INVESTMENT MANAGER UPDATE

Vince Pezzullo, Portfolio Manager
Deputy Head of Equities, Perpetual Investments

INVESTMENT PHILOSOPHY – QUALITY AND VALUE FOCUS

HOW WE INVEST

- 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

- We focus on buying high quality companies at prices below what we perceive as fair value, based on company fundamentals and prevailing market conditions

INVESTMENT PROCESS

MINIMISING THE RISK OF FALLING INTO VALUE TRAPS

Value investing

- Value investing involves identifying stocks that the market appears to have undervalued and are trading at a discount relative to the company’s underlying or “intrinsic” value.
- The goal in value investing is for the share price of the stock to ultimately align with or trade above the stock’s intrinsic value.
- While a company trading at a discount can appear attractive, the share price can sometimes end up becoming cheaper. This is known as a “value trap”.

Example of value trap

SKY Network Television Limited (ASX: SKT)

- We first acquired SKT in 2015 as the stock de-rated from premium valuation. The business had solid revenue streams from licenced content, including rugby in NZ.
- The business had been well managed and consistently extracted value from its capital expenditure cycle, which they had just completed.
- However, a failed merger with Vodafone and other Management decisions changed our perception of the outlook.
- Our extensive research seeks to avoid value traps through ongoing evaluations of the company.

MARKETS AND ECONOMIES AT A CROSSROAD: WHERE TO FROM HERE?

- US election dynamics driving markets - risk of a contested outcome is high
- Further COVID-19 waves delaying full economic recovery overseas (and Victoria)
- Immigration has typically been a significant driver of growth – about two thirds of Australia's gross domestic product (GDP)
  - COVID-19 has restricted cross-border movement and therefore, we face stagnant population growth
- Massive fiscal stimulus to drive near term recovery - budget deficit of $213.7 billion (11% of GDP)
- Federal Budget announced earlier this month focused on tax cuts, business and employment incentives
- RBA yet to fully embrace a zero interest rate policy (ZIRP) and quantitative easing (QE) but now has "employment" focus: all eyes on Melbourne Cup day for a cut of the official cash rate

PORTFOLIO POSITIONING

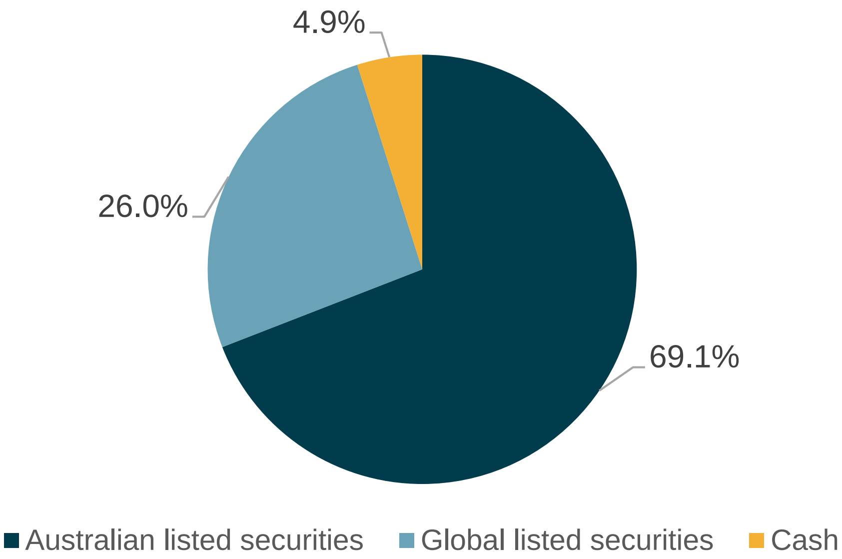
A HIGH CONVICTION APPROACH TO INVESTING

We remain focused on seeking companies that we believe exhibit the following characteristics:

1. Companies which provide structural advantages, are well positioned for future growth and are trading at reasonable valuations

2. Cyclical companies that rise and fall with the business cycle. We believe many cyclical companies are trading at steep discounts to mid-cycle valuation despite being high quality, well managed market leaders in a good financial position.

