

**MAY 2015
MONTHLY INVESTMENT UPDATE AND NTA REPORT**

MONTH IN REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose 0.4% during May. Global markets delivered varied results during the month with volatility driven by mixed economic data and heightened concerns regarding the Greek bailout situation. US stocks fluctuated early in the month on the back of weak retail sales and strong non-farm payrolls, ending the month up 1.3%. European stocks fell as fears of Greece defaulting on its debt escalated. Greece is due to pay €300m to the International Monetary Fund in early June, followed by an additional €1.2bn over the following weeks, with little headway being made in ongoing negotiations. The People's Bank of China cut rates for the third time in six months, and liquidity concerns in local markets sparked a sharp sell-off in Chinese stock markets. In Australia the Reserve Bank of Australia cut rates to a record low of 2.0% and Treasurer Joe Hockey announced his second federal budget, with \$10bn in new spending to support the domestic economy. The iron ore price continued to gain ground, up 10.1%, while the Australian dollar ended the month down against the USD at 0.7645 cents.

**PERPETUAL EQUITY INVESTMENT
COMPANY LIMITED**

As at 31 May 2015

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$244.47million

Share price: \$0.975

Shares on issue: 250,735,278

Options on issue: 250,053,277

Options ASX Code: PICO

Options expiry date: 10 June 2016

Options Share price: \$0.027

PORTFOLIO COMMENTARY

The Portfolio rose 0.6% over the month, outperforming the S&P/ASX 300 Accumulation Index by 0.2%. The Manager continued to add stock holdings to the Portfolio during May and has now deployed 32% of the Company's capital. During May the Board granted an extension to the Company's capital deployment period to the 18 December 2015. The Board is satisfied that the Manager has been patiently deploying capital whilst adhering to its disciplined investment approach of seeking quality stocks trading at attractive valuations. Under the investment guidelines the Manager has a minimum target of 75% invested in stocks to achieve deployment.

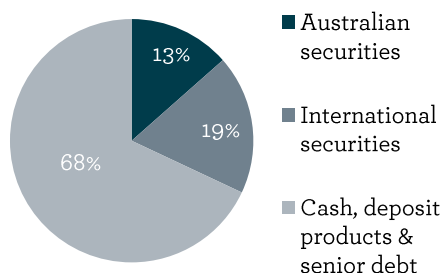
Shareholders may be interested to note that there are no Australian banks in the Portfolio. Since the Company listed, Australian banks have been trading at what the Manager perceives to be very expensive valuations that have not discounted the risk of impending regulatory change. The regulatory change that the Australian banks are facing is already occurring offshore, or is in the process of being implemented, which has led to material re-ratings of share prices for offshore banks. From a valuation stand point, Australian banks have been trading at material premiums to their global counterparts, mostly due to the differences in return on equity for Australian banks being higher than other developed market banks such as Bank of America and Barclays.

One of the benefits of the Perpetual Equity Investment Company is its ability to hold offshore securities which the Manager has utilised in our significant holding in Bank of America and a European Bank (BBVA). Both of these banks are trading at book value, or at a material discount to book value, and they have been building their respective capital ratios organically for the last few years. Australian banks have been trading at 2 – 2.5x book value on average and the changing regulatory environment could potentially lower the value of the equity by increasing the total level of capital that banks have to operate with, which tends to place downward pressure on return on equity and therefore lower the price to book value. At this stage, while the Australian banks have fallen recently, the relative value still points to offshore banks as a better investment proposition. The offshore banks also provide exposure to increasing rates in the USA and Europe, which will deliver material earnings and dividend growth over the next few years

The Board would like to extend our congratulations to the Portfolio Manager for the Company, Vince Pezzullo who also manages the Perpetual Direct Equity Alpha, a Separately Managed Account (SMA). The Perpetual SMA was the winner of the SMA Portfolio Award at the 2015 Money Management/Lonsec Fund Manager Awards held on 21 May 2015. Vince has managed this portfolio since January 2008 and the award was recognition of Vince's ability to deliver long term capital growth and income from a concentrated portfolio of quality Australian shares.

PORTFOLIO PROFILE

ALLOCATION OF INVESTMENTS



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.

TOP SECURITIES

The Manager may take up to approximately twelve months from listing date to fully invest the Portfolio to within the investment guidelines. Once the Portfolio has been deployed, the Company will disclose the top 10 Australian securities and the top 5 International securities and their weightings in the monthly report.

NET TANGIBLE ASSET (NTA) BACKING PER ORDINARY SHARE¹

	AMOUNT
NTA before tax ²	\$1.006
NTA after tax	\$1.005

Daily NTA is available on the website.

¹All figures are unaudited and approximate.

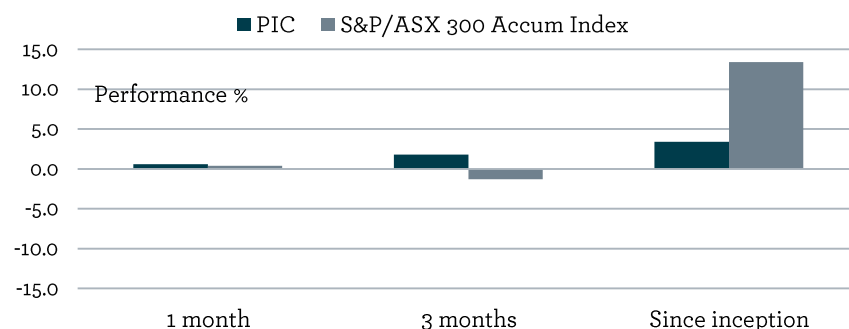
²The before and after tax numbers relate to the provision for deferred tax on the unrealised gains in the Company's investment portfolio.

PERFORMANCE - NET OF FEES, EXPENSES AND TAX PAID

PERFORMANCE AS AT 31 MAY 2015	1 MONTH	3 MONTHS	SINCE INCEPTION
PIC	0.6%	1.8%	3.4%
S&P/ASX 300 Accumulation Index	0.4%	-1.3%	13.4%
Performance Relative to benchmark	+0.2%	3.1%	-10.0%

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, any income tax and any realised capital gains tax) and assuming reinvestment of dividends. Past performance is not indicative of future performance.

This monthly report has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the Company or the return of an investor's capital.

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