

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

2019 ANNUAL
GENERAL MEETING

ADDRESSES TO SHAREHOLDERS

Perpetual 

FY19 PIC ANNUAL GENERAL MEETING

Chairman's Address

Nancy Fox

In December this year we mark the five-year anniversary of PIC's listing on the ASX.

As we approach this milestone, I would like to take this opportunity to pay thanks to the many shareholders that have supported PIC since its inception.

In addition, I would like to welcome all our new shareholders, with a number of new shareholders participating in the capital raising that the company undertook in financial year 2019 (FY19).

PIC has continued to focus on delivering the investment objective set back in 2014 to provide investors with a growing income stream and long-term capital growth over a minimum five-year period through a portfolio of high-quality Australian and global listed securities.

PIC offers shareholders the opportunity to invest in an actively managed portfolio with access to the deep investment management experience and expertise of Perpetual's equities team.

Investment performance

PIC is managed by one of Australia's most experienced and respected fund managers, Perpetual Investment Management Limited, which has been investing in Australian listed securities for more than 50-years.

The investment approach and philosophy underpinning PIC focuses on value investing and takes a disciplined and bottom-up approach to finding quality stocks trading at attractive valuations.

Whilst the Manager's investment process has been challenged with elevated company valuations resulting in opportunities being more scarce, we remain confident in the Manager's ability to actively navigate markets and invest shareholders' capital prudently to assist in preserving value in these conditions.

FY19 results overview

For the 2019 financial year, PIC delivered a solid operating profit after tax of \$15.2 million.

The Board was pleased to declare a fully franked final dividend of 3.4 cents per share, bringing total dividends declared for FY19 to 6.5 cents per share fully franked. This represents a very attractive annual grossed up dividend yield of 8.8%¹.

We recognise our shareholders value a strong and sustainable fully franked dividend stream and we are pleased to provide this consistent result to our shareholders.

Capital raising

Let me now touch on the capital raising.

We received a strong response from investors, raising \$101.2 million.

The proceeds from the capital raising have been used to support the Company in expanding its portfolio and to take advantage of market opportunities as they arose.

The capital raising successfully helped increase depth and liquidity for shareholders with the number of PIC shareholders increasing by 20% and the total volume of shares traded increasing by 10% during FY19.

In addition, with the scale benefits achieved from the capital raising, we have seen a reduction in the Company's total management costs of approximately 15bps.

Share price and NTA

We acknowledge that the Company's share price and investment performance have been disappointing and that a discount between the share price and pre-tax Net Tangible Assets (NTA) has emerged.

For those of you who have been shareholders for some time, you would be aware that the Company has previously traded at a discount and that in the past this has reverted to a premium over time.

The Board believes there are three key drivers which support the share price to trade in line with NTA:

1. the Company's dividend strategy

¹ Based on the total grossed up dividends of 9.1 cents per share (grossed up to take franking credits into account), and the closing share price of \$1.04 as at 28 June 2019.
Note: the interim dividend was fully franked at a tax rate of 27.5% and the final dividend was fully franked at a tax rate of 30%.

2. the investment performance and
3. shareholder engagement.

As your Board, we will continue to focus on these drivers to close the gap to NTA.

Governance

I would like to highlight the governance PIC has in place to monitor the Manager and other key service providers.

The Board is made up of five directors, including three independent directors, with expertise across financial services, regulation and risk management. The Board undertakes rigorous governance processes throughout the year to ensure shareholders' money is being appropriately managed. This includes monitoring and reviewing the operations of the Manager, Link Market Services as Registry provider, and RBC as custodian.

The Board actively challenges the Manager on your behalf to ensure appropriate investment opportunities are pursued and adequate resources are deployed.

The Manager is required to report to the Board regularly on investment performance and the composition of the portfolio.

Shareholder survey

During FY19, we conducted a survey of all shareholders to gather feedback on what is important to you and understand what we can do to enhance the value we provide and the services we offer.

We had a great response with more than 1,000 shareholders participating – thank you to everyone who took time to complete the survey.

Some findings from the survey include 85% indicated franking credits were critical or important, more than 70% said you are seeking both capital growth and dividend income, and many, over 60%, are interested in receiving information on PIC's performance and the companies we invest in.

You may have already noticed, we have started to use this information to enhance the insights in PIC's Monthly Investment Update and NTA report.

Keeping you informed

We know how important it is to our shareholders that we are transparent and understand the importance of keeping shareholders informed.

From our shareholder survey, we found a low number of shareholders are accessing our website on a regular basis. I strongly encourage you to visit the website as there is a lot of information that will help keep you informed, including the monthly report, daily NTA, and a deep dive into the stocks we own.

Looking ahead

Finally, I would like to reassure fellow shareholders the Board will continue to prudently and responsibly manage the Company.

Thank you for your ongoing support and interest in PIC.

