PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

ANNUAL REPORT
30 JUNE 2020

Perpetual

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PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

Board of Directors

Left to right: John Edstein, Virginia Malley, Nancy Fox (Chairman), Christine Feldmanis, David Lane

ANNUAL GENERAL MEETING AND INVESTMENT MANAGER UPDATE 2020

Thursday 15 October 2020
2:00pm – 4:00pm (Sydney time)

For more information, visit our website
www.perpetualequity.com.au

FULL YEAR 2020 KEY HIGHLIGHTS

2.8 cps

Fully franked final dividend

9.5%*

Grossed up dividend yield

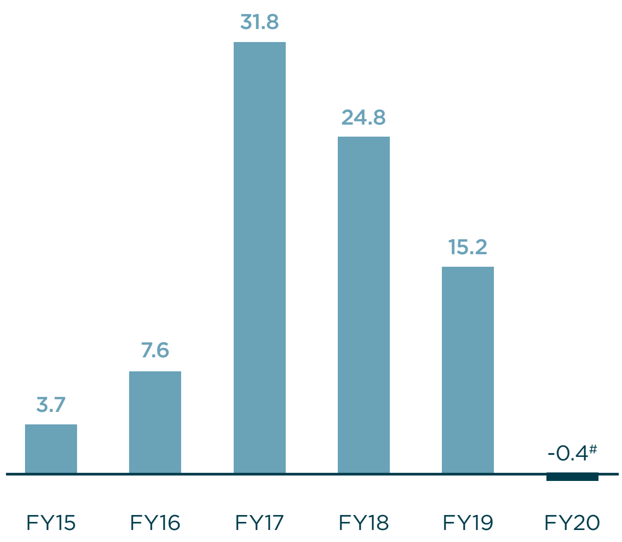
6.4%**

Investment portfolio outperformance 12 months to 30 June 2020

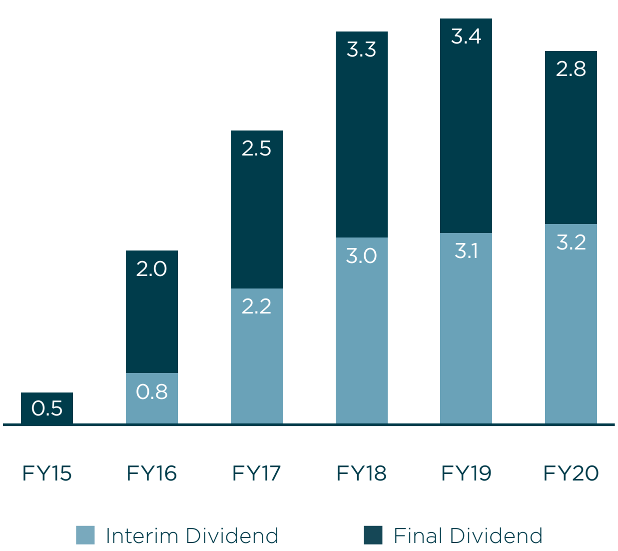
$1.046^

Net tangible assets (NTA) after tax per share

NPAT, $m



DIVIDENDS IN CENTS PER SHARE (CPS)



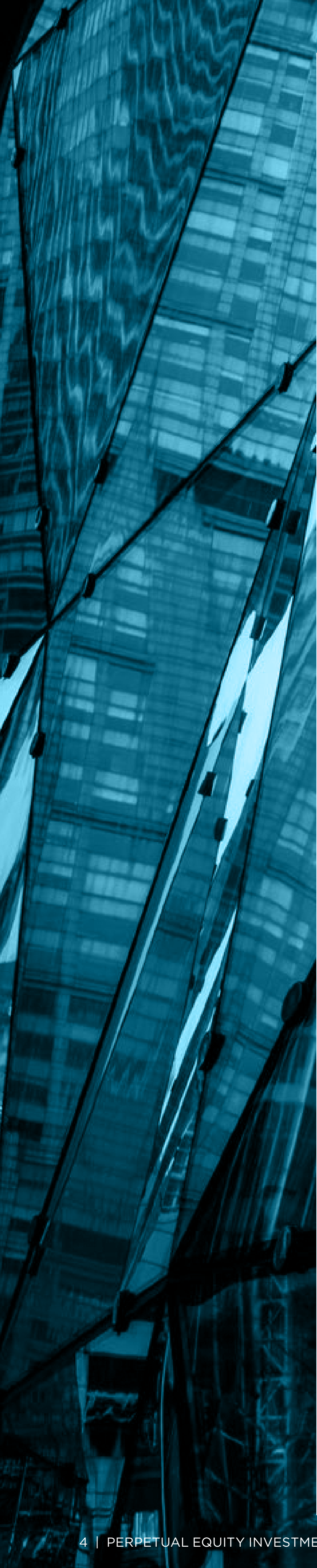
Source: Perpetual Equity Investment Company Limited (PIC) as at 30 June 2020.

Reflects predominantly unrealised losses attributed to market volatility led by COVID-19 in the second half of the financial year

* Based on the total grossed up dividends of 8.6 cents per share (taking franking credits into account), and the closing share price of $0.905 on 30 June 2020.

** Outperformance of the benchmark (S&P/ASX 300 Accumulation Index). Returns have been calculated on the growth of 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.

^ 'After tax' refers to tax paid and provisions for deferred tax on unrealised gains and losses in the Company's investment portfolio as at 30 June 2020.



CHAIRMAN'S REPORT

Dear Fellow Shareholders,

Thank you for your ongoing support of the Perpetual Equity Investment Company Limited (ASX: PIC, the Company). In 2019, we marked a key milestone with the five-year anniversary of the Company's listing on ASX.

The Board shares a firm commitment to deliver long-term growth and consistent, reliable income to shareholders. Paramount in achieving our goals is the Company's relationship with Perpetual Investment Management Limited (the Manager). The Company leverages the resources of the Perpetual Investments' equities team which has a proven track record of investing excellence, underpinned by an investment approach that focuses on value and quality.

FULL YEAR 2020 RESULTS AND DIVIDEND

Recent market conditions, most notably influenced by the COVID-19 pandemic, have impacted the Company's performance for FY20. The Company announced an operating loss before tax of $3.8 million and an operating loss after tax of $0.4 million, for the 12 months to 30 June 2020. The operating loss was largely a result of unrealised losses attributed to the market volatility led by the COVID-19 pandemic.

Despite this result, the Manager was able to generate franking credits for the Company, enabling the Board to declare a fully franked final dividend of 2.8 cents per share, bringing total dividends declared for FY20 to 6.0 cents per share fully franked. We believe this translates to an attractive cash dividend yield of 6.6% and a gross dividend yield of 9.5%[1] which compares favourably to the Australian market dividend yield.

The Board is pleased that the Company has delivered fully franked dividends to shareholders each year since inception. We recognise the importance of dividends to our shareholders and our intention remains to deliver a sustainable dividend stream, franked to 100% or the maximum extent possible. We believe that prudent management has enabled the Company to continue to provide shareholders with an attractive dividend yield whilst also maintaining profit reserves and franking credits for the payment of future dividends. Franking credits are generated primarily through realised gains in the trading portfolio, which are taxed at the company tax rate. They can also be generated from dividends declared by underlying companies in the portfolio.

1 Yield is calculated based on the total grossed up dividends of 8.6 cents per share (taking franking credits into account) and the closing share price of $0.905 as at 30 June 2020.

For global listed securities, the Company generates franking credits from the tax paid on the unfranked dividends from those securities as well as any tax paid on realised gains from those investments. We believe the continued active and prudent management of the Company's franking account will assist us in delivering an attractive dividend yield and sustainable dividend in future years.

INVESTMENT PERFORMANCE

In the first seven months of the year we saw companies trading at record high valuations. As a result, the Manager sought numerous opportunities offshore where it was seeing better relative value, particularly in the UK. This was followed by the COVID-19 pandemic significantly impacting markets in the latter part of the year.

While the outbreak of COVID-19 led to extreme market volatility, the Manager was presented with numerous attractive investment opportunities during this time as many quality companies that met the Manager's investment criteria were trading at discounted valuations. This allowed the Manager to take advantage of opportunities to invest which have translated to strong relative performance in the portfolio between March and May.

Although investment returns were negative over the year to 30 June 2020 at -1.2%[2], the portfolio outperformed the benchmark[3] by 6.4%. The Board believes that the active management of the portfolio, particularly over the second half of the year, and the focus on quality and value, has led to this strong result by the Manager, compared to the market, over the period.

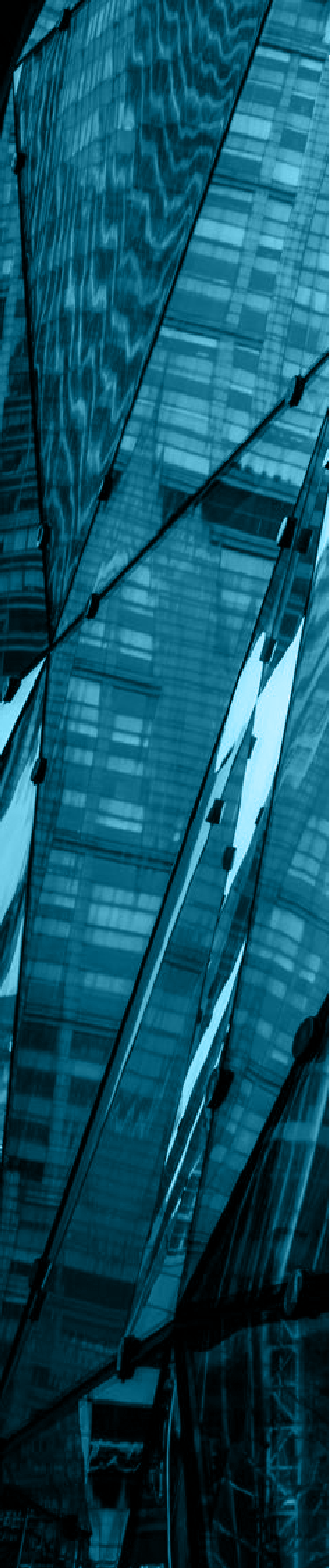
The Board remains confident in the Portfolio Manager and the deep expertise of the investment team who maintain a strict adherence to the value and quality investment philosophy which has defined their approach to investing for the past 50 years through all market cycles.

GOVERNANCE

The Company has a highly experienced Board that undertakes rigorous governance processes over the year to provide oversight of the Company's activity and performance. The Board is committed to high standards of corporate governance and includes directors with a range of expertise across financial services, regulation and risk management. The Board also considers and adopts the ASX Corporate Governance Council Principles and Recommendations where appropriate.

