

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

SHAREHOLDER REPORT

APRIL 2020

CHAIRMAN'S REPORT

Dear Fellow Shareholders,

Thank you for your ongoing support of the Perpetual Equity Investment Company Limited (Company or PIC). The Board continues to focus on its commitment to deliver long-term capital growth and regular income to shareholders.

On 19 February 2020, the Company announced its half year results and I am pleased to share with you the following highlights for the half year ending 31 December 2019:

- Net profit after tax (NPAT) of \$10.5 million and an operating profit before tax of \$13.3 million.
- Interim dividend of 3.2 cents per share, fully franked.
- Annual dividend yield of 6.2% and a grossed-up dividend yield of 8.9%¹
- Net Tangible Assets (NTA) after tax² per share of \$1.110.
- Investment portfolio performance over the 6 months to 31 December 2019 of 3.6%³, outperforming the benchmark by 0.3%.

IMPACTS OF COVID-19

Since announcing the Company's half year 2020 financial results, we have seen the spread of COVID-19 lead to unprecedented economic conditions and ways of living. Social isolation, remote working, demand and supply shocks to businesses and elevated market volatility provide ongoing challenges.

The Board and the Company's Manager, Perpetual Investment Management Limited (Perpetual) confirm they are fully operational, working remotely and proactively responding to the rapidly changing

environment. Importantly, we are collectively committed to governing and managing the Company through all market conditions. The Board has increased the frequency of its meetings during this period to monitor conditions and receive regular updates from the Manager on the underlying investments in the portfolio.

To that end, it is worth noting that Perpetual continues to maintain strict adherence to the investment philosophy and process which has defined their approach to investing for the past 50 years through all market cycles.

The Board continues to have confidence in the Portfolio Manager and the deep expertise of the investment team. We are reassured by the active approach the Manager takes in assessing risk with the aim of protecting shareholders' interests over the long-term.

GLOBAL ALLOCATION LIMIT INCREASE

On 25 March 2020, the Board announced its decision to amend the Company's investment strategy to increase the maximum allowable allocation to global securities from 25% to 35% of the PIC portfolio.

The Board considers that the change will provide the Manager with the operational flexibility to be able to continue to actively manage the portfolio and take high conviction positions in compelling offshore opportunities that meet the Manager's stringent investment criteria.

The Board is aware of the importance of franking credits to PIC shareholders. For global listed securities, the Company generates franking credits from the tax paid on the unfranked dividends from those securities as well as any tax paid on realised gains from those investments.

I wish you and your family well in these challenging times.

Yours sincerely,



Nancy Fox
Chairman



¹ Yield is calculated based on the total grossed up dividends of 9.4 cents per share (taking franking credits into account), and the closing share price of \$1.065 as at 31 December 2019.

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

³ 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. The benchmark is the S&P/ASX 300 Accumulation Index. Past performance is not indicative of future performance.

PORTFOLIO MANAGER'S REPORT

At Perpetual, we believe value and quality are critical to making sound investment decisions that will deliver over the long-term.

INVESTMENT PHILOSOPHY AND PROCESS

As Manager for the PIC portfolio, we focus 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 PIC portfolio. Through this approach we aim to minimise downside risk and protect the portfolio during periods of market stress.

COVID-19 AND THE PIC PORTFOLIO

While the full impacts of COVID-19 remain uncertain, we believe that our investment philosophy and process will assist us in maintaining a long-term and disciplined approach which is critical in volatile market conditions. Key to this, is a focus on fundamentals, active management and the protection for downside risk.

Focusing on fundamentals

Our investment process has always focused on identifying the quality and value of a company through its fundamental value drivers. This is critical in the current market conditions where we may see

company earnings begin to deteriorate and large amounts of debt accruing as the impacts of COVID-19 materialise. We believe companies with solid balance sheets, positive cash flow and low leverage are most likely to survive the crisis. We continue to look for these qualities in new investments and will take advantage of market opportunities as they present themselves. We have already seen high quality companies trading at lower valuations than what we have experienced during the extended bull market, allowing for attractive entry prices.

Active Management

The PIC portfolio is actively managed following our disciplined investment approach. This active approach means that the exposure of the portfolio varies over time based on the market cycle and relative value of individual stocks.

This style also means that we are actively looking for new investment opportunities and can take advantage of these as market conditions become favourable and individual stocks begin to present compelling value.

Managing Risk

Under the Company's investment strategy, we are permitted to use derivatives for hedging purposes. Over recent months, we have purchased put options to protect the portfolio from a falling market. These were beneficial and provided additional portfolio income while we gained exposure to other securities that fit our investment criteria.

Given the increased global exposure, we have also purchased some protection over currency risk. We will continue to use derivatives where we believe it is appropriate and necessary to provide protection for the portfolio.