Allocation of investments as at 30 September 2020^



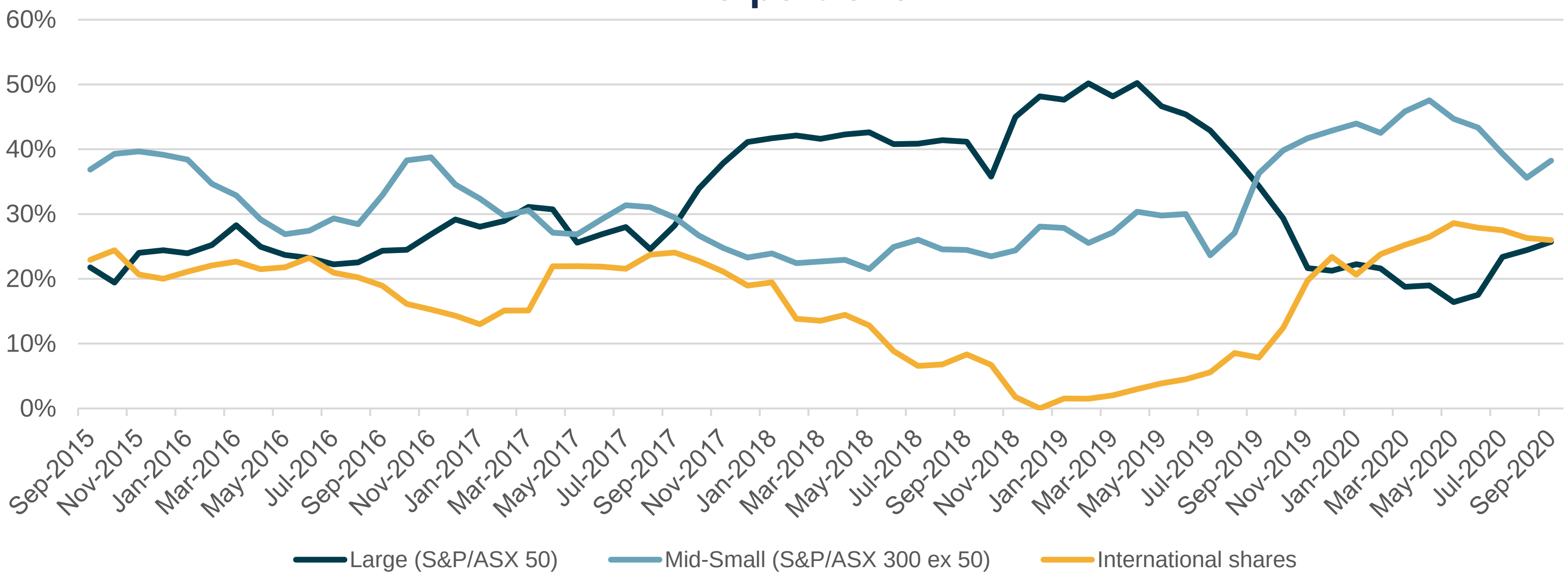
^ Weightings calculated based on direct investments in securities and any indirect exposure via S&P/ASX 200 related derivatives. All figures are unaudited and approximate.

Source: Perpetual Equity Investment Company Limited.

PORTFOLIO POSITIONING

EMPLOYING AN ACTIVE INVESTMENT APPROACH BASED ON OPPORTUNITIES IDENTIFIED THROUGH RESEARCH

Monthly allocation based on market capitalisation of stocks in the PIC portfolio



Source: Perpetual Equity Investment Company Limited

STOCK IN FOCUS:
PWR HOLDINGS LIMITED (ASX: PWH)

Dean Fremder, Equities Analyst, Perpetual Investments

PWR HOLDINGS LIMITED (ASX: PWH)

AUSTRALIAN MID-CAP STOCK

COMPANY

- Designs and manufactures high performance cooling systems for the automotive and aerospace industries.