2 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.

3 The benchmark is S&P/ASX 300 Accumulation Index.



CHAIRMAN'S REPORT
CONTINUED

The Board is responsible for managing and reviewing the Company's service providers including the Manager, Registry provider and Custodian. Under the Management Agreement, the Company appointed the Manager for an initial term of five years which would be automatically extended for a further five years on the expiry of the initial term, unless terminated earlier. With the initial term ending during FY20, the Board commissioned an independent review of the Manager and resolved to continue the Management Agreement for a further five-years.

As the COVID-19 pandemic impacted investment markets, the Board increased the frequency of its meetings to monitor conditions and received more regular updates from the Manager on the underlying investments in the portfolio. A key focus was increasing communication to shareholders on how the Manager was navigating through the volatility, managing the portfolio in regard to risk and deploying cash where investment opportunities presented themselves. During this time, the Board and Manager also complied with official COVID-19 guidelines and quickly moved to working remotely. The Company was fully operational during the financial year, without disruption, and the Board remains collectively committed to governing and managing the Company through all market conditions.

GLOBAL ALLOCATION INCREASE

On 25 March 2020, the Board announced its decision to amend the Company's investment strategy to increase the maximum allowable allocation to global securities from 25% to 35% of the portfolio. The Board considered the change to provide the Manager with the operational flexibility to be able to manage the portfolio actively and take high conviction positions in compelling offshore opportunities that meet the Manager's stringent investment criteria.

The Company was established to provide a simple and efficient way for investors to gain access to a diversified portfolio of high quality Australian and global listed securities. The Company's investment strategy allows the Manager to be opportunistic in allocations to global securities. The Manager believes that opportunities will exist to purchase global listed securities at potentially cheaper valuations from time to time relative to Australian listed securities. This year, the Manager's extensive research identified many compelling opportunities offshore during the market rally in the first half of the year and during the sell-off in March.

SHAREHOLDER COMMUNICATIONS

With the ongoing market volatility and uncertainty associated with the COVID-19 pandemic, we know that now, more than ever, you want confidence in your investment and how it is being managed. To stay informed, we encourage all shareholders to visit our website www.perpetualequity.com.au for further resources.

To ensure you don't miss out on important information, we encourage you to update your communication preferences to electronic via the Link Investor Portal. The Manager also sends out a monthly newsletter which you can subscribe to and have it emailed directly to your inbox.

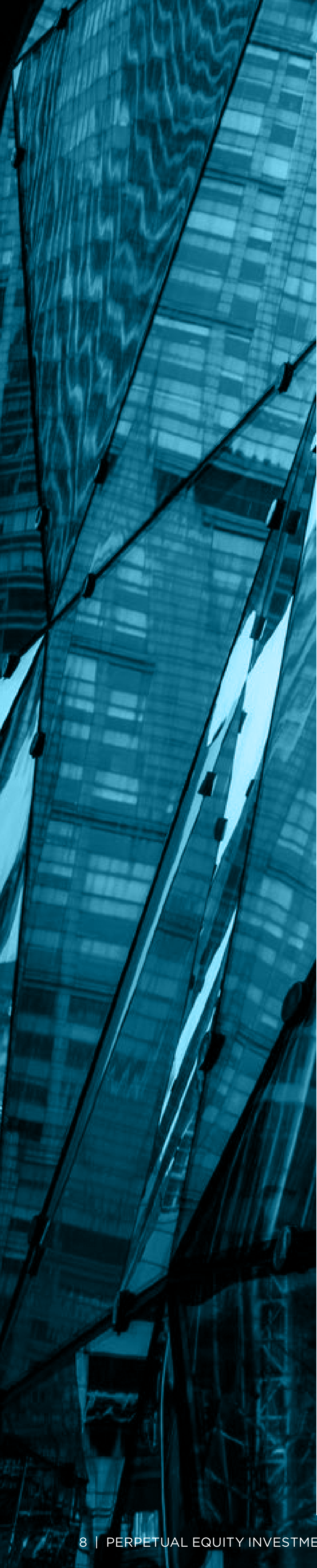
I was pleased to hear from many of you at the Half Year Results Teleconference in March and hope you gained insight from Portfolio Manager, Vince Pezzullo, at the COVID-19 Market and Portfolio Impacts Webinar in May. I hope you will join us again at the AGM and Investment Manager Update via a live online event in October this year.

Thank you again for your continued support.

Yours sincerely,

Nancy Fox

Nancy Fox
Chairman



PORTFOLIO MANAGER'S REPORT

At Perpetual Investment Management Limited (we or Perpetual), we believe active management with a focus on quality and value is critical to making sound investment decisions that will deliver investment performance over the long-term. This year in particular, has shown the benefits of active management, discipline and thorough research.

The market provided challenging conditions which resulted in a decline in the Company's portfolio of -1.2%[1] in the 12 months to 30 June 2020. However, compared to the S&P/ASX 300 Accumulation Index (the portfolio's benchmark) which fell -7.6%[1], the Company's portfolio outperformed. We achieved returns over the benchmark of 6.4%[1] for the portfolio, reflecting the confidence to take high conviction positions and actively manage the portfolio through volatile market conditions.

INVESTMENT PHILOSOPHY AND PROCESS

We continue to maintain strict adherence to the investment philosophy and process which has defined Perpetual's approach to investing for the last 50 years, through all market cycles. We focus on buying high quality companies at prices below what we perceive as fair value, based on company fundamentals and prevailing market conditions.

Our large team of equities investment professionals undertake extensive research, on an ongoing basis, to determine both the quality and value of a company.

Key to our process is the use of four quality filters:

1. Quality of business – This test looks at the industry in which the company operates, its market share and barriers to entry, its products and their positioning and any issues such as social and environmental impacts.
2. Conservative debt – Involves strict balance sheet scrutiny to avoid overleveraged companies.
3. Sound management – Based on our assessment of the track record of a company's management. We are looking for management with a history of using shareholders' capital sensibly, a clear focus on maximising shareholder value and strong governance practices.
4. Recurring earnings – We look for companies that have at least a three year track record of generating earnings and cash flows.

This investment process means that we do not focus on trying to predict where markets and prices are heading, rather making investment decisions based on in-depth research which allows us to

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understand the fundamental risks and opportunities of each company that we hold in the portfolio. Through this approach we aim to minimise downside risk and protect the portfolio during periods of market stress. We tend to outperform the share market when it is down, which can be beneficial for investors over the long-term.

MARKET OVERVIEW

Financial year 2020 (FY20) has truly been a “year of two halves”. The first half was characterised by continued economic expansion, buoyant equity markets and historically low – even negative in some countries – interest rates. Investment styles which focused on company growth prospects rather than fundamental value continued to be rewarded in the bull market despite the underlying stocks trading at prices well beyond their intrinsic value. The market rally was fuelled by the low interest rate environment as investors sought more attractive returns in equities and bonds.

In December and January, the Australian and offshore markets experienced mixed conditions. The escalating trade war concerns between the US and China eased following the Phase 1 Sino-American trade deal. The UK election result saw a win by the Conservative Party removing Brexit roadblocks. Locally, the Australian bushfires disrupted operations to many Australian businesses operating in regional areas and insurance companies faced large payouts for insurance claims.

This arguably overshadowed the news trickling out of China about a new coronavirus that was spreading from the Wuhan province.

February and March were key turning points for the market. The S&P/ASX 200 Index reached an all-time high surpassing 7000 points in February. It took the markets some weeks to grapple with the gravity of the COVID-19 pandemic, with a slow drip feed of data making assessments difficult. This included understanding the demand and supply shocks of the economy as social isolation expanded, the supply chain issues that businesses potentially faced and the industry specific shocks experienced by sectors such as education and tourism. By the time the scale and consequences of the pandemic were apparent, we were faced with one of the fastest crashes in history with the S&P/ASX 200 Index collapsing nearly -37% from its peak to 23 March 2020. If the growing concerns of COVID-19 were not already enough, the collapse in oil prices exacerbated the market volatility and pummelled the energy sector.

A key difference between COVID-19 and previous crises is how quick policymakers were to unleash stimulus. The US Federal Reserve deployed stimulus on a scale never seen and this had a significant impact on equity markets. In Australia, the government announced a rapid fiscal response which has also effectively postponed much of the economic adjustment to come.

Although growth stocks initially did well, as equities bottomed toward the end of March we finally got a sense of what a “recovery market” may look like with oversold value sectors rallying from multi year lows to significantly outperform growth stocks. We expect much see-sawing in markets to come, but for us this may be a microcosm of what to expect once a sustainable recovery begins.

PORTFOLIO COMPOSITION

The Company’s investment strategy is to create a concentrated and actively managed portfolio of Australian securities with typically a mid-cap focus as well as global listed securities. The Board’s decision on 25 March 2020 to increase the maximum allowable allocation to global securities from 25% to 35% also provides us with more flexibility to take high conviction positions in offshore opportunities.

As at 30 June 2020, the Company held a portfolio of 32 Australian and global listed securities. 93.0% of the portfolio was invested in securities with the remainder invested in cash.

- 65.1% in Australian listed securities
- 27.9% in global listed securities
- 7.0% in cash.

The portfolio composition has changed dramatically during the course of the year with turnover across listed securities being 97% over the period. The majority of this turnover occurred during the market sell-off in March.

PORTFOLIO MANAGER'S REPORT
CONTINUED

At this time, we were extremely active in either adding to our existing positions or taking advantage of new opportunities. We were able to deploy cash into companies trading at discounted valuations, some even trading at historical lows of 40% - 50% discounts. These companies were businesses that met our four quality filters, however, were previously trading at valuations we considered too high. As a result, our allocation to cash reduced from 16.6% in February to 3.0% in April. The spread of COVID-19 reinforced the need to focus on fundamental value drivers such as company balance sheets, positive cash flow and low leverage to indicate which companies were likely to survive the crisis. We have always followed these principles and our active management means that in times of market volatility, we can quickly take advantage of market conditions.

INVESTMENT PERFORMANCE

The economic crisis led by COVID-19 has created challenging conditions this year. As a result, the investment portfolio declined -1.2%[1] for the year to 30 June 2020. However, the portfolio outperformed the benchmark by 6.4%[1] for the year to 30 June 2020. In particular, our active management was rewarded between March and May with three consecutive months of outperformance relative to the benchmark. That being said, we believe the uncertainty around COVID-19 will continue to present social and economic challenges. We are cautiously optimistic as we manage risk in the portfolio as well as assess opportunities which are consistent with our value and quality investing approach.

