PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

INVESTMENT UPDATE AND NTA REPORT

August 2019

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 31 AUGUST 2019	AMOUNT
NTA after tax (cum dividend)	$1.106
NTA before tax (cum dividend)	$1.113

Daily NTA is available at 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. As at 30 August 2019, the NTA before tax ex dividend was $1.079 and the NTA after tax ex dividend was $1.072. The ex dividend NTA figures are reduced by a provision for the 3.4 cents per share final dividend that was declared on 19 August 2019. The ex date for the final dividend is 2 October 2019 and the payment date is 18 October 2019.

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

KEY ASX INFORMATION

AS AT 31 AUGUST 2019

ASX Code:	PIC
Listing Date:	18 December 2014
Market Capitalisation:	$358 million
Share Price:	$1.035
Shares on Issue:	345,693,045

INVESTMENT PERFORMANCE

AS AT 31 AUGUST 2019	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	3 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio Net of fees, expenses and before tax paid	-2.8%	1.5%	4.3%	1.1%	6.8%	7.8%	8.0%
S&P/ASX 300 Acc Index	-2.3%	4.3%	9.5%	9.1%	12.3%	11.3%	10.0%
Excess Returns	-0.5%	-2.8%	-5.2%	-8.0%	-5.5%	-3.5%	-2.0%

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 SECURITIES

TOP 5 AUSTRALIAN LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Commonwealth Bank of Australia	6.2%
Suncorp Group Limited	5.6%
Woolworths Group Ltd	4.9%
Telstra Corporation Limited	4.6%
Amcor PLC	4.0%

TOP 3 GLOBAL LISTED SECURITIES

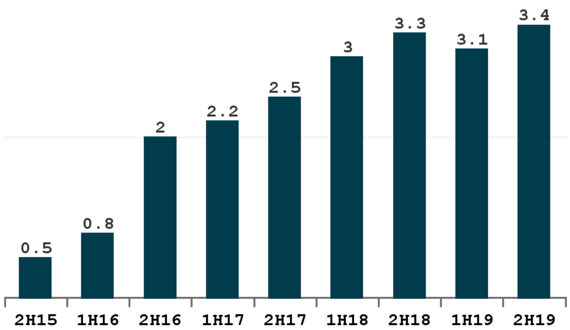
COMPANY	PORTFOLIO WEIGHT
Flutter Entertainment Plc	3.3%
Ferguson Plc	2.8%
Ausnutria Dairy Corp. Ltd.	1.0%

DIVIDEND PER SHARE, CPS

Final dividend for FY19: 3.4 cents per share

Annual dividend yield: 6.3%

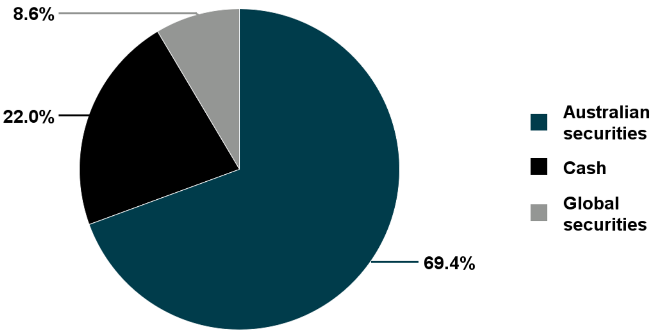
Grossed up annual dividend yield: 8.8%



Yield is calculated using the 31 August 2019 share price of $1.035. Grossed up yield takes into account franking credits at a tax rate of 30% for the final dividend 2H19 and 27.5% for the interim dividend 1H19.