**PERPETUAL
EQUITY
INVESTMENT
COMPANY**

INVESTOR UPDATE & ANNUAL GENERAL MEETING

17 October 2019

IMPORTANT NOTE

This information was prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. PIML is the Manager for the Perpetual Equity Investment Company Limited (Company or PIC) ACN 601 406 419. 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. This information does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of the Company's securities. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

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NANCY FOX - CHAIRMAN

YOUR PRESENTERS



NANCY FOX

Chairman,
Perpetual Equity Investment
Company Limited



VINCE PEZZULLO

Deputy Head of Equities,
Portfolio Manager
Perpetual Investments



NICHOLAS VIDALE

Equities Analyst,
Perpetual Investments

AGENDA

| Chairman's Welcome and Address

| Investment Manager Update

| Questions

| Formal voting proceedings

– Resolution 1

– Resolution 2

| Closure

INVESTING FOR REGULAR INCOME AND LONG-TERM CAPITAL GROWTH

MANAGER WITH PROVEN TRACK RECORD



Immediate exposure
to an actively
managed portfolio of
stocks



Flexibility to invest
25% in global listed
securities and
25% in cash



A regular fully
franked
dividend stream and long
term capital growth



Committed to
transparency and
keeping investors
informed

INVESTMENT OBJECTIVES

- Deliver a growing income stream
- Provide long term capital growth
- Exceed its benchmark

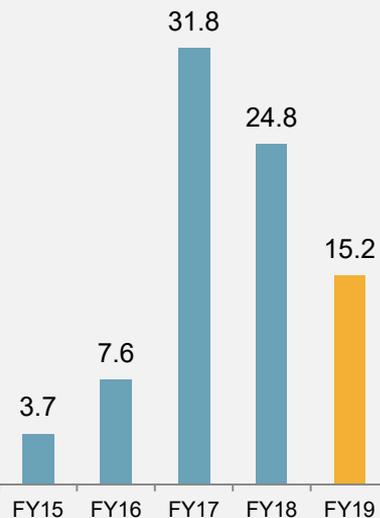
PORTFOLIO MANAGER – VINCE PEZZULLO

- 20+ years in financial services industry
- Extensive domestic and global equity experience

FULL YEAR 2019 RESULTS OVERVIEW

DELIVERING A REGULAR FULLY FRANKED DIVIDEND STREAM

NPAT, \$m



DIVIDEND PER SHARE, CENTS PER SHARE (CPS)



3.4cps

Fully franked final dividend

8.8%*

Gross dividend yield

\$15.2m

Operating profit after tax

\$1.12[^]

Net tangible assets (NTA) after tax per share

Source: Perpetual Equity Investment Company Limited (PIC) as at 19 August 2019.

* Based on the total grossed up dividends of 9.1 cents per share (grossed up to take franking credits into account), and the closing share price of \$1.04 as at 28 June 2019. Note: the interim dividend was fully franked at a tax rate of 27.5% and the final dividend was fully franked at a tax rate of 30%.

[^] 'After tax' refers to tax paid and provisions for deferred tax on unrealised gains and losses in the Company's investment portfolio. NTA is calculated as at the end of day on the last business day of the month.

Past performance is not indicative of future performance.

CAPITAL RAISING

EXPANDING THE COMPANY'S PORTFOLIO & SHAREHOLDER BASE

\$101.2m

Raised during
the first
half of FY19

20%

Increase in
number of
shareholders[^]

10%

Increase in
total volume
of shares traded[^]

[^] During the Financial Year 2019

Source: Perpetual Equity Investment Company Limited.

HISTORY AND TRACK RECORD

PIC SHARE PRICE VERSUS NTA BEFORE TAX



Source: FactSet and Perpetual Equity Investment Company Limited as at 30 September 2019.
Past performance is not indicative of future performance. Inception date is 18 December 2014.

WHAT'S IMPORTANT TO YOU?