We also remind investors that the Company's investment objective is measured against minimum 5 year investment periods. The portfolio's investment performance over the 5 years to 30 June 2020 was 7.0% p.a[1] over the past 5 years, outperforming the benchmark by 1.0% p.a[1].

In managing the portfolio we are conscious that shareholders not only value strong investment performance but also a sustainable dividend stream. As such, we are conscious of the Company's franking credit balance and actively manage the portfolio to generate franking credits, and ultimately dividend income, for shareholders.

AUSTRALIAN EQUITIES

Over the past 12 months, allocations to large cap Australian equities have reduced and we have focused more on mid-cap stocks in line with our investment strategy. In the first half of the year, we had allocations to the big four banks, Suncorp Group Ltd (ASX: SUN) and Telstra Corporation Limited (ASX: TLS) as we believed they represented better value relative to small or mid-cap stocks. However, large cap stocks have since become overvalued in our view and we have realised these positions to use them as a funding source for some of the cyclical stocks we prefer.

The Australian listed securities that contributed to absolute performance over the year were Flight Centre Travel Group Ltd (ASX: FLT), Saracen Mineral Holdings Ltd (ASX: SAR) and Elders Ltd (ASX: ELD). On the other hand, ANZ Banking Group Ltd (ASX: ANZ) was the key detractor to absolute performance in the portfolio. In regard to relative performance over the past 12 months, which is measured against the benchmark, detractors included Mosaic Brands Ltd (ASX: MOZ) and CSL Limited (ASX: CSL) (not held).

In April, we saw many companies forced to raise capital to strengthen their balance sheets amid the COVID-19 crisis. For example, Flight Centre Travel Group Ltd (ASX: FLT) that came to market raising capital at an issue price of $7.20 per share. FLT were quick to announce an immediate response plan to overcome the challenges posed by COVID-19 which included an accelerated restructure and equity raise to buffer their balance sheet. FLT had not traded as low as $7.20 per share since just after the Global Financial Crisis (GFC) and has previously traded as high as $60 per share in 2018. We were rewarded with FLT's share price trading at approximately twice the placement price in April and subsequently were able to realise this gain in the portfolio. As a result, FLT was the best performing Australian listed stock on an absolute basis.

Elders Ltd (ASX: ELD) is a leading Australian agribusiness with diversified operations across rural supplies, financial planning, real estate, insurance and home loans.

Although the company faced short-term headwinds from the severe drought in eastern Australia and an earnings downgrade, we were able to block out this noise and buy the stock at what we considered reasonable value. Understanding cyclicality, we were rewarded with the rainfall in February which drove up cattle and sheep prices, and the share price followed.

Mosaic brands Ltd (ASX: MOZ) was a key detractor from performance over the 12 months to 30 June. MOZ is a fashion retailer that owns Noni B, Rivers and Katies. Due to the regional footprint of these stores, they were directly impacted by the bushfires in the Australian summer, with a number of stores either isolated or not able to operate during the period. Although MOZ had a net cash balance sheet, the share price factored in a substantial downgrade in earnings which therefore contributed to the declining price.

As mentioned above, not holding CSL in the portfolio cost us during the year. However, we stood by our investment process and belief that the company was overvalued. In the June quarter, CSL fell -3.3%, languishing behind the benchmark by a whopping -20.1% as investors rotated from expensive defensive stocks back to value stocks. We were therefore reminded of the fickle nature of markets which reinforced our philosophy that assessing a company's fundamentals will be beneficial for investors in the long-term.

The extreme volatility over late February and March provided us with the ultimate test as an active manager. While challenging, the volatility presented us with tremendous opportunity. For example, we increased our position in AUB Group Limited (ASX: AUB) which is a mid-cap stock and provider of risk management, advice and solutions in Australia and New Zealand with business areas across insurance broking networks, underwriting agencies and risk services. We took a big position in AUB as the lowest price the stock traded on the market at was $9.01 representing very attractive value. In June, AUB provided solid earnings guidance ahead of their full year results announcement in August. The guidance was well received by the market as indicated by their closing share price of $14.70 on 30 June 2020.

GLOBAL OPPORTUNITIES

The portfolio has increased its allocation to global securities over recent months, particularly in the last quarter to 27.9% as at 30 June 2020. This contrasts to the same time last year where there was only 4.5% allocation to global securities. Our decision to invest globally is opportunistic in nature and only occurs where we find companies that represent compelling value and are at potentially cheaper valuations relative to Australian listed securities.

In November 2019, we conducted a research visit to the UK, visiting over 25 companies across 6 sectors. The visit highlighted numerous quality businesses trading at attractive discounts to both their own historical valuations and compared to their Australian peers (many of whom have similar business models). This was in part due to the decades of austerity and uncertainty surrounding Brexit. This left us with the view that much of the worst case scenario was already priced into stock prices but UK's poise for a rebound was not. As a result, we invested in companies like Lloyds Banking Group (LON: LLOY) and Ferguson Plc (LON: FERG) which we considered were trading at discounted valuations and would most likely benefit from the trends above.

Following the spread of COVID-19 globally, the investment case for LLOY changed. Following the UK election result, we considered LLOY to be a key beneficiary of the fiscal stimulus to be unleashed by the UK government particularly in the housing market. However, as the COVID-19 pandemic began to spread, we exited the position. We consider banks to be amongst the hardest hit during a global financial crisis. These factors attributed to LLOY being the global security that detracted most from absolute performance over the year.

As at 30 June 2020, Flutter Entertainment Plc (LON: FLTR) was the largest position in the portfolio and was the top contributor to the Company's performance over the year. FLTR is a global sports betting and gaming operator with 95% of its revenue online. We view FLTR as a high quality operator with a strong track record of growing market share through their top market positions in Australia (Sportsbet), UK (Paddy Power/Betfair) and US (FanDuel).

PORTFOLIO MANAGER'S REPORT
CONTINUED

In May 2020, FLTR completed a merger with The Stars Group to become the largest listed online gaming operator in the world. We believe FLTR is well positioned to benefit from the ongoing shift in consumer behaviour from retail to online, and to compound revenue and earnings growth for years to come.

Further, FLTR is committed to responsible gambling best practice and have established a wide range of policies to educate customers and staff on responsible gambling. They also actively monitor their customer base using their Customer Activity and Awareness Programme which is a proprietary machine learning model which uses an algorithm to identify customers who may need intervention, based on their behaviour. FLTR also aims to establish itself as a progressive voice in the industry by working with the UK Gambling Commission and UK Betting and Gaming Council. During the sell-off in March, we took advantage of FLTR's share price falling 40% to £55 by adding to our position. It has since rebounded strongly with the share price finishing at £105.95 on 30 June 2020. We believe the full value of FLTR is yet to be unlocked as we believe this sector generally recovers well following a crisis and their penetration in the US market and online is exceeding market expectations.

During the sell-off in March 2020, we also took the opportunity to invest in Auto Trader Group Plc (LON: AUTO) and Persimmon Plc (LON: PSN). These are cyclical companies in automotive classified advertising and homebuilding respectively which were trading at steep discounts to their mid-cycle valuation. Both have solid balance sheets and are well managed market leaders. More recently, we have also invested in CME Group (NASDAQ: CME) which is the largest derivatives operator in the world. CME is a defensive business operating as a near monopoly in the interest rates market and a strong duopoly in the crude oil market. We find CME an attractive opportunity given it is currently trading relatively lower compared to historical levels and we expect CME to benefit from new issuance.

OUTLOOK

Perpetual has experience investing over many market cycles. This includes the height of the dotcom bubble, the Global Financial Crisis and the current crisis started by the COVID-19 pandemic. We believe markets will continue to be tested in the months ahead as governments in Australia and around the world attempt to pull back stimulus, unveiling the true debt of economies.

On the global front, there is an upcoming Presidential election in the US where policy differences are marked, especially on taxation of corporate profits and dividends. It will also be pivotal to see how the US Federal Reserve can extricate itself from the massive support it has provided to markets. In essence, whether they can pullback the stimulus or whether it will become permanently embedded, like it has in Japan. A rising concern around the world is that government intervention is suppressing market price signals and the normal market process. For example, the US Federal Reserve has been buying corporate bonds which has kept corporate bond yields low. In contrast, normal market interest rates would have spiked by now and caused companies with high operating leverage to be liquidated as they become unable to make interest payments. Similarly, the Australian government's fiscal stimulus package has kept many companies afloat and helped foster a culture of "zombie companies". This refers to companies that ordinarily would be broke and forced to pay back their creditors but are still alive due to government support programs.

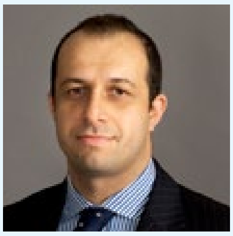
Most importantly though will be the management of the so called "fiscal cliff" both in Australia and around the world. Economies are in hibernation as governments have stepped in to provide income and other payments to compensate for the suspension of large parts of the economy to contain the pandemic. The longer government support continues the more difficult it becomes to remove such payments and when it does happen it is all the more painful.

These outcomes are impossible to forecast for now. We are staying true to our investment philosophy and employing our proven investment process. That is because we believe that when the market reaches an inflection point, as it did in March, our tried and tested quality and value focus will deliver for shareholders.

We are excited about the high quality businesses that we hold, particularly those we acquired at discounts in the sell-off.

We believe that COVID-19 will change investor behaviour and force investors to make more rational and sensible decisions in regard to the valuations of companies and how much they are willing to pay for stocks. Strong balance sheets, sound management and fundamentals are more important drivers than ever before and we are confident these principles will deliver over the long-term.

Thank you for your continued support and trust.



Vince Pezzullo
Portfolio Manager

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INVESTMENT PORTFOLIO

List of investments held at 30 June 2020	Market value $'000
Australian listed securities	
AUB Group Limited	17,680
Australia and New Zealand Banking Group Limited	12,032
BHP Group Limited	6,866
Boral Limited	12,743
Crown Resorts Limited	21,836
Event Hospitality and Entertainment Limited	7,652
Freedom Foods Group Limited	7,142
Graincorp Limited	3,618
GUD Holdings Limited	5,108
Iluka Resources Limited	17,188
Link Administration Holdings Limited	11,363
Medibank Private Limited	9,015
Mosaic Brands Limited	1,769
National Australia Bank Limited	4,445
Origin Energy Limited	11,889
Orora Limited	6,555
OZ Minerals Limited	15,130
Platinum Asset Management Limited	9,699
Premier Investments Limited	6,009
PWR Holdings Limited	5,805
Ramsay Health Care Limited	10,032
Saracen Mineral Holdings Limited	11,077
Suncorp Group Limited	9,436
United Malt Group Limited	6,824
Vocus Group Limited	5,521
Total Australian listed securities	**236,434**
Global listed securities	
Auto Trader Group PLC	8,334
Chicago Mercantile Exchange	9,624
Ferguson PLC	13,793
Flutter Entertainment PLC	36,682
La Francaise des Jeux SAEM	20,994
NZX Limited	928
Persimmon PLC	10,991
Total global listed securities	**101,346**
Derivatives	
Foreign exchange forward contracts	637
Total derivatives	**637**
Cash and deposit products	
Cash at bank	20,317
Total cash and deposit products	**20,317**
Total	**358,734**

The total number of transactions entered during the year was 1,308.

