

# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

## KEY ASX INFORMATION

As at 30 November 2016

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$245.166 million

Share price: \$0.97

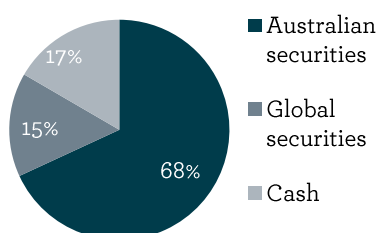
Shares on issue: 252,748,485

## NOVEMBER 2016 MONTHLY INVESTMENT UPDATE AND NTA REPORT

### PORTFOLIO PROFILE

#### ALLOCATION OF INVESTMENTS

83% of capital invested in securities.



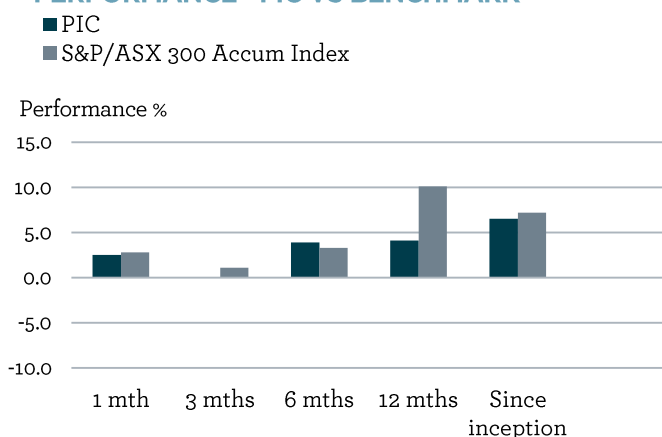
### PERFORMANCE

Net of fees, expenses and tax paid

AS AT 30 NOVEMBER 2016	1 MTH	3 MTHS	6 MTHS	12 MTHS P.A.	SINCE INCEP P.A.
PIC	2.5%	0.0%	3.9%	4.1%	6.5%
S&P/ASX 300 Acc Index	2.8%	1.1%	3.3%	10.1%	7.2%
Performance Relative to benchmark	-0.3%	-1.1%	0.6%	-6.0%	-0.7%

Inception date is 18 December 2014.

### PERFORMANCE - PIC VS BENCHMARK



Returns shown for the Company have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees and any income tax on realised gains) and assuming reinvestment of dividends. Any provisions for deferred tax on set up costs and on unrealised gains and losses are excluded. Past performance is not indicative of future performance. Inception date is 18 December 2014.

### PORTFOLIO COMMENTARY

The Portfolio performance, as measured by the growth in net assets per share, was 2.5% in November. The portfolio underperformed the benchmark S&P/ASX300, which rose by 2.8%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 6.5% per annum.

A recent addition to the PIC portfolio has been Alumina Ltd. (ASX: AWC). Alumina Ltd. is an Australian-based resources company that invests in worldwide bauxite mining, alumina refining and aluminium smelting through its 40% ownership of subsidiary Alcoa World Alumina and Chemicals ("AWAC") – the world's largest alumina business. Alumina Ltd.'s joint venture partner, US-listed Alcoa, owns the remaining 60% of AWAC and manages the day-to-day operations.

AWAC employs over 7,000 people to mine and refine bauxite to produce alumina, which is then sold to smelters around the world. AWAC also processes a percentage of the alumina refined themselves to produce aluminium metal. AWAC has a global network of mines and refineries, with the majority of its operations positioned in the lower-cost quartiles.

In 2015/16 Alumina Ltd. faced a cyclical headwind of a lower alumina price resulting from oversupply from Chinese refineries. However, being a low-cost producer allowed AWAC to remain cash flow positive in this lower commodity price environment, enabling them to maintain production and continue to pay a dividend to shareholders. This oversupply has moderated in recent months, leading to a higher alumina spot price that has benefitted Alumina Ltd.

The Manager believes we may be entering a period where the Chinese market is supply constrained in terms of locally mined bauxite. This may lead to Chinese refiners having to import more bauxite from offshore markets such as Australia, which could drive the commodity price higher. Compounding this, the Chinese government has conducted several environmental inspections in recent weeks that will likely result in sanctions on alumina refinery and smelters plants in the province of Shanxi, which account for more than 20% of the local Chinese alumina market. These investigations have sparked speculation of potential further supply issues, pushing the alumina price higher.