SHAREHOLDER SURVEY RESULTS

+1,000

Shareholders
participated

85%

Indicated
franking credits
are important

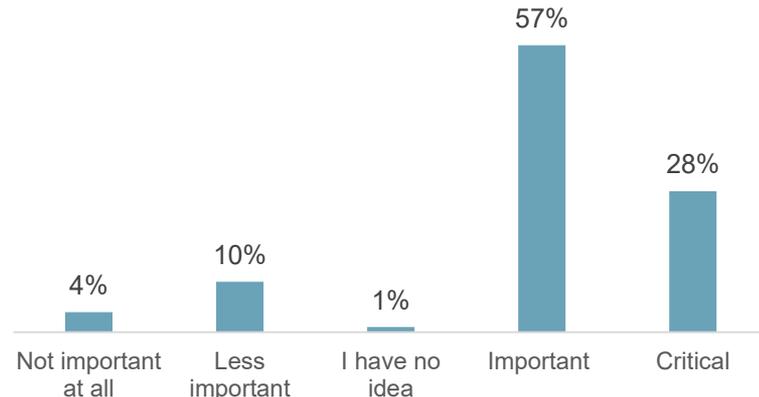
71%

Seeking both
capital growth &
dividend income

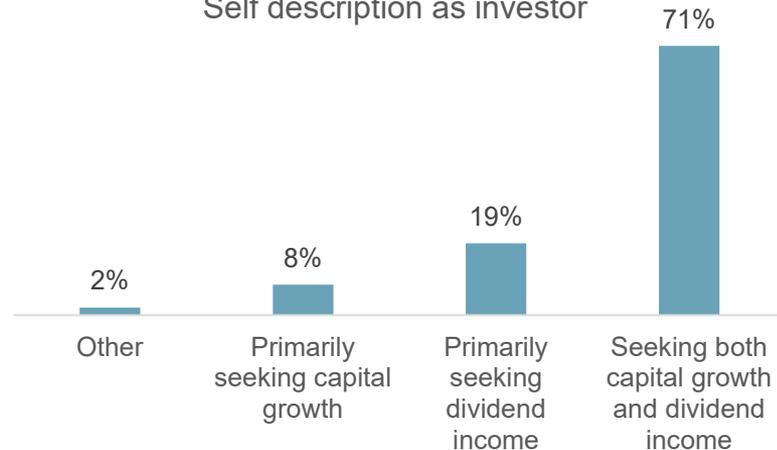
60%

Interested in receiving
information on performance
& stocks

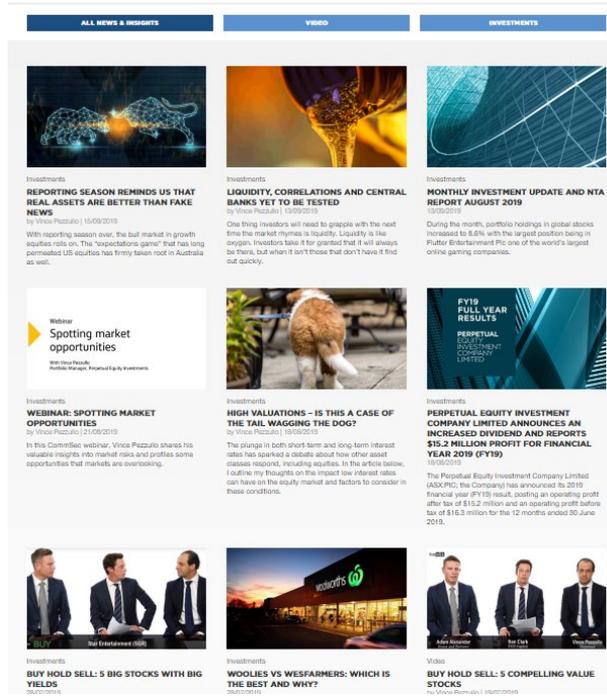
Importance of franking credits



Self description as investor



PROVIDING A REGULAR FLOW OF USEFUL INFORMATION AVAILABLE ON THE COMPANY WEBSITE



Update your
communications
preferences



View daily
NTA
announcements



Monthly investment
update &
NTA reports



Latest insights
from
the Manager

www.perpetualequity.com.au

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VINCE PEZZULLO – PORTFOLIO MANAGER

MACRO POLICY HAS PLAYED HAVOC WITH MARKETS

POSITIONING FOR THE RETURN TO FUNDAMENTALS

- Last year the Fed was preparing for the end cycle
- Market had an extraordinary run into January 2018
- Fed insisted they wouldn't halt course
- Some forward indicators weakened and the Fed reversed course in 2019
- This revived the geared/yield/momentum trade
- More recently, tech IPO's failing despite favourable monetary policy
- Possible early indication of returning to valuation fundamentals

