordable and sustainable energy.

## **Portfolio overview (continued)**

Our overweight position in Healius detracted from performance in September (-17.9%) as the market continued to speculate that the bid by smaller rival Australian Clinical Labs could be blocked by the ACCC. Healius' assets have attracted interest from private equity and there are activist investors on the register. The combined value of Healius' radiology and pathology businesses is estimated to be the current market capitalisation of \$1.3 billion. We are encouraged with the progress Healius has made with improvements in their radiology business under new leadership. The pathology segment continues to track below what the business could achieve given in-person GP visits are still around 20% below pre COVID-19 pandemic, which leads to lower pathology requests. We believe that introduction of gap fee instead of bulk billing GP visits has deterred some primary screenings and resulted in GP visits still not yet back to pre pandemic levels. We see GP visits and Pathology volumes rebounding in the future with pathology segment margins starting to improve.

Our overweight position in casino operator Star Entertainment Group (-34.0%) detracted from relative performance. The stock ended the month lower after the casino operator engaged the equity markets to raise \$750m priced at \$0.60 a share following Star also recently securing a \$450 million debt package with the aim of paying off Star's existing loans and handling costs at Queens Wharf in Brisbane. The raise has provided further clarity on the balance sheet and we are still seeing value in Star's conservatively stated net tangible asset value.

## **Market outlook**

We believe the importance of interest rates on valuation cannot be understated - it is the fundamental driver of valuation. Yet as the yield curve has moved steadily higher over 2023 the equity market has taken a peculiar response, acknowledging the impact of rising discount rates in some sectors but not others.

Pockets of growth stocks remain completely oblivious to the move in yields. Goldman Sachs strategist Matt Ross recently highlighted that many Australian growth stocks have held up better than offshore peers and continue to trade at elevated multiples.

This could all be rendered irrelevant if the recent move in bonds is indeed an aberration, inflation plummets and yields settle lower. But if we are in a higher for longer world, there could yet be more pain to come for the "expensive defensives" and growth stocks that have been the darlings of the market in the last decade. The psychological temptation to buy a high quality company that has fallen 20% is ever present but if yields remain here, or even march higher, than there is every chance that this valuation unwind is far from complete.

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## **REMINDER: TAX CERTIFICATION COMPLETION**

Under the Australian Government's participation in Automatic Exchange of Information (AEOI) regimes, PIC is required to collect CRS certification information and an investor's tax residency from shareholders. The information in certain circumstances may be reported to the Australian Taxation Office (ATO) which in turn reports to various global tax authorities.

Please check that you have completed your CRS certification by logging into the Link investor portal [here](#).

From there, under the Payments & Tax tab you will find 'CRS', where you can fill in the Self Certification. Completing this information online is straightforward as the questions will guide you, and in some instances, it is only a couple of steps.

If you do not certify, PIC may be required to provide information about your account to the ATO. For more information on the self-certification process via Link please click [here](#). For further information on FATCA and CRS, please visit [here](#).

## WHY CHOOSE THE PERPETUAL EQUITY INVESTMENT COMPANY?

- Designed to deliver investors an income stream of **fully franked dividends**.
- **Active management** to vary the portfolio's exposure to equity market risk, and to enhance the value of the portfolio when opportunities arise both domestically and globally.
- **Flexibility** to invest up to 35% in global securities and up to 25% in cash for diversification with the intention to add returns above the benchmark, or to manage downside risk.
- Access to Perpetual's tried and tested **quality and value** investment process that assesses companies on 4 key quality criteria: quality of business, conservative debt, sound management and recurring earnings.
- **Depth and breadth** of Perpetual's investment team enables it to conduct extensive company visits each year and make decisions to invest in high quality and attractively valued securities based on fundamental, in-depth, bottom-up research.
- **Ease of access** as you can buy and sell PIC on the ASX.
- **Daily NTA published on the ASX** to provide transparency of the portfolio.

## KEY FEATURES

**INVESTMENT OBJECTIVE** The investment objective of the Company is to provide investors with an income stream and long-term capital growth in excess of its benchmark (the S&P/ASX 300 Accumulation Index) over minimum 5 year investment periods.

**INVESTMENT STRATEGY** The Company's investment strategy is to create a concentrated and actively managed portfolio of Australian securities with typically a mid-cap focus and global listed securities. The Company will typically hold 20 to 40 securities.

50% - 100%	Australian listed securities
0% - 35%	Global listed securities
0% - 25%	Cash

The Manager typically expects that the portfolio will be unhedged. Currency exposures may be hedged defensively where the Manager sees significant risk of currency weakness, but no attempt is made to add value to the portfolio by actively managing currency. Derivatives are permitted.

**ABOUT THE MANAGER** The Company's investment portfolio is managed by Perpetual Investment Management Limited, part of the Perpetual Group, whose has a longstanding commitment to deliver superior outcomes over the long-term for clients. This is underpinned by its proven investment process that focuses on value and quality.

**PORTFOLIO MANAGER** Vince Pezzullo  
Perpetual Asset Management Australia  
Vince has over 25 years' experience in the financial services industry, and has prior global experience as both an analyst and a portfolio manager. Vince is Head of Equities and leverages the expertise of Perpetual Asset Management Australia's Equity team, one of the largest investment teams in Australia.

All investments are subject to risk which means the value of investments may rise or fall, which means that you may receive back less than your original investment or you may not receive income over a given time frame. Refer to announcements and other information for the Company lodged with the ASX, which is available at [www.asx.com.au](http://www.asx.com.au). A financial adviser can assist you in determining whether an investment in the Company is suited to your objectives, financial situation or needs.

## CONTACT DETAILS

### For queries regarding investor relations:

**Karen Trau**  
P: 02 9229 3138  
E: [karen.trau@perpetual.com.au](mailto:karen.trau@perpetual.com.au)

### For queries regarding investor shareholdings:

**Link Market Services**  
Investor queries:  
Telephone: +61 1800 421 712  
Mailing Address: Link Market Services,  
Locked Bag A14, Sydney South, NSW 1235  
Email: [pic@linkmarketservices.com.au](mailto:pic@linkmarketservices.com.au)

## FIND OUT MORE

Visit our website [www.perpetual.com.au/equity](http://www.perpetual.com.au/equity) to access a range of information including Monthly Investment Updates, Portfolio Manager insights, dividend history and educational resources.

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