

# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

## KEY ASX INFORMATION

As at 29 February 2016

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$232.316 million

Share price: \$0.925

Shares on issue: 251,152,874

Options on issue: 249,712,777

Options ASX Code: PICO

Options expiry date: 10 June 2016

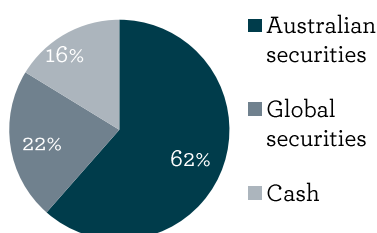
Options Share price: \$0.002

## FEBRUARY 2016 MONTHLY INVESTMENT UPDATE AND NTA REPORT

### PORTFOLIO PROFILE

#### ALLOCATION OF INVESTMENTS

84% of capital invested in securities.



### PERFORMANCE

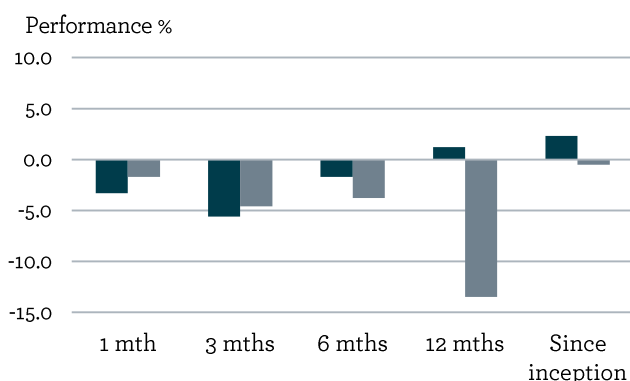
Net of fees, expenses and tax paid

AS AT 29 FEBRUARY 2016	1 MTH	3 MTHS	6 MTHS	12 MTHS P.A.	SINCE INCEP P.A.
PIC	-3.3%	-5.6%	-1.7%	1.2%	2.3%
S&P/ASX 300 Acc Index	-1.7%	-4.6%	-3.8%	-13.5%	-0.5%
Performance Relative to benchmark	-1.6%	-1.0%	2.1%	14.7%	2.8%

Inception date is 18 December 2014.

### PERFORMANCE - PIC VS BENCHMARK

■ PIC  
■ S&P/ASX 300 Accum Index



### PORTFOLIO COMMENTARY

The Portfolio performance was -3.3% in February, underperforming the benchmark by 1.6%. Since listing, the Perpetual Equity Investment Company Limited (PIC) has returned 2.3% per annum exceeding the benchmark return by 2.8%.

Markets were volatile during February and there was a substantial amount of portfolio activity within the month. Allocating capital prudently for shareholders remains key in this climate, both in terms of a buy and a sell discipline. February saw the Manager taking profits on some select active positions including Burson Group Ltd (BAP) and Bluescope Steel (BSL), selling into strength on the back of positive results.

Burson is the largest distributor of automotive aftermarket parts to mechanics and service shops in Australia. The auto parts industry is consolidating to a smaller number of larger more efficient operators that can supply the large numbers of brands and models that are now sold into Australia. The results for Burson since listing in early 2014 have been solid, with sales and profit growth continuing. The Manager believes Burson has a very good management team and is executing a steady growth strategy well. The Manager continues to hold Burson in the Portfolio.

Over the course of the month, the Manager also took the opportunity to build exposure to some stocks such as Bank of America and Henderson Global Group that remain attractively valued.

Despite a Financial Year 2015 result that was broadly in line with market estimates, Henderson Global Group (HGG) has had a very weak start to calendar 2016, which is understandable given their exposure to equity markets. The Manager viewed the share price weakness in February as an opportunity to initiate a position in Henderson at what we consider attractive valuations. Henderson has long been the Manager's preferred Global Asset Manager. Henderson offers diversified investment products across a number of asset classes and geographies, and they are not reliant on a single strategy.

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

This mitigates the key person risk often found with many asset managers. In addition, their Funds Under Management base is split roughly 50/50 between retail and institutional clients, with a growing retail base.