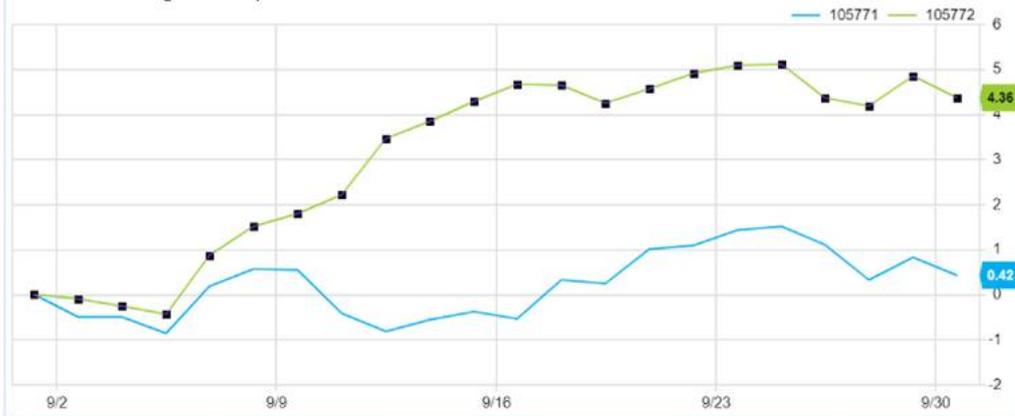


A HINT OF THINGS TO COME? MAJOR SEPTEMBER ROTATION

FULL MONTH OF SEPT: VALUE = +4.36%, GROWTH = +0.42%

MSCI Australia Value (105772) A\$3,928.55

Total Return: 30 Aug '19 - 30 Sep '19



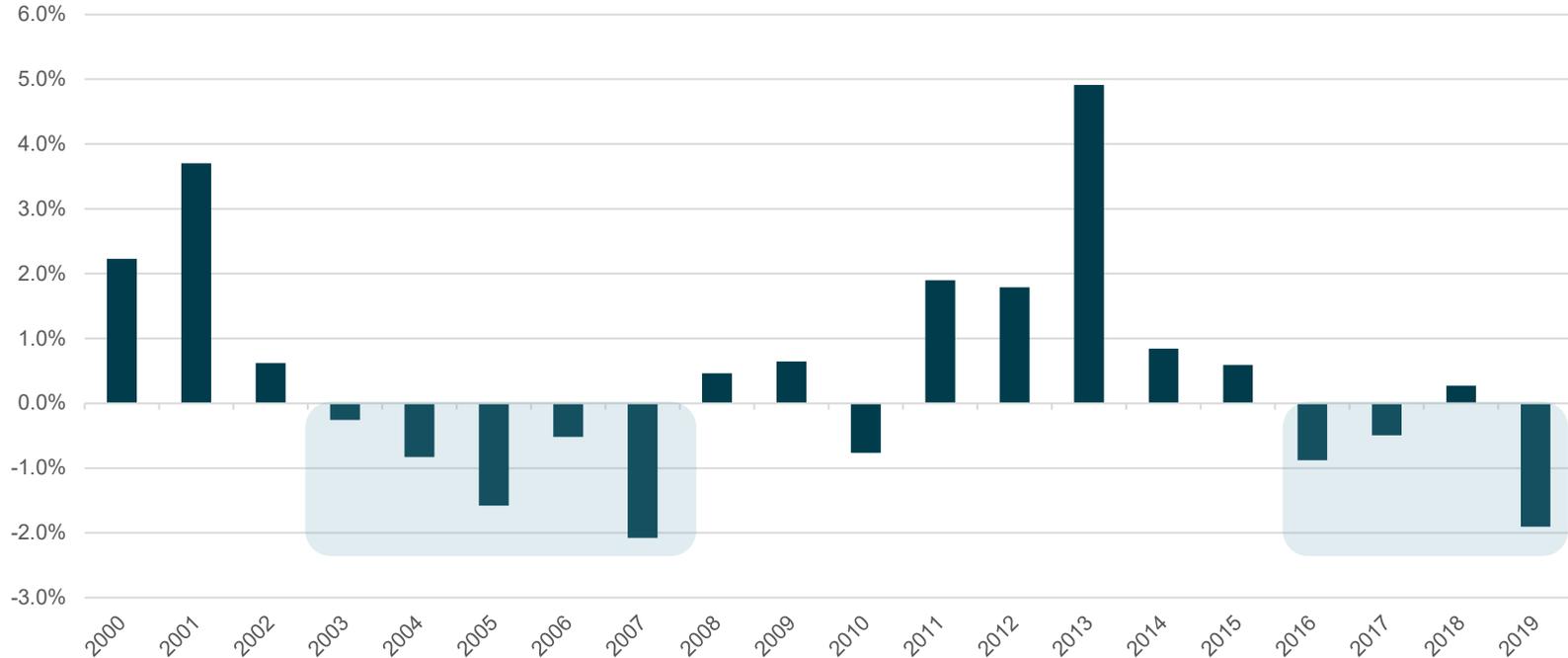
Comparable Returns

	Price Change (%)		Total Return (%)	
	Cum	Ann (CGR)	Cum	Ann (CGR)
— MSCI Australia Value	3.74	54.10	4.36	65.31
— MSCI Australia Growth	-0.10	-1.20	0.42	5.01

- Rising bond yields saw rapid style rotation
- Happened quickly: caught market off guard
- Value stocks rose sharply: Fletcher Building +30%, Origin Energy +15%
- Growth stocks fell: Appen -24%, Pro Medicus -19%, Nanosonics -14%
- Investors need to be ready for this to become the norm, not just a one off

QUALITY FACTOR RETURNS IN RECENT FINANCIAL YEARS

Quality Universe Performance
Perpetual Investments Quality Universe – Calendar Year Excess Returns



Quality stock universe has been subdued

CONTRIBUTORS & DETRACTORS TO PERFORMANCE

12 MONTHS TO 30 SEPTEMBER 2019

CONTRIBUTORS

Select Harvests Ltd

Commonwealth Bank of Australia

Woolworths Group Ltd

Takeda Pharmaceutical Co Ltd

Telstra Corporation Ltd

Evolution Mining Ltd

Medibank Private Ltd

National Australia Bank Ltd

DETRACTORS

CYBG PLC

General Electric Co

Ausnutria Dairy Corp

Bega Cheese Ltd

Oil Search Ltd

OUR INVESTMENT PHILOSOPHY

QUALITY & VALUE FOCUS

OUR FOCUS

1

Quality business

2

Conservative debt

3

Sound management

4

Recurring earnings

THIS MEANS:



