

INVESTMENT UPDATE AND NTA REPORT

September 2020

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 30 SEPTEMBER 2020	AMOUNT
NTA after tax (cum dividend)	\$1.088
NTA before tax (cum dividend)	\$1.098

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 September 2020, the NTA after tax (ex dividend) was \$1.060 and the NTA before tax (ex dividend) was \$1.070. The ex dividend NTA figures are reduced by a provision for the 2.8 cents per share final dividend that was declared on 26 August 2020. The ex date for the final dividend is 30 September 2020 and the payment date is 23 October 2020.

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

KEY ASX INFORMATION

AS AT 30 SEPTEMBER 2020

ASX Code:	PIC
Listing Date:	18 December 2014
Market Capitalisation:	\$339 million
Share Price:	\$0.975
Shares on Issue:	347,830,810

INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 2020	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio Net of fees, expenses and before tax paid	-0.8%	5.5%	29.5%	3.5%	3.6%	5.7%	8.1%	7.4%
S&P/ASX 300 Acc Index	-3.6%	-0.1%	16.7%	-10.0%	0.7%	4.9%	7.4%	6.5%
Excess Returns	2.8%	5.5%	12.8%	13.4%	2.9%	0.8%	0.7%	1.0%

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
Crown Resorts Limited	5.2%
Iluka Resources Limited	5.0%
AUB Group Limited	4.4%
Aristocrat Leisure Limited	4.3%
Boral Limited	4.2%

TOP 3 GLOBAL LISTED SECURITIES

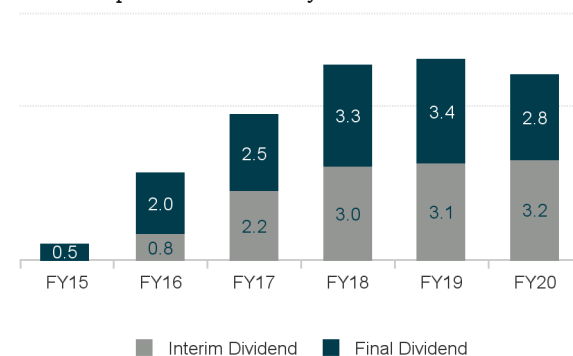
COMPANY	PORTFOLIO WEIGHT
Flutter Entertainment Plc	9.6%
La Francaise des Jeux SA	6.3%
Ferguson Plc	3.3%

Portfolio weight based on direct investments in securities and does not include any derivative exposure

DIVIDENDS IN CENTS PER SHARE

Annual dividend yield: 6.2%

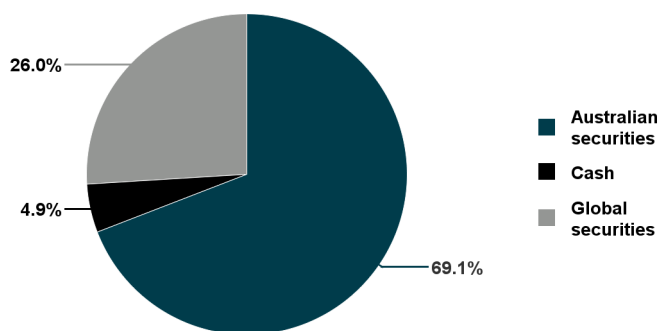
Grossed up annual dividend yield: 8.8%



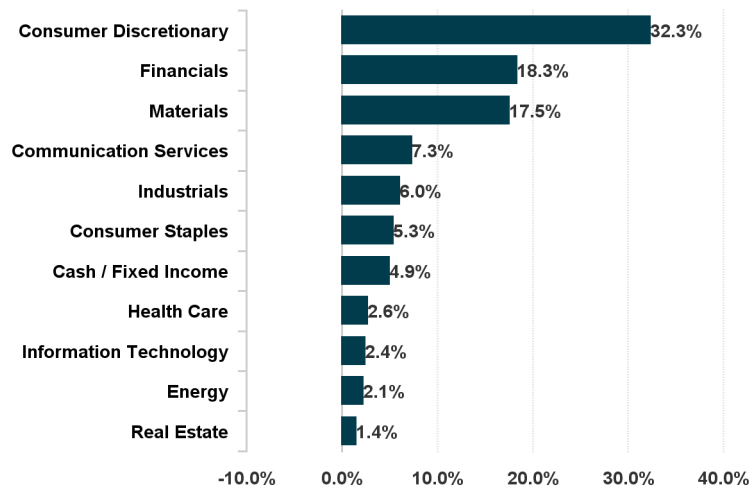
Yield is calculated based on the total dividends of 6.0 cents per share and the closing share price of \$0.975 as at 30 September 2020. Grossed up yield takes into account franking credits at a tax rate of 30%.