The Manager believes that some of the best value stocks in the world right now are global banks, especially those with exposure to the growing US economic recovery. Investors are often very slow to forgive the last sector that misbehaved. Since the financial crisis in 2007-8 US banks have raised their capital buffers & reduced risk, and are now benefiting from robust growth in loans – yet they remain priced at near crisis levels, sometimes at a discount to their book value (i.e. less than the value of all their tangible assets) such as Bank of America. As one of the most leveraged banks to an ongoing US recovery, and trading at 0.85x net tangible book value, the Manager viewed the share price weakness in Bank of America as an excellent opportunity to own more stock at very compelling valuations throughout February. By way of comparison, Commonwealth Bank trades at 2.7x tangible book value (i.e. a significant premium) and is arguably at the top of the cycle in terms of historically low interest rates and a booming property market. PIC does not hold any of the major four Australian banks in the portfolio.

Eighty four percent of PIC's capital is invested in equity securities with 62% in Australian securities and 22% in global securities. Sixteen percent of the portfolio is in Cash.

During February PIC announced an interim fully franked dividend of 0.80 cents per share which will be payable to shareholders on 21 March 2016. The Board has an objective to pay a regular and growing dividend and it is the intention of the Board that wherever possible, the Company will pay fully franked dividends twice per year. Shareholders are reminded that PIC Options expire on 10 June 2016. If you would like to exercise your Options please contact LINK on +61 1800 421 712 to obtain an Option exercise form.

## MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, fell 1.7% during February. Global markets fell heavily during the start of the month before paring back losses as resource stocks rebounded from recent lows. Volatility in oil prices garnered increased attention as market concerns grew around the financial health of the world's oil producers and potential contagion risks across the banking industry. Concerns around the weakening Chinese economy also continued as the Chinese stock market suffered further heavy falls. The Bank of Japan surprised markets with the introduction of negative interest rates, designed to encourage its commercial banks to increase business lending to the local economy. Fears of a 'Brexit' were ignited after London's Mayor Boris Johnson declared he would campaign to have the United Kingdom leave the European Union.

The domestic market underperformed its global peers as negative macro issues overshadowed reporting season, leading to increased volatility as companies delivered their half year results. As a whole, corporate results were slightly above expectations, however the market focused heavily on management outlooks, with any deteriorating guidance leading to sharp sell-offs. Commodities bounced strongly during the month with iron ore leading the charge, jumping 18.9% due to supply disruptions and restocking in China. The Aussie dollar gained ground against all major currencies and closed the month at US\$0.7143.

The best performing sectors for the month were materials (+9.1%), industrials (+5.8%) and property trusts (+2.8%). The worst performers were financials ex-property (-7.0%), telecommunication services (-5.5%) and information technology (-5.5%). As a whole, industrial stocks (-5.0%) outperformed resource stocks (-9.0%) and large cap stocks (-5.8%) underperformed small cap stocks (-5.1%).

## TOP SECURITIES

### TOP 5 AUSTRALIAN SECURITIES AS AT 29 FEBRUARY 2016

COMPANY	PORTFOLIO WEIGHT
Woolworths Ltd	9.9%
Caltex Australia Ltd	8.6%
BlueScope Steel Ltd	7.6%
Suncorp Group Ltd	7.0%
Sky Network Television Ltd	6.6%

### TOP 3 GLOBAL SECURITIES AS AT 29 FEBRUARY 2016

COMPANY	PORTFOLIO WEIGHT
Royal Philips	8.0%
Bank of America Corp	7.6%
Banco Bilbao Vizcaya	2.7%

### NET TANGIBLE ASSET (NTA) BACKING PER ORDINARY SHARE<sup>1, 3</sup>

AS AT 29 FEB 2016	AMOUNT
NTA before tax <sup>2</sup>	\$0.986
NTA after tax	\$0.993

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.

<sup>3</sup>All figures include an accounting provision for the interim dividend that was declared on 19 February 2016 and will continue to be recognised until payment date of the dividend.



## 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

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