We seek quality companies
at attractive valuations

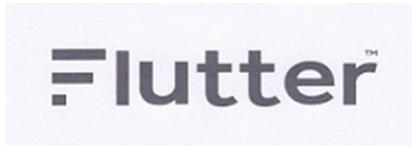


We cautiously
deploy your capital

TOP 3 GLOBAL GAMING BUSINESS

FLUTTER ENTERTAINMENT PLC

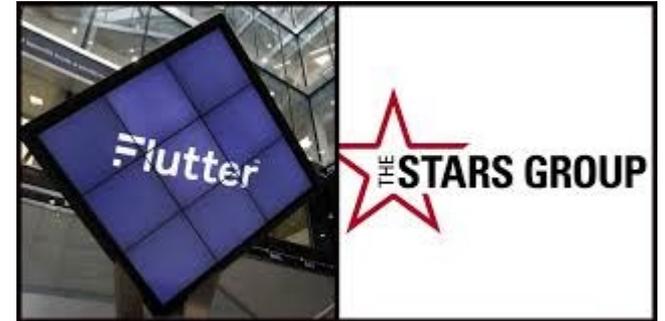
- UK listed bookmaking business created by the 2015 merger of Paddy Power & Betfair
- High quality operators with proven track record: 1 of the top 2 operators in all of its markets including US
- Attractive earnings outlook: ~90% of profits generated online
- Balance sheet in excellent shape: provides optionality compared to peers. Net debt £160m at FY18 result (0.35x EBITDA)
- Lowest risk and most advanced US strategy
 - Now largest online sports gaming operator in US
 - Approximately 50% market share in New Jersey and strong early progress in Pennsylvania



THE FUNDAMENTALS – WHY WE LIKE IT

FLUTTER ENTERTAINMENT PLC

- **Solid 1H19 result**
 - Australia - Sportsbet
 - US - FanDuel
- **Merger with Stars**
 - Strong balance sheet enabled takeover
 - Leadership positions in key markets globally
 - Significant cost synergies
 - Accelerate growth into US



VALUATION – COMPELLING WITH OR WITHOUT MERGER

FLUTTER ENTERTAINMENT PLC

	Flutter *			Flutter Post Deal **		
	FY20	FY21	FY22	FY20	FY21	FY22
EPS	3.4	4.2	5.1	5.2	6.8	7.7
EPS Growth	9%	25%	20%	67%	31%	13%
US EBITDA contribution (\$m)	- 55	- 8	53	-88	-28	53
PE	22	18	15	15	11	10
PE ex US	19	17	16	13	11	10
EV/EBITDA ex US	15	12	10	12	10	8
ND/EBITDA (x)	0.5	0.2	-0.2	2.9	2.1	1.4

*PPT forecasts

**PPT forecasts, assumes merger completes 1 July 2020

- If merger does not go ahead – Flutter is trading on 17x FY21 price to earnings ratio (excluding US losses)
- If merger does go ahead – Flutter is trading on 11x FY21 price to earnings ratio (excluding US losses)
- We view as attractive either way, noting these multiples ascribe 0 value to the US start up businesses

WHAT COULD THE UNITED STATES BE WORTH?

FLUTTER ENTERTAINMENT PLC

Here is the illustration we showed you in March...

	\$bn
Sports Market GGR at 10x New Jersey ¹	~6.0
Potential Market Share ²	20%
Gross Revenue	1.2
Bonuses at 20%	(0.2)
Net Revenue	1.0
Contribution at 40% Margin	0.4
Contribution from Existing Businesses	0.2
Total Contribution³	\$0.6bn

And here is where we are today...

	Population % of US	Multiple of NJ	Implied market size \$bn
Live today	6.7%	2.4x	1.4
Upcoming	12.2%	4.3x	2.6
	18.9%	6.7x	\$4.0

- Based on regulatory progress to date our 10x market size illustration could quickly be surpassed
- FanDuel very well positioned to take advantage of this market opportunity

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NICHOLAS VIDALE – EQUITIES ANALYST

INVESTING IN BANKS IN A LOW INTEREST RATE ENVIRONMENT

WHAT IS AN INTEREST RATE?



THE ROLE OF CENTRAL BANKS

“The Reserve Bank of Australia (RBA) is Australia's central bank and derives its functions and powers from the Reserve Bank Act 1959 . Its duty is to contribute to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people”

WHY ARE INTEREST RATES SO LOW?

QE 'valuable' with fiscal support: Lowe



John Kehoe

Senior Writer

Oct 8, 2019 — 5:30am



Save



Share

Reserve Bank of Australia (RBA) governor Philip Lowe has endorsed "valuable" crisis-era central bank tools, such as buying financial assets and negative interest rates to protect economies from recession, but warned their use must be supported by the government and prudential regulator.

In a landmark international report chaired by the RBA governor and released on Tuesday, a [week after he cut the official cash rate to just 0.75 per cent](#), Dr Lowe noted unconventional monetary policy would become more common around the world as interest rates hovered near zero.



RBA governor Philip Lowe led the Bank for International Settlements report on unconventional monetary policy. [Louise Douvis](#)

Source: <https://www.afr.com/policy/economy/qe-valuable-with-fiscal-support-low-20191007-p52yaz>

ARE LOW INTEREST RATES HERE TO STAY?