ALLOCATION OF INVESTMENTS[^]

95.1% of capital invested in securities



PORTFOLIO SECTORS[^]



[^]Weightings calculated based on direct investments in securities and any indirect exposure via S&P /ASX 200 related derivatives. All figures are unaudited and approximate.

PORTFOLIO COMMENTARY

We have seen a range of market conditions since the start of the year. Following the market fall in February and March, we then saw trading in a fairly tight range from June through to the end of August. In September, the market experienced another fall across Australian equities with the S&P/ASX 300 Accumulation Index down -3.6% during the month.

Continued speculation about the length of the Victorian lockdown weighed on market sentiment in Australia with KPMG estimating an extra 350,000 Victorian jobs would be lost in the September 2020 quarter, in addition to the ~250,000 jobs already lost¹. Australia's economy faces a \$6 - 8 billion hit from the extended lockdown, coming on top of the \$10 - 12 billion hit predicted to wipe 2.5% from third quarter gross domestic product (GDP). Partly offsetting this speculation, the market took comfort from various reports of fiscal stimulus in the Federal budget, including bringing forward tax cuts and infrastructure spending.

In the US, wobbles in the US technology sector seemed to be the catalyst for much of the market volatility early in the month. This was indicated by the NASDAQ in the US entering a correction at the start of September and eventually bottoming on 23 September, about the same time as the Australian market regained its footing.

US Federal Reserve Chairman Jerome Powell also unsettled markets mid-month with a cautious outlook for the US. Locally, the Reserve Bank of Australia (RBA) kept indicating an easing bias, culminating in dovish comments from Deputy Governor Guy Debelle. This means that the RBA is favouring a monetary policy of low interest rates to encourage employment growth and economic growth as opposed to controlling inflation. For example, Deputy Governor Guy Debelle raised various options for further intervention in bond and cash markets to help support employment.

However the market sold off sharply on the last day of the month as US politics once again intruded on investor sentiment. The first US presidential debate between President Trump and Democratic Party challenger Joe Biden saw a heated debate that led to some commentators believing the chances of President Trump being re-elected were reduced and markets factoring in the prospects of higher corporate taxes under a new regime.

The PIC portfolio, in this environment, held up well, maintaining nearly all of its value against the broader market slide. There were no clear signs of the market favouring value or growth investment styles in September, thereby enforcing the criticality of stock selection in this environment. The Manager has always followed an investment process that identifies individual stocks (often called "bottom up" investing) through in-depth research. The PIC portfolio remains deliberately balanced between what the Manager believes are reasonably priced structural growth stocks and undervalued cyclical recovery opportunities.

For the PIC portfolio, the top contributors to absolute performance were Boral Limited (ASX: BLD) and AUB Group Limited (ASX: AUB). The share price of BLD rose 13.7% in September. Boral remains dominant in its sector as Australia's largest construction materials and building products supplier. However, the business has been distracted in recent years with its foray into the US, and building related stocks were hit hard with the COVID-19 pandemic. The new Chief Executive Officer, who started from 1 July 2020 has flagged that management is reviewing the business to unlock value for shareholders. As at 30 September, BLD made up 4.2% of the PIC portfolio.

AUB was bought on the expectation that the insurance business would thrive in the post COVID-19 world, which has been vindicated as the stock now trades well above previous highs. The share price of AUB rose 7.5% during the month. As at 30 September, AUB comprised 4.4% of the PIC portfolio.