Perpetual

Alumina Ltd., with bauxite mining and refining assets in Australia, has benefitted from these developments. The Manager sees further upside in the share price should environmental scrutiny in China persist.

Alumina Ltd.'s cost of production is approximately \$200/t, whilst most Chinese alumina companies cost of production has risen from circa \$250/t to closer to \$280/t in recent months. Some cost increases in China are arguably cyclical, like rail bottlenecks transporting bauxite and alumina around the country due to priority being given to coal ahead of winter. But other cost increases are likely much more structural, such as environmental compliance, trucking load restrictions, and the decreasing availability of extractable and good quality domestic bauxite. The behavior of Chinese alumina companies of late, scouring world for bauxite, suggests they are getting concerned.

As at 30 November 2016, Alumina was 3.1% of PIC's portfolio.

## MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose 2.8% during November. The US presidential election was undoubtedly the biggest event of the month, with equity markets selling off heavily on Donald Trump's victory, before rallying sharply the following day on bullish expectations regarding Trump's program of fiscal stimulus, corporate tax cuts and reduced regulation. Banking stocks led the rally while many defensive and high-yielding stocks underperformed as capital rotated into cyclical sectors likely to benefit from a more inflationary economic environment. Mining stocks also performed well as the majority of commodities rallied strongly. Gold fell sharply as the US dollar rallied, while oil gained ground after OPEC reached an agreement to cut production by 1.2mbd (million barrels per day) by January 2017. The Australian dollar lost ground against the surging USD to close the month down 2.9% to \$0.7388 cents.

The best performing sectors for the month were financials ex-property (+6.0%), utilities (+3.7%) and energy (+3.3%). The worst performers were health care (-1.6%), telecommunication services (-0.4%) and consumer discretionary (-0.3%). As a whole, industrial stocks (+2.8%) underperformed resource stocks (+3.1%) and large cap stocks (+3.6%) outperformed small cap stocks (-1.2%).

## TOP SECURITIES

### TOP 5 AUSTRALIAN SECURITIES AS AT 30 NOVEMBER 2016

COMPANY	PORTFOLIO WEIGHT
Woolworths Ltd	11.6%
Suncorp Group Ltd	7.4%
Sky Network Television Ltd	6.5%
Medibank Private	5.3%
CYBG Plc	5.0%

### TOP 3 GLOBAL SECURITIES AS AT 30 NOVEMBER 2016

COMPANY	PORTFOLIO WEIGHT
Icon Plc	5.8%
Deutsche Boerse AG	5.3%
Bank of America Corp	2.3%

### NET TANGIBLE ASSET (NTA) BACKING PER ORDINARY SHARE<sup>1</sup>

AS AT 30 NOVEMBER 2016	AMOUNT
NTA before tax <sup>2</sup>	\$1.067
NTA after tax	\$1.058

Daily NTA is available on the website.

<sup>1</sup>All figures are unaudited and approximate.

<sup>2</sup>The before and after tax numbers relate to provisions for deferred tax on set-up costs and on unrealised gains and losses in the Company's investment portfolio.

## INSIGHTS VIDEOS

### LIVEWIRE EXCLUSIVE: A GOLDEN ERA FOR VALUE INVESTING BEGINS

Vince Pezzullo, Portfolio Manager at Perpetual Equity Investment Company (ASX: PIC) features in this Livewire interview. Vince discusses where he is finding value in the market and highlights what he looks for when picking stocks.

[WATCH VIDEO \(7:05\)](#)

### SWITZER DAILY: GLOBAL EQUITY MARKETS, VALUE-BASED INVESTING, STOCKS

Senior Investment Specialist at Perpetual, James Holt, joins Paul Rickard from Switzer Daily to discuss global equity markets, value-based investing, and the stocks on his radar.

[WATCH VIDEO \(9:32\)](#)



## 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, has outperformed consistently 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

### NSW

Stuart Dunn  
State Manager, Perpetual Investments  
P: 0414 889 001  
E: [stuart.dunn@perpetual.com.au](mailto:stuart.dunn@perpetual.com.au)

### VIC/SA

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

### QLD

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

### WA

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

### INVESTOR RELATIONS

Anne Rozenauers  
P: 02 9229 3528  
E: [anne.rozenauers@perpetual.com.au](mailto:anne.rozenauers@perpetual.com.au)

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### 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](mailto:pic@linkmarketservices.com.au)  
[www.perpetualequity.com.au](http://www.perpetualequity.com.au)