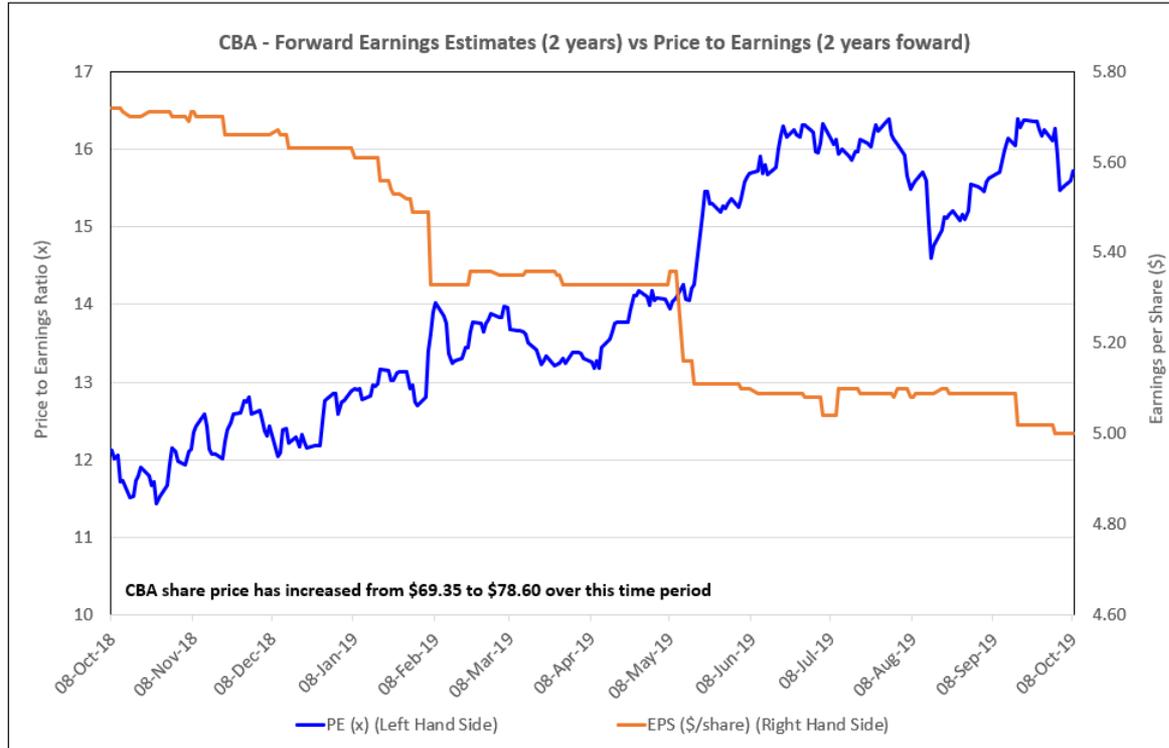
“The tools have provided stimulus to the real economy and helped to avoid the un-anchoring of inflation expectations once policy rates reached the Effective Lower Bound. They provided additional policy space when conventional monetary policy was constrained, thereby forestalling deflationary risks and supporting economic recoveries. They are also seen as effective in overcoming impairments in the transmission channels of monetary policy and in containing risk premia in stressed markets, thus contributing to economic and financial stability”

Bank for International Settlements, October 2019

AUSTRALIAN MAJOR BANKS

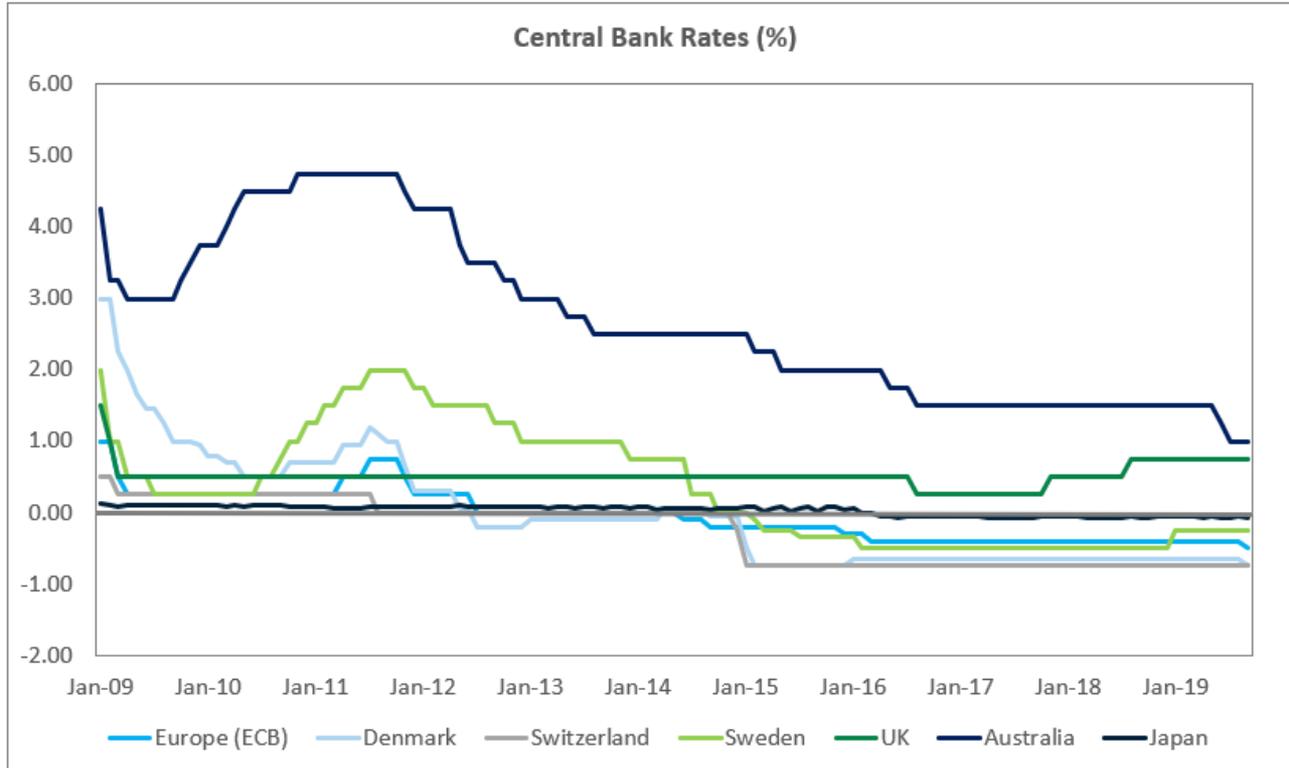
- Australia Deposits ~ \$1.6T
 - ...of which ~\$400B are either paying 0%, or close to 0% interest
- An RBA rate cut of 0.25% costs the majors about \$1B in revenue
- Banks will need to recoup this cost through either lowering time deposit rates, accessing cheaper wholesale funding, or choosing not to pass on the rate cuts to customers
- \$1B is equivalent to 2.5% - 3.0% of sector earnings. As RBA rates approach zero, there could be at least another \$3B - \$4B of profit at risk, or up to a further 10% earnings downgrades