- PWR is primarily focused on the production of aluminium radiators, intercoolers and cold plates for elite motorsport teams with growing applications in electric vehicles, autonomous vehicles and the military.

PWR ADVANCED COOLING TECHNOLOGY

ENGINEERING THE UNFAIR ADVANTAGE

PWR HOLDINGS LIMITED (ASX: PWH)

PASSING OUR FOUR QUALITY FILTERS

1. Quality of business – PWR's products represent vital components in motorsport supply chains and we believe this results in loyal customers and a sticky revenue base. This provides for a highly attractive 20% net profit margin and a 25% return on equity.
2. Conservative debt – The business has no debt and is a reliable generator of free cash flow.
3. Sound management – Kees Weel is the Founder CEO and has more than 30 years of experience in the industry. He owns just under 30% of the company and runs it with the passion and focus of a family business.
4. Recurring earnings - PWR has been profitable for many years with a track record of delivering consistent double-digit earnings per share growth.

Source: Perpetual Equity Investment Company Limited

PWR HOLDINGS LIMITED (ASX: PWH)

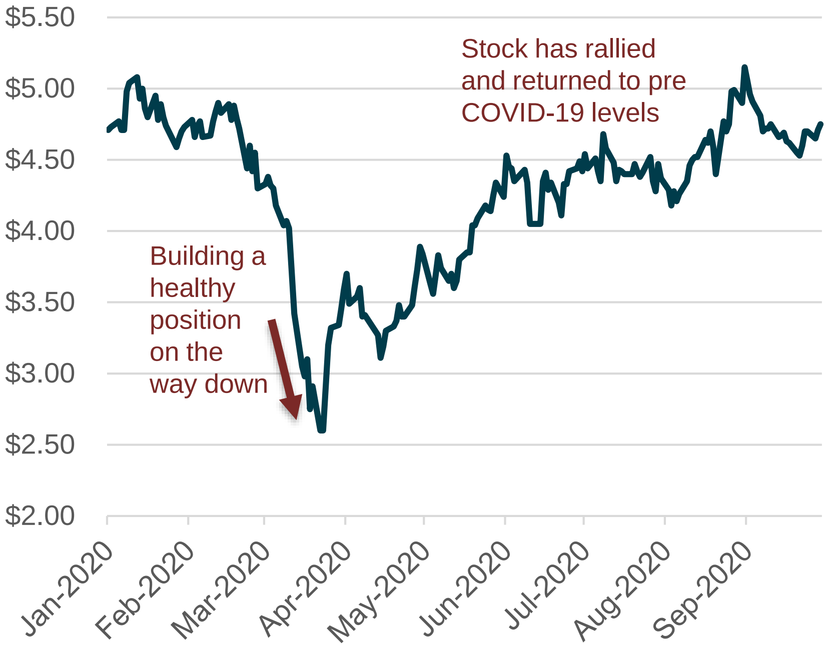
THE OPPORTUNITY

- PWR fell by approximately 50% in March 2020 from its share price highs in January 2020 on news of global motorsport cancellations.

- The PIC portfolio initiated a position in March 2020 as we considered the revenue impact to be temporary and realised the opportunity to acquire what we believe is a high quality company at an attractive valuation.

- The stock has rallied 80% since March 2020.

PWR Holdings Ltd (PWH)
Share price January - September 2020



Source: Factset

PWR HOLDINGS LIMITED (ASX: PWH)

WHAT WE SEE – DOMINANT MARKET POSITION AND POTENTIAL FOR GROWTH

- We believe PWR has a dominant competitive position in niche cooling solutions and is loved by its customers.

- Motorsport events have resumed with a packed schedule for the rest of 2020 while management have highlighted its pipeline of work being its strongest in years.