The total brokerage paid during the year was $1,774,280 (GST inclusive).

DIRECTORS' REPORT

The Directors present their report together with the annual financial report of Perpetual Equity Investment Company Limited (the Company) for the year ended 30 June 2020 and the auditor's report thereon.

Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

Nancy Fox, Chairman and Non-executive Director
BA, JD (Law), FAICD

Appointed Chairman and Director on 1 July 2017.

Nancy Fox is currently a Non-executive Director of Perpetual Limited, the Chairman of Perpetual People and Remuneration Committee and a member of Perpetual Audit, Risk and Compliance Committee. She is also a Non-executive Director of ING Bank Australia and Lawcover Pty Ltd, and Deputy Chairman of the Board of Taronga Conservation Society Australia.

Nancy Fox has more than 30 years of experience in financial services, securitisation and risk management gained in Australia, the US and across Asia. A lawyer by training, she was Managing Director for Ambac Assurance Corporation from 2001 to 2011 and previously Managing Director of ABN Amro Australia from 1997 to 2001 and Vice President of Citibank.

Listed company directorship held during the past three financial years:

• Perpetual Limited (from September 2015 to present)

Virginia Malley, Non-executive Director
BA, MAppFin, Juris Doctor, GradDipEnvLaw, LLM, FAICD

Appointed Director on 25 August 2014. Virginia Malley is a member of the Company's Nomination and Corporate Governance Committee and the Audit and Risk Committee.

Virginia Malley is currently a Non-executive Director of Perpetual Superannuation Limited and a member of several Perpetual Compliance Committees. She is also the Non-Executive Director of Morphic Ethical Equities Limited, Chair of Pinnacle Fund Services Compliance Committee, Deputy Chair of The NSW Biodiversity Conservation Trust, Member of the Clean Energy Regulator Board and the Sydney Airport Trust Compliance Committee.

Virginia Malley has 35 years of experience in the investment and banking sectors, including 20 years as a company director. Her areas of expertise are financial and environmental markets and governance, superannuation, risk management and regulatory compliance. She previously worked at Macquarie Group from 1987 to 2012 where her roles included Chief Risk Officer and membership of the Clean Technology, Asia/Pacific, Private Equity and Global/Advisory Investment Committees at Macquarie Funds Management Group.

Listed company directorship held during the past three financial years:

• Morphic Ethical Equities Limited (from March 2017 to present)

Directors (continued)

John Edstein, Non-executive Director
BEc, LLB, LLM (Hons), MAICD

Appointed Director on 26 September 2014. John Edstein is also the Chairman of the Nomination and Corporate Governance Committee and a member of the Audit and Risk Committee of the Company.

John Edstein is currently a Director of Macquarie Investment Management Limited (appointed 1 July 2013) and the Chairman of that board (appointed 16 November 2017) and is a Director of Retail Employees Superannuation Pty Ltd (Trustee of the Retail Employees Superannuation Trust, appointed 4 October 2013). He is also a Senior Legal Consultant for Carroll & O'Dea Lawyers and Special Counsel for Walsh Bay Partners Pty Ltd (a family office for high net worth individuals, families and foundations).

John Edstein has more than 40 years of experience as a legal practitioner. His primary practice areas have been superannuation, life insurance and trusts and the tax aspects of those areas. That experience has included extensive consideration of corporate law, corporate governance and the legal aspects of investment structures. He was formerly a partner in the Tax and Superannuation Group of King & Wood Mallesons (formerly Mallesons Stephen Jaques) from 1990 to 2012 and was National Practice Team Leader of that group from 2006 to 2011. He was a member of the Law Council of Australia Superannuation Committee from 1988 to 2008 and is now an Emeritus Member and, is a member of the Tax Institute of Australia and is a Chartered Tax Adviser.

Christine Feldmanis, Non-executive Director
FAICD, SFFin, TFASFA, CPA, CSA, BComm, MAppFin, JP

Appointed Director on 26 September 2014. Christine Feldmanis is also the Chairman of the Audit and Risk Committee and a member of the Nomination and Corporate Governance Committee of the Company.

Christine Feldmanis is currently a Non-executive Director and Chair of the Audit and Risk Committees of Hunter Water Corporation, Omni Bridgeway Limited (formerly IMF Bentham Limited) and FIIG Securities Limited. She is also a Director of Bell Financial Group Limited and Bell Asset Management Limited.

Christine Feldmanis has more than 30 years of experience in the financial arena, with both government and private sectors. She has extensive experience in investment management, finance, accounting and risk management, legal and regulatory compliance, governance and business building in both the listed and unlisted financial products markets. She formerly held senior executive and C suite positions with firms including Deloitte, Elders Finance, Bankers Trust, NSW TCorp and Treasury Group Limited.

Listed company directorship held during the past three financial years:

- Omni Bridgeway Limited (from 1 November 2018 to present)
- Bell Financial Group Limited (from 21 February 2020 to present)

David Lane, Executive Director
BEc, GAICD

Appointed Director on 20 November 2017.

David Lane is the Group Executive International Asset Management of Perpetual Limited and a Director of Perpetual Investment Management Limited.

David Lane has more than 20 years of experience in asset management, wealth management and investment banking, and a deep understanding of the local and global financial services landscape. Before Perpetual, he spent five years as CEO of Count Financial after initially joining the Commonwealth Bank of Australia in the role of General Manager - Wealth Management Strategic Development. Prior to this he held COO positions at both Neuberger Berman and Liberty View Capital where he was responsible for managing a number of multi-billion-dollar hedge funds. He has also held roles at Aetos Capital, JP Morgan and Goldman Sachs.

Company secretary

Sylvie Dimarco
LLB, GradDipAppCorpGov, FGIA, MAICD

Appointed Company Secretary on 25 August 2014.

Sylvie Dimarco joined Perpetual Limited in March 2014 and is currently Head of Company Secretariat and Governance. She is also Company Secretary of Perpetual Limited and all of Perpetual's subsidiary boards.

Sylvie Dimarco has over 13 years' experience in company secretariat practice and administration for listed and unlisted companies. Before Perpetual, she practiced as a commercial lawyer in Sydney and Canberra for 11 years, working in predominantly mid-sized law firms.

Sylvie Dimarco holds a Bachelor of Laws degree from the University of Sydney and has completed the Governance Institute of Australia's Graduate Diploma of Applied Corporate Governance.

Former company secretary

Eleanor Padman
BA(Hons), OXON, AGIA, ACIS

Appointed Company Secretary on 20 November 2017. Resigned on 27 September 2019.

Directors' meetings

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2020:

	Board		Audit and Risk Committee		Nomination and Corporate Governance Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Nancy Fox	10	10	-	-	-	-
Virginia Malley	10	9	4	4	3	3
John Edstein	10	10	4	4	3	3
Christine Feldmanis	10	9	4	4	3	3
David Lane	10	10	-	-	-	-

Corporate Governance Statement

The Company's Corporate Governance Statement, which meets the requirements of Australian Securities Exchange Listing Rule 4.10.3, is provided on the Company's website at www.perpetualequity.com.au.

Principal activities

The Company is a listed investment company established to invest in a concentrated and actively managed portfolio of Australian listed securities with typically a mid-cap focus and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. 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.

Review of operations

	30 June 2020 $'000	30 June 2019 $'000
Profit/(loss) before income tax	**(3,778)**	16,272
Income tax benefit/(expense)	**3,344**	(1,053)
Profit/(loss) for the year attributable to shareholders	**(434)**	15,219

As at 30 June 2020, the Company's Net Tangible Assets (NTA) after tax were $1.046 per share. This represents a decrease of -6.38% compared to NTA after tax of $1.117 per share as at 30 June 2019. The decrease in NTA was predominantly attributable to the market volatility led by the coronavirus (COVID-19) pandemic in the second half of the year and the payment of two dividends totalling 6.6 cents per share during the year. Both dividends were fully franked at a tax rate of 30%.

The rapid spread of the COVID-19 across the globe has led to unprecedented economic times and governments taking extreme measures to limit the spread of the virus. This has resulted in extreme volatility in global and local capital markets which has been reflected in the valuation of the Company's investment portfolio and its financial results for the year ended 30 June 2020. The uncertainty around COVID-19 is expected to continue to present social and economic challenges in the next financial year and the resulting impact on the capital markets remains uncertain.

The Manager has remained disciplined in following its investment philosophy and process which focuses on quality and value. The Manager's investment process aims to identify quality businesses with recurring earnings, conservative debt and sound management, that are trading at attractive valuations. This is underpinned by the Manager's deep research and analysis on securities held in the portfolio. The flexible investment strategy enables the Manager to respond quickly to market conditions and modify the portfolio accordingly.

The Company's investment strategy was amended in March 2020 to increase the maximum allowable allocation to global securities from 25% to 35% of the investment portfolio. The Board considered the change to provide the Manager with additional operational flexibility to be able to actively manage the portfolio in compelling offshore opportunities that meet the Manager's stringent investment criteria.

Further information on the operating and financial review of the Company and its future operation is contained in the Chairman's Report and Portfolio Manager's Report.

Dividends

Dividends paid or provided by the Company to shareholders were:

	Cents per share	Total amount $'000	Franking	Payment date
Declared and paid during the financial year 2020				
Final 2019 dividend	**3.4**	**11,754**	**100%**	**18 October 2019**
Interim 2020 dividend	**3.2**	**11,092**	**100%**	**24 April 2020**
Declared after the end of financial year 2020				
On 26 August 2020, the Directors declared :				
Final 2020 dividend	**2.8**	**9,739**	**100%**	**23 October 2020**

All dividends are fully franked at a tax rate of 30%.

The financial effect of dividends declared after year end is not reflected in the financial statements for the year ended 30 June 2020 and will be recognised in the subsequent financial statements.

State of affairs

There were no other significant changes in the state of affairs of the Company during the financial year other than the matters previously disclosed under the review of operations.

Events subsequent to reporting date

The Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report that has or may significantly affect the operations of the Company, the results of these operations or the state of affairs of the Company in the subsequent financial years.