INVESTOR DILEMMA – VALUATION VS EARNINGS



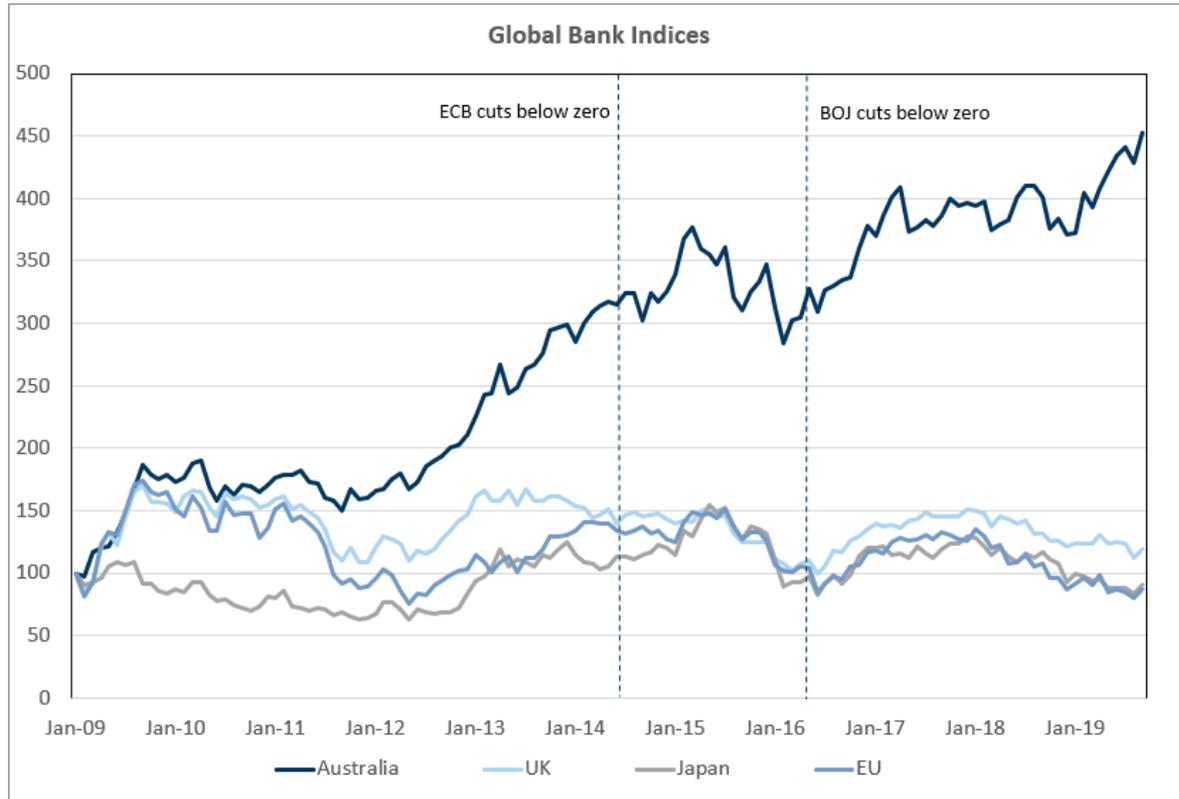
Source: FactSet

INTERNATIONAL EXPERIENCE



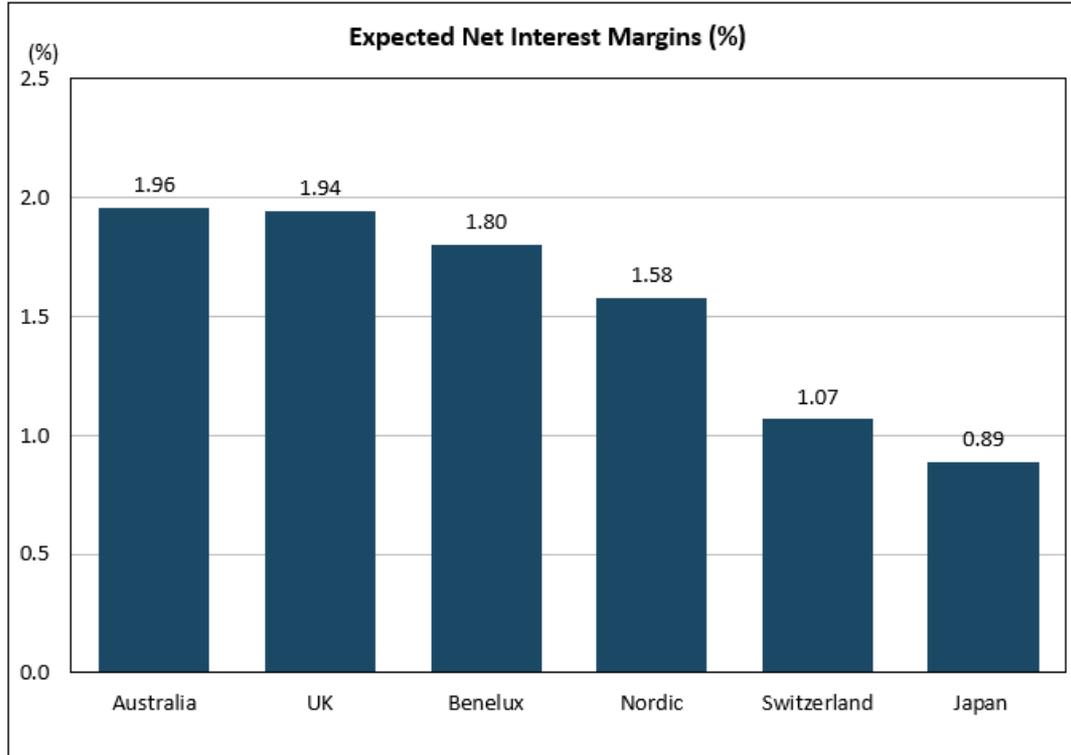
Source: Goldman Sachs Investment Research, Bloomberg

INTERNATIONAL EXPERIENCE



Source: Goldman Sachs Investment Research, Bloomberg

INTERNATIONAL EXPERIENCE



Source: UBS

SUMMARY

- Low rates = Net Interest Margin pressure = Revenue pressure
- Increased need for cost reductions or industry consolidation
- Falling ROE potentially means dividends are at risk
- International experience has been bad
- We actively consider these risks when investing

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VINCE PEZZULLO – PORTFOLIO MANAGER

INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 2019

	1 MTH	3 MTHS	6 MTHS	1 YEAR P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