- Our assessment indicates the company has highly attractive financial characteristics and a large reinvestment opportunity as it expands into new markets such as electric vehicles and military applications. For example, PWR's products are used to cool complex batteries and electronics which can become overheated during use.

- As at 30 September 2020, PWR comprised 2.3% of the PIC portfolio.

Source: Perpetual Equity Investment Company Limited

STOCK IN FOCUS:
WESTERN AREAS LIMITED (ASX: WSA)

Clarke Wilkins, Senior Equities Analyst, Perpetual Investments

WESTERN AREAS LIMITED (ASX: WSA)

AUSTRALIAN SMALL CAP STOCK

COMPANY

- WSA operates a portfolio of low-cost, high-grade nickel mines in Western Australia.
- The main asset is the 100% owned Forrestania nickel projects where WSA currently produces ~22kt of nickel from the Flying Fox and Spotted Quoll mine.
- WSA is also developing the Odysseus mine at the Cosmos Nickel Operation.

PASSING OUR FOUR QUALITY FILTERS

1. **Quality of business** – low cost nickel producer with a 10+ year mine life from Odysseus.
2. **Conservative debt** – at the end of FY20, strong balance sheet with cash of $145m and no debt. Increased EBITDA of 51% and improved EBITDA margin of 39%.
3. **Sound management** – we consider Management have a demonstrated operational track record.
4. **Recurring earnings** – WSA has generated earnings for the last 3 years.

WESTERN AREAS LIMITED (ASX: WSA)

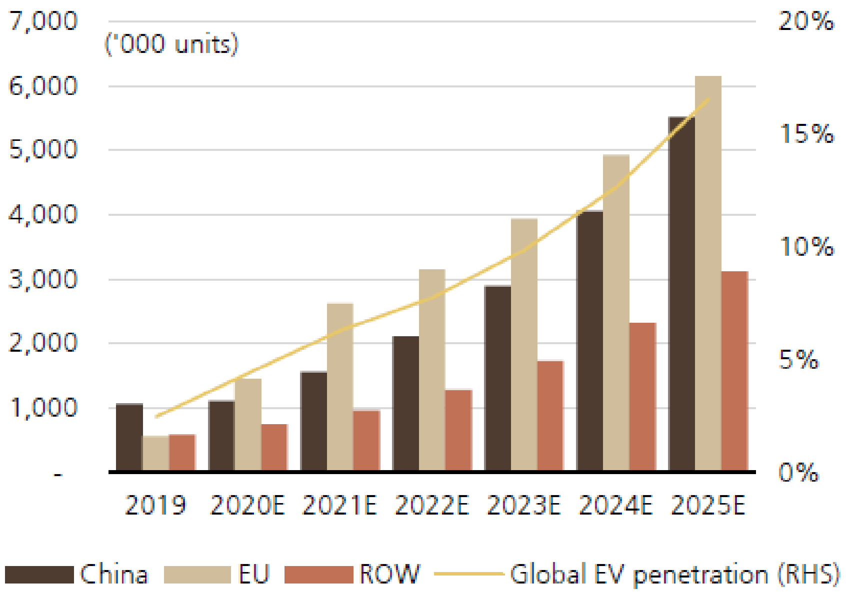
THE OPPORTUNITY – GROWING DEMAND OF ELECTRIC VEHICLES (EVs)

- Current market share of EVs in the global automotive market is ~2%. This is expected to grow to 20-60% by 2030 depending on model roll-outs, government incentives and reaching cost/performance parity with internal combustion engines.

- Increased market share for EVs is expected to drive a massive increase in battery production over this decade, and the raw materials (e.g. nickel) that are required to make batteries.

- Tesla alone is targeting 3TWhr[1] of battery production by 2030, from a target for 2022 of 100GWhr[2], which IF achieved would represent ~30% of the global automotive sales by 2030.