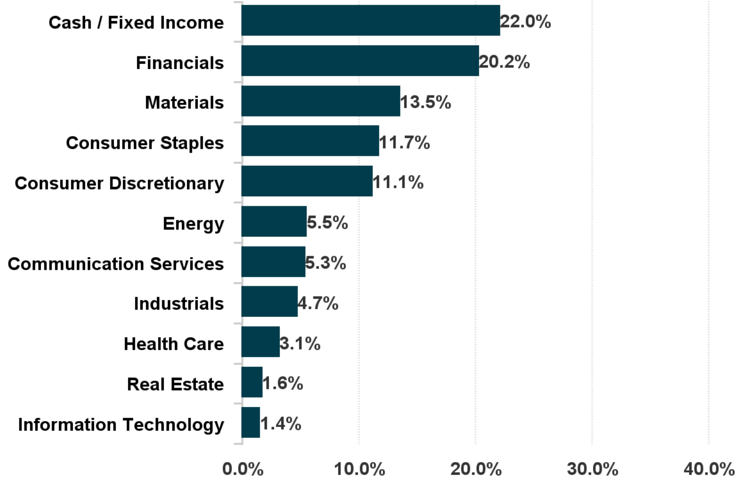
ALLOCATION OF INVESTMENTS

78.0% of capital invested in securities



All figures are unaudited and approximate.

PORTFOLIO SECTORS



PORTFOLIO COMMENTARY

Top contributors to absolute performance this month were PIC's holdings in Suncorp (ASX: SUN) and Woolworths (ASX: WOW). The largest detractors to absolute performance were Ausnutria Diary Corporation Ltd, a global paediatric milk formula company, and Iluka Resources Ltd (ASX: ILU).

During the month, portfolio holdings in global stocks increased to 8.6% with the largest positions being in Flutter Entertainment Plc (Flutter) (3.3%) and Ferguson Plc a multi-national plumbing and heating products distributor (2.8%).

Flutter is one of the world's largest online gaming companies. The Manager views Flutter as a high- quality operator with a strong track record of profitably growing market share through innovative marketing, product and brand positioning. This is reflected in Flutter having top 2 market positions in Australia (Sportsbet), UK (Paddy Power / Betfair) and US (Fanduel). The Manager is attracted by Flutter's favourable earnings growth outlook which is set to benefit from the ongoing structural shift from retail to online (~90% of Flutter revenue is online), market share gains in Australia and the UK, and the rollout of sports betting in the USA. Further, Flutter's significant scale is becoming increasingly important in those markets with growing regulatory complexity and cost which are increasing barriers to entry.

Flutter released its 2019 interim results in August which were slightly ahead of market expectations and supported our investment thesis. The two highlights were:
1. Sportsbet - revenue growth of 16% and profit flat despite a £24m headwind from the recent point of consumption tax. Excluding these extra taxes, profits would have been +64% for the period. The 16% revenue growth compares to the Manager's estimates of market revenue growth of 5% and highlights ongoing market share gains.
2. Fanduel - Market share of 50% in New Jersey which is the first state to legalise gambling post the repeal of the Professional and Amateur Sports Protection Act (PASPA) in early 2018. Whilst competition in New Jersey and other states will increase moving forward, the early dominance of Fanduel has significantly exceeded the Manager's expectations and provides increasing confidence in the outlook for the business and its competitive positioning. Compared to key competitors the Manager believes Fanduel is best placed to succeed given its established sports focused brand with over US$400m of marketing investment to date, significant customer base, proven bookmaking ability and cross sell opportunities across sports-betting, online casino, Fantasy sports and horse racing distribution. Further, the Manager believes Flutters' strong balance sheet will become increasingly relevant to the competitive outcomes as the pace of roll-out and required investment increases.