PIC Investment Portfolio ¹ Net of fees, expenses and <u>before tax paid</u>	1.9%	0.7%	7.0%	3.8%	8.9%	8.2%
S&P/ASX 300 Accumulation Index	1.9%	2.6%	10.8%	12.6%	11.9%	10.2%
Excess Returns	0.0%	-1.9%	-3.8%	-8.8%	-2.9%	-2.0%

¹Returns 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. All figures are unaudited and approximate.

Source: Perpetual Equity Investment Company Limited

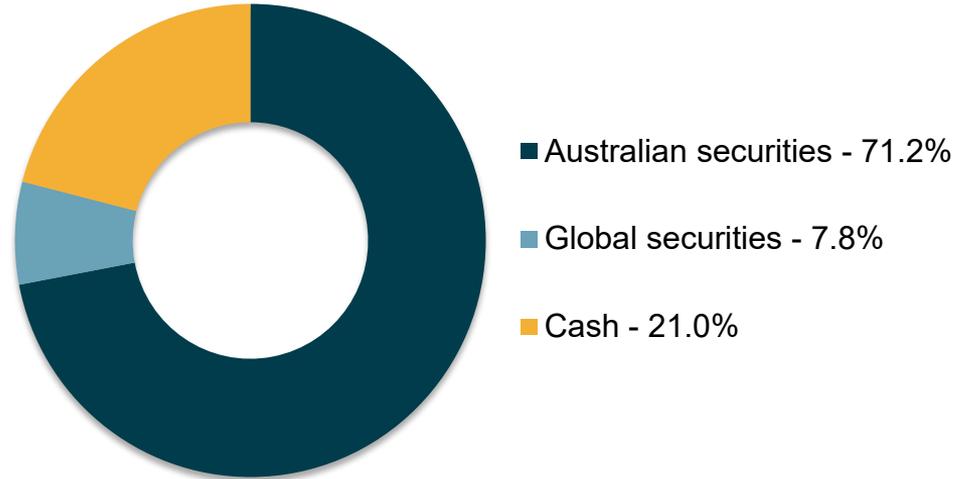
ALLOCATION OF INVESTMENTS

AS AT 30 SEPTEMBER 2019

79% of the Portfolio's capital invested in securities

Cash is used to protect the portfolio and take advantage of attractive opportunities

Patient and prudent investment style



NEW POSITIONS

SINCE 30 JUNE 2019



AUSTRALIAN SECURITIES

COMPANY

Unibail Rodamco Westfield

Platinum Asset Management Ltd

QUBE holdings Ltd

Oz Minerals Limited

Noni B Limited

G.U.D Holdings Limited

Link Administration Holdings Ltd



GLOBAL SECURITIES

COMPANY

Ferguson PLC