Likely developments

The Company will continue to be managed in accordance with its investment objectives and guidelines (as amended) and in accordance with the provisions of the Company's Constitution.

Environmental regulation

The operations of the Company are not subject to any particular or significant environmental regulations under a law of the Commonwealth, or of a State or Territory.

Indemnification of directors and officers

The Company indemnifies, to the extent permitted by law, each Director in respect of certain liabilities which the Director may incur as a result of being or acting as an officer of the Company, including legal expenses. The auditor of the Company is in no way indemnified out of the assets of the Company.

Insurance

In accordance with the provisions of the *Corporations Act 2001*, the Company has a directors and officers' liability policy of insurance which covers all Directors and officers of the Company. The insurance policy covers the Directors for the period that they are officers and for seven years after they cease to act as officers. The terms of the policy specifically prohibit disclosure of details of the amount of the insurance cover and the premium paid.

Remuneration report: Audited

This report sets out the remuneration arrangements for all Key Management Personnel, being the Non-executive Directors and the Executive Director of Perpetual Equity Investment Company Limited for the year ended 30 June 2020.

The information in this Remuneration report has been audited by the Company's auditor, KPMG, as required by section 308(3C) of the *Corporations Act 2001*.

(a) Key management personnel

Below are the Company's Key Management Personnel for the year ended 30 June 2020:

Name	Position	Term
Nancy Fox	Chairman and Non-executive Director	Full year
Virginia Malley	Non-executive Director	Full year
John Edstein	Non-executive Director	Full year
Christine Feldmanis	Non-executive Director	Full year
David Lane	Executive Director	Full year

Remuneration report: Audited (continued)

(b) Remuneration of directors

Remuneration policy

The Board, with the recommendation of the Nomination and Corporate Governance Committee, determines the size and composition of the Board and its Committees. The Company has not established a remuneration committee as the Board has determined it is not necessary to establish a separate remuneration committee given there are no paid employees.

The Board reviews and approves the remuneration of individual Board members. Remuneration paid to the Non-executive Directors aims to ensure the Company can attract and retain suitably skilled, experienced and committed individuals.

Non-executive Directors do not receive performance-related remuneration.

The Executive Director, David Lane is not entitled to Directors' fees or any other form of remuneration from the Company for his services. He is the Group Executive International Asset Management of Perpetual Limited and a Director of Perpetual Investment Management Limited (the Manager). His remuneration is governed by the remuneration policy of Perpetual Limited, the parent company of the Manager.

Fee framework

Non-executive Directors receive a base fee. They do not receive additional fees for participating in Board Committees.

Total remuneration available to the Directors is a maximum of $250,000 as set out in the Company’s Constitution (excluding the Executive Director). The aggregate amount of Directors' remuneration is $187,000 per annum (including superannuation). Any increase in the aggregate amount of Directors’ fees over $250,000 must be approved by a resolution of the shareholders as required by the Company’s Constitution.

	30 June 2020 $	30 June 2019 $
Non-executive Directors' fees		
Chairman	**55,000**	55,000
Directors	**44,000**	44,000
Audit and Risk Committee	**-**	-
Nomination and Corporate Governance Committee	**-**	-

The fees above are inclusive of superannuation contributions, capped at the maximum prescribed under Superannuation Guarantee legislation. Non-executive Directors may also salary-sacrifice superannuation contributions out of their base fees if they so wish.

Remuneration report: Audited (continued)

(b) Remuneration of directors (continued)

Remuneration of directors

The following table sets out the Directors’ remuneration for the years ended 30 June 2020 and 30 June 2019.

Directors	Directors' fees $	Superannuation $	Total $
Nancy Fox			
2020	**50,228**	**4,772**	**55,000**
2019	50,228	4,772	55,000
Virginia Malley			
2020	**38,173**	**5,827**	**44,000**
2019	36,164	7,836	44,000
John Edstein			
2020	**40,183**	**3,817**	**44,000**
2019	40,183	3,817	44,000
	-		
Christine Feldmanis			
2020	**40,183**	**3,817**	**44,000**
2019	40,183	3,817	44,000
David Lane			
2020	**-**	**-**	**-**
2019	-	-	-
Total 2020	**168,767**	**18,233**	**187,000**
Total 2019	166,758	20,242	187,000

Non-executive Directors do not receive any non-cash benefits as part of their remuneration.

David Lane is not entitled to Directors' fees or any other form of remuneration from the Company for his services. He is remunerated by Perpetual Limited, the parent company of the Manager.

Link between the Directors’ remuneration and the Company's performance

	2020	2019	2018	2017	2016
Profit/(loss) after tax ($'000)	(434)	15,219	24,827	31,814	7,613
Dividends paid (cents per share)	6.6	6.4	5.5	4.2	1.3
NTA after tax ($ per share)	1.046	1.117	1.139	1.097	1.014
Directors' remuneration ($)	187,000	187,000	170,000	170,000	170,000
Shareholder's equity ($'000)	363,822	385,225	289,987	277,960	255,759
Closing share price ($)	0.905	1.040	1.170	1.035	0.925

The Directors are considered the Key Management Personnel of the Company. The Company does not have any paid employees.

The Directors' remuneration is fixed and not linked to the Company's performance.

Remuneration report: Audited (continued)

(c) Retirement policy

Directors who have been in office for three years since their last election must retire and may seek re-election at the Company's next Annual General Meeting of shareholders.

The Company's Board Tenure and Performance Policy provides that in order to revitalise the Board, Directors should not seek re-election after three elected terms of three years (i.e. a total of 9 years on the Board) unless the Board (through the Nomination and Corporate Governance Committee) requests them to do so.

(d) Key Management Personnel shareholdings held directly or indirectly

The relevant interests in ordinary shares of the Company that each Director held (in number of shares) at the reporting date were:

Directors	Balance at 1 July 2019	Number of shares acquired	Number of shares disposed	Balance at 30 June 2020
Nancy Fox	213,783	16,299	-	230,082
Virginia Malley	128,124	9,769	-	137,893
John Edstein	122,835	-	-	122,835
Christine Feldmanis	282,284	21,522	-	303,806
David Lane	18,497	-	-	18,497

End of Remuneration Report: Audited

Non-audit services

There were no fees paid to KPMG for non-audit services for the year ended 30 June 2020 and 30 June 2019.

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Rounding of amounts to the nearest thousand dollars

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in the Directors' report and annual financial report have been rounded to the nearest thousand dollars in accordance with the Legislative Instrument, unless otherwise indicated.

Signed on behalf and in accordance with a resolution of the Directors:

Nancy Fox

Chairman

Director

Sydney
26 August 2020

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Perpetual Equity Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Perpetual Equity Investment Company Limited for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

J. Davis

KPMG

Jessica Davis

Partner

Sydney

26 August 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	30 June 2020 $'000	30 June 2019 $'000
Investment income			
Dividends		**10,629**	15,924
Interest		**353**	1,044
Net gains/(losses) on financial instruments at fair value through profit or loss	5(c)	**(7,516)**	5,228
Net foreign exchange gains/(losses)		**(937)**	(78)
Other income		**393**	-
Total investment income		**2,922**	22,118
Expenses			
Management fees	6(a)	**3,840**	3,610
Other expenses	6(b)	**2,860**	2,236
Total expenses		**6,700**	5,846
Profit/(loss) before income tax		**(3,778)**	16,272
Income tax benefit/(expense)	7(a)	**3,344**	(1,053)
Profit/(loss) after income tax		**(434)**	15,219
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(434)**	15,219
Earnings per share			
Basic earnings per share (cents per share)	4	**(0.13)**	4.73
Diluted earnings per share (cents per share)	4	**(0.13)**	4.73

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2020 $'000	30 June 2019 $'000
Assets			
Cash and cash equivalents	11(c)	**20,317**	63,647
Financial assets at fair value through profit or loss	8	**338,482**	321,603
Receivables	9	**6,444**	6,243
Current tax receivable		**-**	3,640
Deferred tax asset	7(c)	**2,345**	-
Total assets		**367,588**	395,133
Liabilities			
Financial liabilities held at fair value through profit or loss	8	**65**	-
Payables	10	**2,238**	3,644
Current tax payable		**1,463**	-
Deferred tax liability	7(c)	**-**	6,264
Total liabilities		**3,766**	9,908
Net assets		**363,822**	385,225
Equity			
Contributed equity	12(a)	**353,827**	351,950
Retained earnings		**(3,386)**	13,358
Profit reserve		**13,381**	19,917
Total equity		**363,822**	385,225

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

	Notes	Contributed Equity $'000	Retained Earnings $'000	Profit Reserve $'000	Total $'000
Balance at 1 July 2019		**351,950**	**13,358**	**19,917**	**385,225**
Total comprehensive income for the year		**-**	**(434)**	**-**	**(434)**
Transfers to profit reserve		**-**	**(16,310)**	**16,310**	**-**
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	12(a)	**1,877**	**-**	**-**	**1,877**
Dividends paid	3(a)	**-**	**-**	**(22,846)**	**(22,846)**
Balance at 30 June 2020		**353,827**	**(3,386)**	**13,381**	**363,822**

	Notes	Contributed Equity $'000	Retained Earnings $'000	Profit Reserve $'000	Total $'000
Balance at 1 July 2018		249,861	10,403	29,723	289,987
Total comprehensive income for the year		-	15,219	-	15,219
Transfers to profit reserve		-	(12,264)	12,264	-
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	12(a)	844	-	-	844
Shares issued from capital raising	12(a)	101,245			101,245
Dividends paid	3(a)	-	-	(22,070)	(22,070)
Balance at 30 June 2019		351,950	13,358	19,917	385,225

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Notes	30 June 2020 $'000	30 June 2019 $'000
Cash flows from operating activities			
Dividends received		**11,023**	16,846
Interest received		**355**	1,045
Other income received		**773**	322
Management fees paid		**(4,087)**	(3,803)
Income tax paid		**(162)**	(3,119)
Other expenses paid		**(3,014)**	(2,362)
Net cash flows from operating activities	11(a)	**4,888**	8,929
Cash flows from investing activities			
Proceeds from sale of investments		**621,098**	305,180
Payments for purchase of investments		**(648,347)**	(399,574)
Net cash flows from investing activities		**(27,249)**	(94,394)
Cash flows from financing activities			
Proceeds from issue of shares under capital raising		**-**	101,245
Dividends paid - net of dividend reinvestment plan		**(20,969)**	(21,226)
Net cash flows from financing activities		**(20,969)**	80,019
Net increase/(decrease) in cash and cash equivalents		**(43,330)**	(5,446)
Cash and cash equivalents held at the beginning of the year		**63,647**	69,093
Cash and cash equivalents at the end of the year	11(c)	**20,317**	63,647

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

Notes to and forming part of the financial statements for the year ended 30 June 2020

1 Reporting entity

Perpetual Equity Investment Company Limited (the Company) is domiciled in Australia. The Company was incorporated on 25 August 2014. The address of the Company's registered office is at Level 18, 123 Pitt Street, Sydney NSW 2000.