Amcor Ltd (ASX: AMC) represented PIC's fifth largest Australian security holding as at 31 August, representing 4.0% of the portfolio. Post the merger with Bemis in June, Amcor is now the clear leader in global consumer packaging. The combined business has circa US$13b in sales which is geographically spread, with just under half of its revenues from North America, and around a quarter from Western Europe and emerging markets. Greater scale enables the company to realise significant synergies both from a procurement level and across other general operations and administrative costs. In addition, the merger presents opportunities, such as a focus on plastics and environmental impacts. Now with the additional scale that Bemis provides, Amcor is in a position to lead the industry on innovation and develop new sustainable products. Amcor should continue to deliver good cash flow and has gearing levels significantly below other US packaging peers, enabling it to continue to acquire over the medium term and undertake further capital management initiatives to return capital to shareholders, such as buybacks. Given the medium-term earnings outlook underwritten by Bemis related synergies, the solid balance sheet and undemanding valuation, the Manager continues to see upside in Amcor.

PIC has recently taken a position in Unibail Rodamco Westfield (ASX: URW), representing 1.6% of the portfolio as at 31 August. Unibail Rodamco Westfield operates in nine regions including France (36% of Gross Market Value), the USA (24%), UK & Italy (8%), Central Europe (8%) and Germany (6%). In June, two of the Manager's team members undertook a trip to Europe which included visiting 19 mall assets and several independent European retail and property experts. Whilst broad views around the death of physical retail, store closings and falling rents are accurate in general, the Manager came away with the opinion that these views can be misleading for specific 'trophy assets' such as high-end retail malls. As one independent retail contact said, "The Cathedrals will get bigger, while the Chapels will die". URW has some very successful 'trophy assets' in Europe such as Stratford, Le Quatre Temps, Chodov & de Louvre.

URW's recent 1H19 result was solid – reporting good footfall and retail sales growth. Continental Europe like-for-like rental income growth was 2.1% for the half and the company is guiding to 3% for the full year. Additionally, Europe releasing spreads, which is the difference between rents on new and expiring leases, were pleasingly 12.2%. URW also signaled at its 1H19 result that it was progressing on asset disposals – in particular highlighting that a portfolio of French shopping centres was currently on the market. Announcement of any sale at a slight discount to book value would be a significant positive in our view. The Manager notes that there are a lot of insurance companies looking for yields in continental Europe at the moment. In fact, Hammerson recently sold a French Flagship mall at an initial yield of 4.1% to AXA Insurance.

At current levels, the stock is offering a 8.8% dividend yield which the Manager sees as sustainable. The Manager is not as bearish as the market on releasing spreads over the next few years and believes URW should rerate over time, as the leasing conditions prove to be better than market expectations.

Reporting season reminds us that real assets are better than fake news

Below, Portfolio Manager, Vince Pezzullo outlines his views on the importance of real assets and liquidity.

With reporting season over, the bull market in growth equities rolls on. The "expectations game" that has long permeated US equities has firmly taken root in Australia as well. Actual results seem less important than whether a company beats short term expectations regardless of whether P/Es are 10x or 200x. Investors continue to reward many of the "hope" stocks in the WAAAX cohort (Wisetech, Appen, Afterpay, Altium and Xero) that just exceed guidance but have punished or largely ignored other businesses with similar results.

The market offered a perfect case study in August. Tech darling WiseTech delivered a profit of $54.1m vs expectations of $53.6m (Source: FactSet). How much was this $500,000 above expectations worth? About $3 billion according to the market which sent the stock surging from $27 to $37 since the result, or from $8.6 billion to $11.9 billion in market value. Sure, profits were up strongly, but the market had already factored this into the eye watering P/E multiple. Such a small amount above expectations being so richly rewarded seems puzzling. WiseTech now trades at 211x earnings.

WiseTech generated just $54.1m on revenue of $348.3m and most of the growth is via acquisition. Yet it is worth almost $1.5 billion more than a monopolistic business (Tabcorp has monopolies on lotteries in every state except WA) which generated more than 7 times the profit on nearly 16 times the revenue; $397.6m on $5.48 billion.