Global EV shipment



Source: UBS

[1] Terawatt Hour (energy unit)

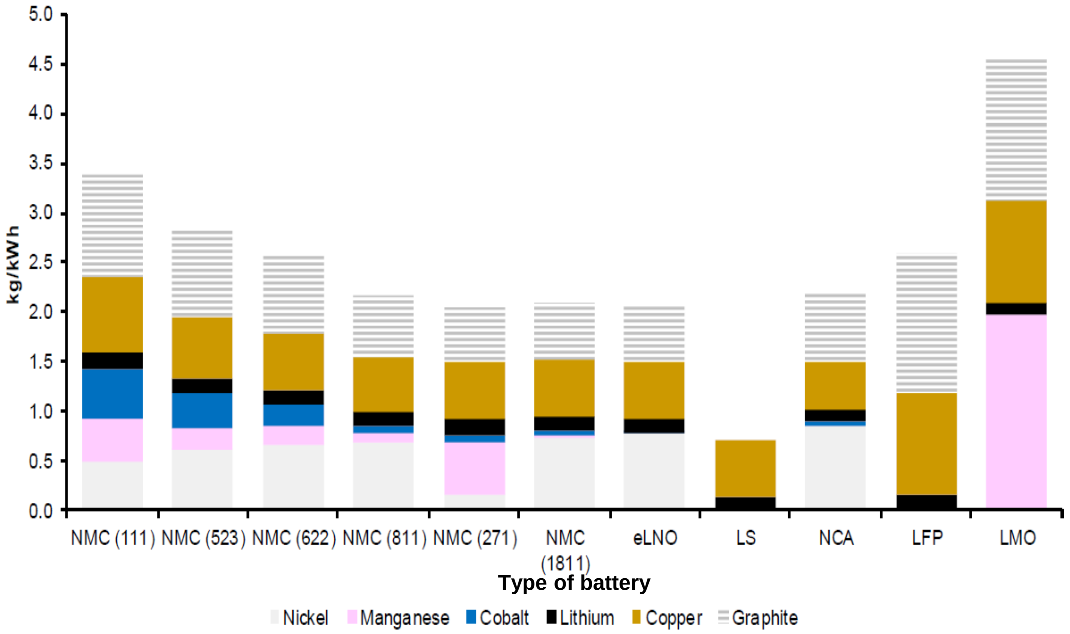
[2] Gigawatt hour (energy unit)

WESTERN AREAS LIMITED (ASX: WSA)

THE OPPORTUNITY – BATTERY TECHNOLOGIES REQUIRE NICKEL

- While lithium is a key component of batteries and gets a lot of media attention, most battery technologies require more nickel and copper than lithium (see chart).
- This is particularly so the more energy dense batteries are expected to be the key beneficiaries of the electrification of the global vehicle fleet.
- Nickel is currently a ~2.4mtpa[1] market, but demand from batteries alone is expected to increase this by ~600kt by 2030.

Main metal requirement by battery chemistry



Source: Bernstein analysis & estimates
[1] million tonnes per annum

WESTERN AREAS LIMITED (ASX: WSA)

WHAT WE SEE – NICKEL PRODUCTION CONSTRAINT

- Based on current production, we consider nickel to be the most geologically constrained battery material with the shortest reserve life of ~33 years. There are a lot of lithium projects globally that can fill the demand growth, but very few major nickel projects.