The Company is a listed investment company established to invest in a concentrated and actively managed portfolio of Australian listed securities with typically a mid-cap focus and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. 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. The investment activities of the Company are managed by Perpetual Investment Management Limited (the Manager).

The annual financial report for the year ended 30 June 2020 was authorised for issue by the Directors on 26 August 2020.

2 Basis of preparation

The annual financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the annual financial report.

The annual financial report has been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

Compliance with International Financial Reporting Standards

The annual financial report also complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

Use of estimates

Management has taken into consideration the impacts of COVID-19 to make estimates and assumptions that affect the reported amounts in the financial statements. Estimates and associated assumptions are reviewed regularly and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

For the majority of the Company's financial instruments, quoted market prices are readily available. However, when certain financial instruments are fair valued using valuation techniques (for example, pricing models), observable data is used to the extent practicable. The use of estimates and critical judgements in fair value measurement is described in note 8 and 13(d).

Functional and presentation currency

The annual financial report is presented in Australian dollars, which is the Company's functional currency.

New accounting standards and interpretations

There are no new accounting standards, amendments and interpretations effective for the first time for the financial year beginning 1 July 2019 that would be expected to have a material impact on the Company.

Notes to and forming part of the financial statements for the year ended 30 June 2020

3 Dividends

The Company currently intends to pay a dividend twice a year. The amount of the dividend will be at the discretion of the Board and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors that the Board deems relevant. It is the Board's intention that all dividends paid will be franked to 100% or to the maximum extent possible.

(a) Dividends paid

	Cents per share	**Total amount $'000**	**Franking**	**Payment date**
30 June 2020				
Final 2019 ordinary	**3.4**	**11,754**	**100%**	**18 October 2019**
Interim 2020 ordinary	**3.2**	**11,092**	**100%**	**24 April 2020**
Total	**6.6**	**22,846**		

	Cents per share	Total amount $'000	Franking	Payment date
30 June 2019				
Final 2018 ordinary	3.3	11,380	100%	2 November 2018
Interim 2019 ordinary	3.1	10,690	100%	26 April 2019
Total	6.4	22,070		

All dividends paid during the year ended 30 June 2020 were fully franked at a tax rate of 30% (2019: 27.5%).

(b) Subsequent events

On 26 August 2020, the Directors declared the following dividend.

	Cents per share	**Total amount $'000**	**Franking**	**Payment date**
Final 2020 ordinary	**2.8**	**9,739**	**100%**	**23 October 2020**

The final dividend is fully franked based on the tax rate of 30%.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2020 and will be recognised in the subsequent financial statements.

Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which eligible shareholders may elect to have all or part of their dividend entitlements satisfied by the issue of ordinary shares rather than by being paid in cash.

3 Dividends (continued)

(c) Franking account

	30 June 2020 $'000	30 June 2019 $'000
The available balance in the franking account at the reporting date	**5,070**	6,500
Impact on franking account of the final dividend declared after the reporting date but not recognised as a liability at the reporting date	**4,174**	5,037
The available balance in the franking account after the adjustment for the final dividend declared	**896**	1,463

The available balance in the franking account includes the adjustments for franking credits that will arise from the payment of current tax liabilities, and franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

4 Earnings per share

	30 June 2020	30 June 2019
Basic earnings per share (cents per share)	**(0.13)**	4.73
Diluted earnings per share (cents per share)	**(0.13)**	4.73
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**346,574,803**	321,589,770
Earnings used in the calculation of basic and diluted earnings per share ($'000)	**(434)**	15,219

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue and ordinary shares that the Company expects to issue.

5 Investment income

(a) Dividend income

Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss when the Company's right to receive payment is established.

(b) Interest income

Interest income includes interest from cash and cash equivalents.

(c) Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) arising from changes in the fair value measurement comprise:

	30 June 2020 $'000	30 June 2019 $'000
Net unrealised gains/(losses) on financial instruments at fair value through profit or loss	**(27,803)**	5,058
Net realised gains/(losses) on financial instruments at fair value through profit or loss	**20,287**	170
Net gains/(losses) on financial instruments at fair value through profit or loss	**(7,516)**	5,228

(d) Other income

Other income is brought to account on an accruals basis.

(e) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as net foreign exchange gains/(losses).

Translation differences on financial assets and liabilities carried at fair value are reported as part of their fair value gain or loss.

6 Expenses

All expenses are recognised, net of the amount of Goods and Services Tax (GST) recoverable from the taxation authority, in profit or loss on an accruals basis.

(a) Management fees

The Manager, Perpetual Investment Management Limited, receives a management fee of 1.00% per annum (plus GST) for the first $1 billion of the Portfolio Net Asset Value, and 0.85% per annum (plus GST) of the Portfolio Net Asset Value in excess of $1 billion. In accordance with the Replacement Prospectus dated 14 October 2014, the Portfolio Net Asset Value means the market value of the assets of the Portfolio, reduced by any accrued but unpaid expenses of the Company, but not provisions for tax payable or unpaid dividends of the Company, and after subtracting any borrowings drawndown. The management fees are calculated and accrued daily and paid monthly in arrears.

Notes to and forming part of the financial statements for the year ended 30 June 2020

6 Expenses (continued)

(a) Management fees (continued)

	30 June 2020 $'000	30 June 2019 $'000
Management fees	**3,840**	3,610

The Manager was appointed for an initial term of five years. The Management Agreement has been extended for a further five-year term (extended term) during the year unless terminated earlier in accordance with its terms.

If the Management Agreement is terminated during the extended term, then in certain circumstances the Manager will be entitled to a termination payment equal to 5.0%, reduced by one sixtieth (1/60) for each whole calendar month elapsed between the commencement of the extended term and the termination date, of the net tangible assets backing of each share in each class of shares in the Company as calculated under the ASX Listing Rules multiplied by the number of shares on issue in that class of shares as at the termination date.

The Manager agreed to pay all of the costs incurred in raising capital under the Offer, in accordance with the Prospectus dated 20 August 2018. If the Management Agreement is terminated during the extended term, then in certain circumstances the Manager will be entitled to be reimbursed for these costs, multiplied by the number of days in the period from the date of termination to the last day of the extended term and divided by the number of days in the period from the date of issue of the new shares to the last day of the extended term.

(b) Other expenses

	30 June 2020 $'000	30 June 2019 $'000
Directors' remuneration	**187**	187
Auditors' remuneration	**83**	82
ASX fees	**100**	101
Registry services	**136**	203
Custody administration fees	**61**	84
Brokerage	**1,683**	1,109
Other operating expenses	**610**	470
Total other expenses	**2,860**	2,236

(c) Auditor's remuneration

	30 June 2020 $	30 June 2019 $
Amount received or due and receivable by KPMG:		
Audit and review of financial statements	**83,362**	81,766

7 Income tax

In accordance with the *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017*, the Company is subject to 30% tax on its earnings and any tax payments for the year ended 30 June 2020 (2019: 30%).

(a) Income tax benefit/(expense)

	30 June 2020 $'000	30 June 2019 $'000
Current tax		
Current income tax benefit/(expense)	**(5,218)**	1,052
Adjustment for prior years	**(47)**	-
Deferred tax		
Temporary differences	**8,609**	(2,105)
Total income tax benefit/(expense)	**3,344**	(1,053)

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and, where applicable, any adjustment to tax payable in respect of previous periods. Current tax assets and liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is explained in note 7(c).

(b) Reconciliation of income tax benefit/(expense) to prima facie tax payable

	30 June 2020 $'000	30 June 2019 $'000
Profit/(loss) before income tax	**(3,778)**	16,272
Prima facie income tax calculated at Company's tax rate of 30%	**1,133**	(4,882)
(Increase)/decrease tax payable		
Franking credits	**2,167**	4,393
Foreign income tax offsets	**91**	32
Tax adjustment from participating in buy back	**-**	(217)
Adjustment in the deferred tax due to tax rate changes	**-**	(379)
Adjustment for prior years	**(47)**	-
Income tax benefit/(expense)	**3,344**	(1,053)

7 Income tax (continued)

(c) Deferred tax asset/(liability)

The balance comprises temporary differences attributable to:

	30 June 2020 $'000	30 June 2019 $'000
Net unrealised (gains)/losses	**2,345**	(6,251)
Dividends receivable	**-**	(13)
Total deferred tax asset/(liability)	**2,345**	(6,264)

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax liability is recognised when the carrying amount of an asset exceeds its tax base.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax balances relate to the same taxation authority.

8 Financial assets and liabilities at fair value through profit or loss

	30 June 2020 $'000	30 June 2019 $'000
Derivatives		
Foreign exchange forward contracts	**702**	-
Listed equities	**337,780**	321,603
Total financial assets at fair value through profit or loss	**338,482**	321,603
Derivatives		
Foreign exchange forward contracts	**65**	-
Total financial liabilities at fair value through profit or loss	**65**	-

8 Financial assets and liabilities at fair value through profit or loss (continued)

Classification

The Company classifies its investments based on its business model for managing those financial instruments and their contractual cash flow characteristics. The Company's investment portfolio is managed and its performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company evaluates the information about its investments on a fair value basis together with other related financial information.

Listed equities and derivatives are classified as financial assets at fair value through profit or loss. Derivative contracts that have negative values are presented as financial liabilities at fair value through profit or loss.

Recognition/derecognition

The Company recognises financial assets and liabilities on the date it becomes party to the purchase contractual agreement (trade date). Financial assets and liabilities are derecognised on the date the Company becomes party to the sale contractual agreement (trade date).

Fair value measurement

At initial recognition, the Company measures the financial assets and liabilities at fair value. Transaction costs are expensed in profit or loss as incurred. Subsequently, all financial assets and liabilities are measured at fair value without any deduction for estimated future selling costs. Gains and losses arising from changes in the fair value measurement are recognised in profit or loss in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the end of the reporting date without any deductions for the estimated future selling cost. Listed securities and exchange traded derivatives are valued at the last traded price.