While industries such as airlines, tourism, education and leisure are most likely to see the immediate impacts of COVID-19 on their businesses, we monitor companies in these sectors with a long-term view. For example, we have invested in Crown Resorts Limited (ASX: CWN) since June 2019 based on their fundamentals. Despite COVID-19 creating closures for certain of Crown's facilities, we believe they are well placed to weather this storm given their solid balance sheet, new development in Sydney and continued long licenses to operate in Melbourne and Perth. The new Crown Sydney will feature apartment residences as well as casino and gaming which together will bring increased revenue and earnings forecasts.

As at 31 March 2020, the portfolio has no exposures to airlines, cruise lines, real estate including REITs, or utilities. We will continue to look for diversification and invest in companies where we are confident that they meet our investment criteria. In particular, we look for companies with strong balance sheets and low debt which will mean they should be better placed to remain viable and outperform competitors once the current crisis subsides.

COMPOSITION OF THE PORTFOLIO⁴

As at 31 March 2020, PIC's portfolio included 33 companies which are diversified across sectors and industries. 67.6% was invested in Australian listed securities, 25.2% in global listed securities and 7.2% in cash.

Australian Listed Securities

While the Board has recently increased the allowable allocation to global securities, PIC continues to have an Australian focus. PIC's Australian listed securities are diversified across sectors, with the top 5 positions being:

COMPANY	PORTFOLIO WEIGHT
Crown Resorts Limited (ASX: CWN)	5.2%
Iluka Resources Limited (ASX: ILU)	5.1%
BHP Group Limited (ASX: BHP)	4.9%
AUB Group Limited (ASX: AUB)	4.9%
ANZ Banking Group Limited (ASX: ANZ)	4.1%

Global Listed Securities

Consistent with our active management style, the PIC portfolio's exposure to global listed securities has varied over time based on global economic conditions and the availability of securities that meet our investment criteria and represent compelling value.

In November last year, we conducted a research visit to the UK, visiting companies across multiple sectors. The visit highlighted several investment opportunities and following this, we began to build positions in the UK. Despite the impacts of COVID-19, we continue to see valuation appeal and potential upside in the UK. In particular, we are seeing a number of companies which present much better relative value, trading at much lower multiples, than very similar businesses in Australia.

The portfolio's top 3 global positions are:

COMPANY	PORTFOLIO WEIGHT
La Francaise des Jeux SAEM (PAR: FDJ)	8.7%
Flutter Entertainment Plc (LON: FLTR)	6.6%
Ferguson Plc (LON: FERG)	3.4%

We first invested in La Francaise Des Jeux Saem (PAR: FDJ) as part of the Initial Public Offer (IPO) in November 2019. FDJ is a French Listed lottery and sports betting operator that had, up until the IPO, been

owned and operated by the French Government. FDJ holds a highly attractive 25-year monopoly license to operate French lotteries and has a 45% market share in the French sports-betting market including the exclusive license to operate off-line sports-betting (also 25 years). Whilst sports-betting is a high growth division for FDJ, 85% of group earnings are derived from the lotteries business which is core to our investment thesis. Since the initial investment, we have increased the investment in FDJ such that it is now the largest position in the portfolio.

Auto Trader Group Plc (LON: AUTO) is a new position in the PIC portfolio, representing 3.1% of the portfolio. It is an automotive classified advertising business that is equivalent to Carsales.com in Australia. Previously, we considered this high-quality company overvalued. The market volatility has led to it now trading at what we consider to be an attractive valuation and resulted in us taking advantage of this opportunity.

OUTLOOK

We have typically taken a long-term view and therefore are positioning the PIC portfolio with resilient stocks to combat the recovery required from the sharemarket volatility and expectations of an economic downturn. In the short-term, we expect that companies will face earnings headwinds and consumer purchasing patterns will shift. As at the date of this report, the Australian government's stimulus packages are estimated to account for around 10 – 15% of GDP and are aimed at responding to issues raised by COVID-19, including reduced unemployment and production services. Similarly, the UK government has pledged fiscal plans that are intended to position the UK for a recovery once COVID-19 has passed. However, given the uncertainty remaining over COVID-19, it is difficult to predict the effectiveness of the current fiscal stimulus.

Perpetual has experience over many market cycles including the global financial crisis. While COVID-19 presents significant social and economic challenges, we are confident it will also provide investing opportunities which are consistent with our value and quality investing approach.

I wish you all good health and thank you for your continued support and trust.

Yours sincerely,



Vince Pezzullo
Portfolio Manager



⁴ As at 31 March 2020

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 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 (see Section 3.7 of the Replacement Prospectus dated 14 October 2014).

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

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