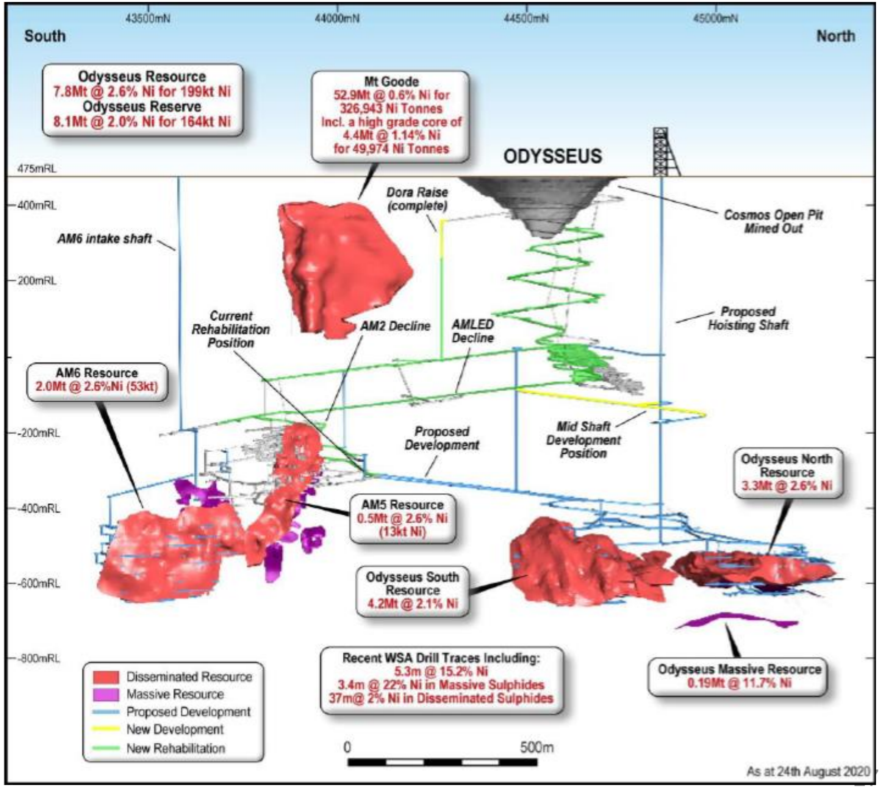
- Nickel is currently primarily used in stainless steel production. >50% of current nickel production is in the form of Ferro Nickel or Nickel Pig Iron (NPI). This source of nickel production is not suitable for use in battery production without incurring significant costs.

- We believe this creates an inherent advantage for nickel sulphate producers (~40% of nickel supply) like WSA. This benefit not only comes from higher prices and premia, but also through the "payability", or the percentage of the nickel price paid to the mining company for the concentrate. The payability used to be ~70%, but appears to be approaching 80%, which may drive higher revenue.

WESTERN AREAS LIMITED (ASX: WSA)

WHAT WE SEE – A LONG LIFE NICKEL MINE AT ODYSSEUS

- WSA is developing the Odysseus mine at the Cosmos complex that will be a long-life, low-cost nickel mine that also has considerable exploration upside from known ore bodies.
- This development has lower risk than most mines as it is partly a refurbishment of existing infrastructure (underground workings and the processing mill), although does require extension of the decline and construction of a shaft (the lowest cost way to haul ore from underground).
- First production is expected in early 2022 and the current reserve is ~210kt of nickel.
- There is no offtake for Odysseus yet, but there is expected to be strong competition from smelters for the nickel concentrate due to tightening supply.



Source: Western Areas Limited

WESTERN AREAS LIMITED (ASX: WSA)

OUTLOOK

- Our view during August reporting season was that WSA delivered strong FY20 results:
  - Increased sales revenue
  - Highest net profit after tax in seven years
  - The company has a strong balance sheet to fund the growth with cash of $145m and no debt
  - Odysseus Project is progressing

- WSA is also testing a heap leaching process that could commercialise the ~900kt of contained nickel in resources through a lower cost processing option for the low grade resources at Flying Fox, New Morning and other deposits.

- As at 30 September 2020, WSA comprised 1.5% of the PIC portfolio.