(ii) Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

(ii) Fair value in an inactive market or unquoted market (continued)

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. Foreign exchange forward contracts are valued at the prevailing bid price at the end of the reporting period.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

9 Receivables

	30 June 2020 $'000	30 June 2019 $'000
Dividends receivable	**127**	521
Interest receivable	**-**	2
GST receivable	**179**	122
Withholding tax receivable	**14**	62
Receivables from securities sold	**6,124**	5,536
Total receivables	**6,444**	6,243

Receivables are recognised when a right to receive payment is established.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Company shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Receivables are stated inclusive of the amount of GST.

10 Payables

	30 June 2020 $'000	30 June 2019 $'000
Payables for securities purchased	**1,821**	3,215
Accrued expenses comprising:		
Management fees	**358**	324
Directors' remuneration	**47**	47
Other payables	**12**	58
Total payables	**2,238**	3,644

Payables are recognised when the Company becomes liable.

Payables are stated inclusive of the amount of GST.

Notes to and forming part of the financial statements for the year ended 30 June 2020

11 Notes to the statement of cash flows

	30 June 2020 $'000	30 June 2019 $'000
(a) Reconciliation of profit/(loss) after income tax to net cash flows from operating activities		
Profit/(loss) after income tax	**(434)**	15,219
(Increase)/decrease in dividends receivable	**394**	922
(Increase)/decrease in interest receivable	**2**	1
(Increase)/decrease in other receivables	**(9)**	(38)
(Increase)/decrease in current tax receivable	**3,640**	(3,640)
(Increase)/decrease in deferred tax asset	**(2,345)**	-
Increase/(decrease) in payables	**(12)**	41
Increase/(decrease) in current tax payable	**1,463**	(531)
Increase/(decrease) in deferred tax liability	**(6,264)**	2,105
Net (gains)/losses on financial instruments at fair value through profit or loss	**7,516**	(5,228)
Net foreign exchange (gains)/losses	**937**	78
Net cash flows from operating activities	**4,888**	8,929

Cash flows are presented on a gross basis. The GST components of cash flows arising from operating and investing activities, which are recovered from the taxation authority, are recognised separately as other income received in the operating cash flows.

	30 June 2020 $'000	30 June 2019 $'000
(b) Non-cash financing activities		
During the year, the following dividend payments were satisfied by the issue of shares under the dividend reinvestment plan	**1,877**	844
(c) Components of cash and cash equivalents		
Cash at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash at bank	**20,317**	63,647

Cash and cash equivalents include cash at bank, deposits held at call and other short term deposits with a maturity period of three months or less from the date of acquisition, which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

Notes to and forming part of the financial statements for the year ended 30 June 2020

12 Equity

(a) Share capital

	30 June 2020 Number of shares	30 June 2020 $'000	30 June 2019 Number of shares	30 June 2019 $'000
Opening balance	**345,693,045**	**351,950**	254,442,926	249,861
Shares issued from dividend reinvestment plan	**2,137,765**	**1,877**	852,593	844
Shares issued from capital raising	**-**	**-**	90,397,526	101,245
Shares on issue	**347,830,810**	**353,827**	345,693,045	351,950

Ordinary shares

Ordinary shares entitle the holders to receive dividends as declared and one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after creditors and are fully entitled to any surplus capital.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(b) Profit reserve

The profit reserve represents profit, transferred from retained earnings, available for distribution as a dividend. Profit includes investment income earned and gains or losses realised, other revenue earned from ordinary business and trading activities less current income tax expense. Dividends declared subsequent to the reporting date will be paid out of the profit reserve and any outstanding balance is available for future dividend payments.

(c) Capital risk management

The Company's objective in managing capital is to provide shareholders with a growing income stream and long-term capital growth, by investing in a portfolio of typically 20 to 40 quality securities, underpinned by the Manager’s fundamental, in-depth, bottom-up research. The Company considers its capital to comprise ordinary share capital, profit reserve and accumulated retained earnings. Borrowing does not form part of the investment strategy of the Manager, however, the Company retains the right to leverage up to 10% of the investment portfolio at the Board’s discretion.

Notes to and forming part of the financial statements for the year ended 30 June 2020

13 Financial risk management

This note presents information about the Company's objectives, policies and processes for measuring and managing risks.

The Company's activities expose it to a variety of financial risks. These risks include market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Manager has been given the discretionary authority to manage and undertake investments in line with the Company's investment objective, investment strategy and guidelines (as amended).

The Manager is required to act in accordance with the Management Agreement and to report to the Board quarterly on the portfolio's performance, material actions of the Manager during the quarter and an explanation of the Manager's material proposed actions for the upcoming quarter. The Manager is also responsible for designing and implementing day to day risk management and internal control systems which identify material risks for the Company.

The oversight and management of the Company's risk management program have been conferred upon the Audit and Risk Committee. The Committee is responsible for reviewing that the Company maintains effective risk management and internal control systems and processes and providing regular reports to the Board. The Board will review the effectiveness of the Company's risk management and internal control system annually.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices such as equity prices, foreign exchange rates, interest rates and credit spreads.

The Company is predominantly exposed to market risk from its investment activities. The Company seeks to reduce the risk by a policy of diversification of investments across industries and companies operating in various sectors of the market. The Company's market risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place.

The Company may use derivative instruments to manage its exposure to market risk. Derivatives are not permitted to be used for gearing purposes.

(i) Price risk

Market prices fluctuate due to a range of factors specific to the individual investment or factors affecting the market in general. Price risk exposure arises from the Company's investment portfolio which comprises predominantly Australian listed securities with some opportunistic allocation to global securities.

The Company aims to manage price risk via its stock selection and investment processes, and by diversification of holdings. The Manager's securities selection process is fundamental to the management of price risk. The Manager undertakes fundamental, in-depth, bottom-up research to identify high quality and attractively valued securities using a disciplined investment process. The investment process first assesses companies on four key quality filters: sound management, conservative debt, quality business and recurring earnings. The companies are then valued according to the differing natures of their business and ranked on a scale of one (strong overweight) to five (sell). Price risk is also managed on the basis that the Company is limited to a maximum holding in any individual security to 15% of the portfolio's net asset value. The Company's investment strategy allows the flexibility to invest up to 25% of its investment portfolio in cash and deposit products to provide downward protection and to take investment opportunities when they arise.

The Company is also permitted to use derivatives for hedging purposes. During the period of market volatility led by COVID-19 pandemic, the Company used put options to protect the value of its portfolio.

Notes to and forming part of the financial statements for the year ended 30 June 2020

13 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

Price risk sensitivity analysis

An increase of 10% in market prices applicable at the reporting date would have increased the Company's profit and net assets by $33,778,039 (2019: $32,160,313). A decrease of 10% in market prices would have an equal but opposite effect. This analysis assumes that all other variables remain constant.

The sensitivity of the Company's profit and net asset to price risk is estimated based on the historical levels of movements of the Company's benchmark (S&P/ASX 300 Accumulation Index) with the consideration of the future outlook of the economy, markets and securities that the Company invests in. The analysis assumes that the prices of Company's investments in equity securities move in correlation with the index. The actual movement in security prices may vary significantly to the movement in the index.

(ii) Currency risk

The Company is exposed to the movements in exchange rates that may have an adverse effect on the fair value or future cash flows of the Company's financial assets or financial liabilities denominated in currencies other than Australian dollars. This exposure arises from its investments in global listed securities and any transactions that are denominated in foreign currency. The Company's investment strategy allows up to 35% of its investment portfolio in global listed securities as announced to the ASX on 25 March 2020. The Company was previously allowed to invest in global listed securities of up to 25% of its investment portfolio under the Replacement Prospectus dated 14 October 2014.

The Manager considers currency valuations at the entity level when analysing securities, however the Company's investment portfolio is typically unhedged. Currency exposure may be hedged defensively where the Manager sees a significant risk of currency weakness.

The Company held foreign currency forward contracts to manage its exposure to currency risk at the reporting date.

The following table summarises the Company's exposure to currency risk arising from its financial assets and financial liabilities, monetary and non-monetary, at the reporting date:

	30 June 2020 $'000	30 June 2019 $'000
British Pound	**12,322**	4,728
United States Dollar	**3,090**	-
Euro	**21,007**	5,759
Hong Kong Dollar	**-**	3,619
Japanese Yen	**-**	3,408
New Zealand Dollar	**929**	-
Total foreign currency exposure	**37,348**	17,514

Notes to and forming part of the financial statements for the year ended 30 June 2020

13 Financial risk management (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

Currency risk sensitivity Analysis

The following table analyses the impact on the Company's profit and net assets from possible movements in exchange rates. The analysis is based on the assumption that the Australian dollar is strengthened or weakened by the sensitivity rates against the other currencies. The sensitivity rates represent the Manager's estimate of a reasonably possible movement in foreign currency exchange rates given the current exchange rates and the historic volatility.

	AUD strengthened/ (weakened) %	**30 June 2020 $'000**	30 June 2019 $'000
British Pound	**+10**	**(1,232)**	(473)
	-10	**1,232**	473
United States Dollar	**+10**	**(309)**	-
	-10	**309**	-
Euro	**+8**	**(1,681)**	(461)
	-8	**1,681**	461
Hong Kong Dollar	**+10**	**-**	(362)
	-10	**-**	362
Japanese Yen	**+10**	**-**	(341)
	-10	**-**	341
New Zealand Dollar	**+10**	**(93)**	-
	-10	**93**	-

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company can hold up to 25% of its investment portfolio in cash, deposit products and senior debts with less than one year to maturity (including any exposure to such investments gained by investing into cash management trusts). Consequently, the Company is exposed to the changes in market interest rates that may have a negative impact, either directly or indirectly, on the investment return.

The following table summarises the Company's exposure to interest rate risk at the reporting date:

	30 June 2020 $'000	30 June 2019 $'000
Cash at bank	**20,317**	63,647

Interest rate risk sensitivity analysis

An increase of 0.25% in interest rates applicable at the reporting date would have increased the Company's profit and net assets by $50,792 (2019: an increase of 0.5% in interest rates would have increased the Company's profit and net assets by $318,233). A decrease in interest rates would have an equal but opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

13 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of a counterparty failing to meet its financial obligations or contractual commitments resulting in a financial loss to the Company.

The maximum exposure to credit risk for derivatives is any unrealised profit and margins paid on the positions that the Company held at the reporting date. The credit risk exposure for cash, deposit holdings and debt securities is the carrying amount at the reporting date.

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A or higher (as determined by Standard & Poor's). The Manager regularly monitors the credit rating of counterparties.

Transactions in listed securities are entered with approved brokers. The risk of default is considered low because payment is only made once a broker has received the securities and delivery of securities sold only occurs once the broker receives the payment.