Think about that for a moment. A company without any special business moats protecting its competetive advantage, hard assets, licence, monopoly or significant breakthrough technology, is worth close to $1.5 billion more than a company with sixteen times the revenue, seven times the earnings and the exclusive licence to operate lotteries in virtually all the states of Australia. Indeed, the lotteries is becoming even more of a cash machine with lottery revenue up 31% in H2 2019. Digital sales rose from 16.8% in FY2018 to 25.5% helping to drive a big increase in margins. These are the growth metrics that tech investors assign enormous multiples too, but Tabcorp's share price remains fairly subdued.

Elsewhere, Unibail-Rodamco-Westfield trades at less than 10x forward earnings and has a dividend yield of 8.8%, nearly ten times the 10-year bond yield. The company owns prime shopping mall assets, virtually impossible to replicate, around the world. Retail is under pressure, but not that much pressure, and the company has billions in non-core assets to sell to optimise gearing and maintain its dividend. Yet nobody wants to own the stock and it languishes 35% below the price of June 2018.

This does not make sense. Yet it is happening in real time. And it's not even that unique - it has happened before. Davnet was once worth more than Qantas in the tech boom 20 years ago. Ask anyone under 30 if they've ever heard of Davnet; it disappeared two decades ago without a trace. But Qantas survives and thrives a century after its birth.

We are fast entering a period, as Mark Twain once said, where a return of capital is as critical as a return on capital. Undoubtedly some companies just won't make it through the cycle or risk major share price reversals.

History doesn't repeat but it rhymes a lot. We are sticking to companies with real assets and tangible value rather than intangible assets that can disappear overnight.

Liquidity, correlations and central banks yet to be tested

One thing investors will need to grapple with the next time the market rhymes is liquidity. Liquidity is like oxygen. Investors take it for granted that it will always be there, but when it isn't those that don't have it find out quickly.

One reason there has been little focus on this issue is that central banks have appeared to provide so much of it. But for how long, especially as they have sought to reverse it? Vitally, central banks have delivered great liquidity over the last decade but at the expense of volatility.

On the surface this central bank suppression of volatility seems good but is it seemingly setting the market up for more aggressive volatility events down the track? This is especially relevant because so many of the traditional sources of liquidity that would otherwise step in have dried up.

With regulations post the GFC, like the Volcker Rule, shutting down so many market participants (especially the proprietary trading desks at the banks) much of the traditional source of liquidity has disappeared.

Brokers, dealers or market makers used to step in and provide liquidity when others were selling. But if current buyers all decide to sell, who will fill the gap to stop prices declining sharply? Quantitative funds have shown a tendency to step back when prices drop. Instead of eliminating volatility central banks might have just saved it up for larger and more disruptive sell-offs. This is one of the many conundrums to be resolved by the current market.

Lastly, correlations between asset classes are high; not just equities but cars to coins to art and gems, everything has had a major price run. Normally there would be some place to hide. But not even bonds offer the usual protection as the markets and central banks drive bonds into negative yield territory. Even some high yield debt, formerly known as junk bonds, are trading on negative yields.

Central banks are entering a dangerous new phase. Binyamin Applebaum recently wrote in his latest book that JFK's Treasury Secretary Doug Dillon refused to let academic economists get too involved in treasury matters and William McChesney Martin (the Fed Chair at the time), also refused to let them get too involved, both considering them too academic for pragmatic decision making. Recently though, theory has dominated monetary decision making, some considering the whole of the last decade a giant monetary experiment. Whilst Trump did not renew Dr Yellen's contract, he replaced her with Jerome Powell, who is a lawyer by training but has a long history in investment banking and marks a clear departure from academia. Meanwhile, the European Central Bank has ditched a long line of professional economists in favour of a politician. Whether these are the right moves only time will tell but it may be that some of the academic experiments of recent years may be ending and the time of policy pragmatism may be coming back.

COMPANY NEWS

ANNUAL RESULTS ANNOUNCED 19 AUGUST 2019

The Company announced its annual results (including dividend information) for financial year 2019 on Monday 19 August 2019. The results are available on the Company's website.