¹Source: The Australian, 9 September 2020 "Coronavirus: Victoria facing a \$6bn hit and an extra 350,000 workers joining jobless queues"

QANTAS AIRWAYS LIMITED (ASX: QAN) (ANALYST: GUY BUNCE)

COVID-19 has had a significant impact on corporate earnings, with the airline industry arguably being one of the hardest hit industries. In Australia, this culminated in the country's second largest carrier, Virgin Australia, entering voluntary administration. Senior Equities Analyst, Guy Bunce discusses his views on Qantas Airways Limited (ASX: QAN) and why PIC Portfolio Manager Vince Pezzullo determined it was an appropriate investment for the PIC portfolio.

After the QAN share price traded at an all-time high of \$7.46 in December 2019, it collapsed to a share price low of \$2.03 during the trading day on 19 March 2020 with analysts and investors uncertain about the company's future due to the pandemic. Some of the key questions being asked at the time were: "When will demand for air travel return?", "What will demand look like?", and "Does the company have enough liquidity to remain solvent until then?". Analysis of global aviation markets showed that demand for air travel returned relatively quickly once government stay-at-home orders and other restrictions were eased or removed – examples included China, Europe, the US, and New Zealand. The extent of the recovery in air travel varied by market. For example, China was back flying 80% of its capacity by June 2020, the US 40% and Europe 20%. However, the common driver was leisure (rather than business) demand and people wanting to visit family, friends or simply take a holiday. In our opinion, the experience in Australia should be no different.

We expect the demand for QAN's domestic services to grow as Australia's restrictions are eased or removed (potentially by Christmas). In particular, the lockdown in Victoria and border closures such as in Queensland are critical restrictions that should have a significant impact when removed. In addition, as the number of locally acquired COVID-19 cases continues to fall we should start to see a return to more normal working arrangements as well as the return of the corporate air traveller. Importantly from QAN's perspective, more than two-thirds of its earnings have historically been generated by its domestic services. International services are likely to take longer to recover, but in our view, eventually will.

Critically, the airline's financial position has been boosted following its \$1.4 billion equity raising in June 2020 as well as other funding initiatives. Based on reported cash and undrawn facilities of \$4.5 billion as at 30 June 2020, unencumbered assets of \$2.5 billion and our cashflow forecasts, we believe QAN has sufficient liquidity to enable it to participate in the anticipated recovery in air travel demand. We believe increasing evidence of this should emerge in the next 3 – 12 months. We expect QAN to ultimately emerge from this pandemic, a leaner more profitable airline. The stock is already trading well above its issue price for the equity raising of \$3.65, and we see further material upside from here.

As at 30 September 2020, QAN comprised 2.6% of the PIC portfolio.

COMPANY NEWS

ANNUAL GENERAL MEETING (AGM) AND INVESTMENT MANAGER UPDATE

15 OCTOBER 2020 – REGISTRATIONS STILL OPEN

The AGM and Investment Manager Update will be broadcast live on the same day on Thursday 15 October 2020 at 2:00pm (AEDT).

This year the Company will be holding a virtual AGM, whereby shareholders will have the opportunity to participate online. Shareholders will be able to participate in the meeting and have the ability to ask questions and vote live during the meeting. Further details on how to participate in the AGM is included in the [Notice of Meeting](#).

The Company would like to extend an invitation to all shareholders and interested parties to register for our Investment Manager Update. Portfolio Manager Vince Pezzullo will provide an update on markets, how the PIC portfolio is being managed and the opportunities he is seeing in Australia and globally. The update will close with Q&A. We encourage you to pre-submit your questions on the registration page.

[CLICK HERE TO REGISTER](#)

A copy of the presentation slides will be made available via the ASX and emailed to registered participants on the day. Finally, if you are unable to join us at this time, the presentation slides and audio will be posted on the Company [website](#).

SHAREHOLDER COMMUNICATIONS

The Company website hosts a range of information aimed at keeping shareholders and other interested parties up to date with the latest Company news. Via the website, you can also update your communication preferences to receive various Company alerts via email at <https://www.perpetualequity.com.au/tools-and-resources/email-alerts>. We encourage to ensure your communication preferences are up to date so that you have access to all the information you need.

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 25 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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