The Company determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers relevant historical analysis and forward looking information in determining any expected credit loss. As cash and cash equivalents are callable on demand and all receivables are due within 30 days, the probability of default is considered low. No loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Company.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The following tables summarise the contractual maturity of the Company's financial liabilities:

		Contractual cash flow	
	Carrying amount $'000	**At call $'000**	**6 months or less $'000**
30 June 2020			
Non-derivative financial liabilities			
Payables	**2,238**	**-**	**2,238**
Current tax payable	**1,463**	**-**	**1,463**
Total	**3,701**	**-**	**3,701**
Derivative financial liabilities			
Foreign exchange forward contracts	**65**		
Outflow	**-**	**-**	**6,534**
Inflow	**-**	**-**	**(6,469)**
Total	**65**	**-**	**65**

13 Financial risk management (continued)

(c) Liquidity risk (continued)

	Carrying amount $'000	Contractual cash flow At call $'000	Contractual cash flow 6 months or less $'000
30 June 2019			
Non-derivative financial liabilities			
Payables	3,644	-	3,644
Total	3,644	-	3,644

The Company has sufficient liquidity to meet these liabilities as the majority of its investment portfolio is considered readily realisable.

(d) Fair value measurement

The Company classifies fair value measurement of its financial assets and liabilities using a fair value hierarchy model that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy model, the Company's financial assets and liabilities measured at fair value at the reporting date:

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
30 June 2020				
Financial assets at fair value through profit or loss				
Derivatives				
Foreign exchange forward contracts	**-**	**702**	**-**	**702**
Listed equities	**330,638**	**7,142**	**-**	**337,780**
Total	**330,638**	**7,844**	**-**	**338,482**
Financial liabilities at fair value through profit or loss				
Derivatives				
Foreign exchange forward contracts	**-**	**65**	**-**	**65**
Total	**-**	**65**	**-**	**65**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2019				
Financial assets at fair value through profit or loss				
Listed equities	321,603	-	-	321,603
Total	321,603	-	-	321,603

13 Financial risk management (continued)

(d) Fair value measurement (continued)

Rationale for classification of financial assets as level 1

The majority of listed equities held by the Company are valued using unadjusted quoted prices in active markets and are classified as level 1 in the fair value hierarchy model.

Rationale for classification of financial assets as level 2

The fair value for listed equities that were not actively traded or suspended at the reporting date is estimated using one or more significant observable inputs including the use of multiple of similar securities and the book value of the relevant entity.

Foreign exchange forward contracts are valued at the prevailing bid price of the relevant forward currencies at the end of the reporting period.

Transfers between levels

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

There were no transfers between levels for the years ended 30 June 2020 and 30 June 2019.

14 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

	Effects of offsetting on the balance sheet			Related amounts not offset	
30 June 2020	**Gross amounts of financial assets $'000**	**Gross amounts set off in the balance sheet $'000**	**Net amount of financial assets presented in the balance sheet $'000**	**Amounts subject to master netting arrange-ments $'000**	**Net amounts $'000**
Financial assets					
Derivative financial instruments	702	-	702	(65)	637
Total	702	-	702	(65)	637
Financial liabilities					
Derivative financial instruments	(65)	-	(65)	65	-
Total	(65)	-	(65)	65	-

As at 30 June 2019, the Company did not hold any financial assets or liabilities that were subject to offsetting arrangements.

Notes to and forming part of the financial statements for the year ended 30 June 2020

14 Offsetting financial assets and financial liabilities (continued)

Master netting arrangement - not currently enforceable

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Company does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the above table.

15 Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions.

(a) Total Directors' remuneration paid and payable (including superannuation) for the year ended 30 June 2020 was $187,000 (2019: $187,000). Details of remuneration are disclosed in the Directors' report.

(b) Directors' interests in the Company held directly or indirectly are disclosed in the Directors' report.

(c) Nancy Fox (Chairman and Non-executive Director) and David Lane (Executive Director) are not independent in accordance with the requirements for independence set out in Principle (2) of the ASX Corporate Governance Principles. Nancy Fox is a Non-executive Director of Perpetual Limited, the parent company of the Manager. David Lane is the Group Executive International Asset Management of Perpetual Limited and a Director of Perpetual Investment Management Limited (the Manager).

16 Segment information

The Company is organised into one main operating segment with only one key function, being the investment of funds predominantly in Australia together with opportunistic investments globally.

17 Commitments and contingencies

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2020 and 30 June 2019.

18 Events occurring after the reporting period

Since the end of the financial year, the Directors have declared a fully franked final dividend payment of 2.8 cents per share payable on 23 October 2020 (refer to note 3).

The uncertainty around COVID-19 is expected to continue to present social and economic challenges in the next financial year and the resulting impact on the capital markets remains uncertain. Since the reporting date, there have been no significant changes in the valuation of the Company's investment portfolio arising from the changes in the estimates and assumptions in relation to COVID-19.

No other significant events have occurred since the reporting date which would have an impact on the financial position of the Company disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Company for the year ended on that date.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Perpetual Equity Investment Company Limited (the Company):

   (a) the financial statements and notes, set out on pages 24 to 45, and the Remuneration Report within the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

   (b) the financial report also complies with International Financial Reporting Standards as discussed in note 2.

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the persons performing the functions of the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2020.

Signed in accordance with a resolution of the Directors.

Nancy Fox

Chairman

Director

Sydney
26 August 2020

KPMG

Independent Auditor's Report

To the shareholders of Perpetual Equity Investment Company Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Perpetual Equity Investment Company Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2020
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation and existence of financial assets ($338.48m) and financial liabilities ($0.07m) held at fair value through profit or loss

Refer to Note 8 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Financial assets and liabilities at fair value through profit or loss (FVTPL) are comprised of investments in listed equities and derivatives (foreign exchange forward contracts). The Company outsources certain processes and controls relevant to its financial reporting over the valuation and existence of these assets and liabilities to external service organisations, including the custodian, the fund administrator and the investment manager. Valuation and existence of investments is a key audit matter due to: • The size of the Company's portfolio of listed equities. These assets represent 91.9% of the Company's total assets at year end; • The size of the Company's portfolio of derivatives. These assets and liabilities represent 0.2% of the Company's total assets at year end; and • the importance of the performance of these assets in driving the Company's investment income and capital performance, as reported in the Financial Report. As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.	Our procedures included: • We obtained and read the Company's custodian's and fund administrator's GS007 (*Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services*) assurance report to assess the custodian's and fund administrator's processes and controls to record and value the Company's investments. • We obtained and read the Company's investment manager's GS007 assurance report to assess the investment manager's processes and controls to record and provide transactional information to the Company's custodian. • We assessed the reputation, professional competence and independence of the auditors of the GS007 assurance reports. • We checked the valuation of the investments, as recorded in the general ledger, to independently sourced prices from relevant stock exchanges, and currency markets. • We checked the ownership and quantity of the investments held to external custody reports as at 30 June 2020.

Other Information

Other Information is financial and non-financial information in Perpetual Equity Investment Company Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Perpetual Equity Investment Company Limited for the year ended 30 June 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 19 to 22 of the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

J Davis

Jessica Davis

Partner

Sydney

26 August 2020

SHAREHOLDER INFORMATION

The 2020 Annual General Meeting of the Company will be held via a live online event on 15 October 2020 commencing at 2:00pm (Sydney time).

The ordinary shares of Perpetual Equity Investment Company Limited are listed on the Australian Securities Exchange under the ASX code PIC with Sydney being the home exchange.

Twenty largest shareholders

The names of the twenty largest holders of ordinary shares as at 31 July 2020 are listed below:

	Number of ordinary shares	%
Navigator Australia Limited	10,855,038	3.12
Nulis Nominees (Australia) Limited	8,989,540	2.58
Netwealth Investments Limited (Wrap Services A/C)	8,685,131	2.50
HSBC Custody Nominees (Australia) Limited	7,701,105	2.21
National Nominees Limited	3,491,395	1.00
Mr John Charles Plummer	3,125,000	0.90
Netwealth Investments Limited (Super Services A/C)	2,830,874	0.81
Boksburg Nominees Pty Ltd	2,427,967	0.70
Mr Brian Edmond Thornton	2,108,449	0.61
D E C Investments Pty Ltd	1,983,052	0.57
BNP Paribas Nominees Pty Ltd	1,902,115	0.55
Walmsley Developments Pty Ltd	1,612,784	0.46
Megfam Investment Company Pty Ltd	1,125,000	0.32
Lawvan Pty Ltd	1,000,000	0.29
J P Morgan Nominees Australia Pty Ltd	817,391	0.23
Dance Investment Portfolio Pty Ltd	770,866	0.22
Iain Livingstone Investments Pty Ltd	745,000	0.21
Yalambie Pty Ltd	723,438	0.21
Montrose Super Pty Ltd	680,000	0.20
Air Brake Corporation of Australia Pty Ltd	625,000	0.18

Substantial shareholders

No substantial shareholder appeared in the Company's Register of Substantial Shareholders maintained in accordance with section 671B of the *Corporations Act 2001* as at 31 July 2020.

Distribution of securities

Schedule of holdings As at 31 July 2020	Number of shareholders	Number of ordinary shares
1 - 1,000 shares	**212**	**92,127**
1,001 - 5,000 shares	**994**	**3,374,607**
5,001 - 10,000 shares	**1,338**	**10,770,284**
10,001 - 100,000 shares	**5,329**	**183,765,753**
100,001 shares and over	**481**	**149,828,039**
Total	**8,354**	**347,830,810**

The number of shareholders holding less than a marketable parcel is 125 and they hold 19,528 securities.

Other information

Perpetual Equity Investment Company Limited, incorporated and domiciled in Australia, is a publicly listed investment company limited by shares.

Voting rights

Each share will confer on its holder the right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on shares (at present there are none).

On-market buy back

There is no current on-market buy back.

Final dividend

The final dividend of 2.8 cents per share will be paid on 23 October 2020 to shareholders entitled to receive dividends and registered on 1 October 2020 being the record date.

DIRECTORY

COMPANY

Perpetual Equity Investment Company Limited
ACN 601 406 419

DIRECTORS

Nancy Fox - Chairman
Virginia Malley
John Edstein
Christine Feldmanis
David Lane

COMPANY SECRETARY

Sylvie Dimarco

MANAGER

Perpetual Investment Management Limited
Level 18, 123 Pitt Street
Sydney NSW 2000
(AFSL 234426)

REGISTERED OFFICE

Level 18, 123 Pitt Street
Sydney NSW 2000
Phone 1800 022 033

AUDITOR

KPMG
International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000

AUSTRALIAN SECURITIES EXCHANGE CODE

Shares: PIC

SHARE REGISTRY

Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138
Phone: 1800 421 712

WEBSITE

www.perpetualequity.com.au

Perpetual

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