DIVIDEND REINVESTMENT PLAN

A reminder that the Company has a dividend reinvestment plan (DRP) in place for shareholders. Information about the DRP is available on the Company's website. The DRP Record Date / Election Date is 4 October 2019.

If you are already participating in the DRP and wish to remain so, there is no further action to be taken. Should you wish to check your participation, please visit the registry's Investor Centre by clicking here.

SHAREHOLDER PRESENTATIONS 2019

REGISTRATIONS NOW OPEN

The Company is pleased to notify all shareholders and interested parties of the dates and locations of our annual shareholder presentations.

Annual General Meeting and Investor Update Presentation

Date	Location
Thursday 17 October 2019 2.00pm – 4.00pm	SYDNEY Perpetual Offices, Angel Place Level 18, 123 Pitt Street, Sydney
Wednesday 23 October 2019 10.30am - 11.30am	ADELAIDE Perpetual Offices, Level 11, 101 Grenfell Street, Adelaide
Thursday 24 October 2019 10.30am - 11.30am	MELBOURNE Perpetual Offices, Rialto South Tower, 525 Collins Street, Melbourne
Wednesday 30 October 2019 9.00am - 10:00am	BRISBANE Perpetual Offices, Central Plaza 1 Level 15, 345 Queen Street, Brisbane
Friday 8 November 2019 10.00am - 11.00am	PERTH Perpetual Offices, Exchange Tower, Level 29, 2 the Esplanade, Perth

To register to attend an event closest to you visit our Company's website.

COMMSEC WEBINAR

Vince Pezzullo, Perpetual Investments' Deputy Head of Equities and PIC Portfolio Manager recently participated in a CommSec webinar. The presentation titled 'Spotting Market Opportunities' provides market insights and information on some of PIC's investments including Flutter Entertainment PLC and Brambles and is available on the Company's website.

REMINDER: TAX CERTIFICATION COMPLETION

Under the Australian Government's participation in Automatic Exchange of Information (AEOI) regimes, PIC is required to collect FATCA/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 FATCA/CRS certification by logging into the Link investor portal here.

From there, under the Payments & Tax tab you will find 'FATCA/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.

INVESTMENT PHILOSOPHY

INVESTMENT OBJECTIVE

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

INVESTMENT STRATEGY

The Company's investment strategy is to create a concentrated and actively managed portfolio of Australian securities with typically a mid-cap focus and global listed securities.

The Company will provide investors with the opportunity to invest in an actively managed portfolio and to gain access to the investment management experience and expertise of the Manager.

ABOUT THE MANAGER

The Company's investment portfolio is managed by Perpetual Investment Management Limited, part of the Perpetual Group, whose consistent track record of investing excellence is underpinned by its proven investment process that focuses on value and quality.

PORTFOLIO MANAGER

Vince Pezzullo - Perpetual Investments
Vince has over 20 years' experience in the financial services industry, and has prior global experience as both an analyst and a portfolio manager. Vince leverages the expertise of the Perpetual Investments' Equity team, one of the largest investment teams in Australia.

PERPETUAL KEY CONTACTS

INVESTOR RELATIONS

Karen Davis
P: 02 9229 9114
E: karen.davis@perpetual.com.au

NSW

Nathan Boroughs
State Manager, Perpetual Investments
P: 0466 775 961
E: nathan.boroughs@perpetual.com.au

VIC/SA/NT/TAS

Daniel Moore
State Manager, Perpetual Investments
P: 0400 032 819
E: daniel.moore@perpetual.com.au

QLD

Tony Harte
State Manager, Perpetual Investments
P: 0407 708 109
E: tony.harte@perpetual.com.au

WA

Tim McCallum
State Manager, Perpetual Investments
P: 0411 209 403
E: tim.mccallum@perpetual.com.au

www.perpetualequity.com.au

CONTACT DETAILS

Investor queries: Telephone: +61 1800 421 712
Mailing address: Link Market Services,
Locked Bag A14, Sydney South, NSW 1235
Email: pic@linkmarketservices.com.au