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PORTFOLIO POSITIONING – GLOBAL LISTED SECURITIES

HOW WE IDENTIFY OPPORTUNITIES OFFSHORE

- We only consider investment in companies offshore when:
  - we believe it offers better value than Australian companies
  - we have a high degree of conviction in the investment case for the stock.
- We can leverage the resources of the entire Perpetual Investments team to identify investment opportunities. For example, investing in the IPO for La Francaise Des Jeux SAEM (PAR: FDJ) when it listed on the Paris Stock Exchange.
- Research of global listed securities is organic and often occurs through the Investment Team identifying global counterparts when analysing Australian listed companies. The Investment Team then conduct relative value assessments.

SELECTING GLOBAL LISTED SECURITIES

EXAMPLES OF AUSTRALIAN COUNTERPARTS

GLOBAL SECURITIES IN PIC PORTFOLIO		COMPARISON TO AUSTRALIAN COMPANY (NOT IN PIC PORTFOLIO)
PAR: FDJ	⟷	ASX: TAH
LON: FERG	⟷	ASX: REH
LON: AUTO	⟷	ASX: CAR

Source: Perpetual Investment Management Limited; as at 30 September 2020

STOCK IN FOCUS – PERSIMMON PLC (LON: PSN)

GLOBAL STOCK

PERSIMMON

COMPANY

- Leading UK homebuilder that targets the low to mid-end market across the UK.

- Operates Persimmon Homes, Charles Church and Westbury Partnerships which all aim to build quality homes across the UK, though with a skew to the north.

PASSING OUR FOUR QUALITY FILTERS

1. **Quality of business** – the company generates industry leading margins and invests strategically through the cycle.
2. **Conservative debt** – net cash balance sheet with about 10% of its market capitalisation in cash. Strong balance sheet allowed PSN to make the decision not to access any form of government support during the COVID-19 shutdown period.
   Sound management – PSN's new CEO started only last month, though industry feedback has been positive around his prior role as CEO of National Express Plc, Britain's leading transport group.
3. **Recurring earnings** – our assessment indicates that PSN has sustainably delivered strong returns and its strategic land base sets it up for sustainable returns in future years.

PERSIMMON PLC (LON: PSN)

THE OPPORTUNITY

- As COVID-19 has impacted economies globally, residential housing has been a bright spot in the UK. Low mortgage rates, supportive government policy and a shift to more spacious living has led to a boom in housing demand.
- As PSN did not access government support during the COVID-19 shutdown period, they resumed operations swiftly in April/May compared to many other UK businesses.
- PSN has significant land holdings – we estimate that the value of its strategic land holding combined with current land bank supports 2x the current value of the company.
- Likely to benefit from government stimulus policy to homeowners in the short-term compared to other homebuilders as PSN is overweight low-end housing.
- In mid-August 2020, the company indicated that it had seen an approximately 49% year on year increase in average weekly private sales rates per site since the start of July and its forward order book was 21% higher than last year.
- As at 30 September 2020, PSN represented 2.8% of the PIC portfolio.

PERSIMMON PLC (LON: PSN)

COMPARISON TO AUSTRALIAN COMPANIES

- PSN can be compared to Mirvac Group (ASX: MGR) and Stockland Corporation Limited (ASX: SGP).
- A key difference is that PSN has pure residential exposure while residential exposure only forms a part of MGR and SGP’s overall business.

WHY WE PREFER PERSIMMON

- PSN has relatively low exposure to apartments (9% compared to 33% for the overall market) and higher exposure to detached housing (37% compared to 26% for the overall market).
- PSN has very valuable land holdings which sets them apart from peers and is more significant than listed Australian peers.
- The company generates much higher returns compared to Australian peers. PSN’s return on equity (ROE) is in the mid-20s over recent years whereas the ROEs for MGR and SGP are 6-7%.

BENEFITS OF ACTIVE MANAGEMENT

ABILITY TO ADAPT TO CHANGING MARKET CONDITIONS

- Portfolio turnover for the 12 months to 30 September 2020 was 86%.
  - Over 50% of the portfolio comprises completely new positions compared to 30 September 2019.
  - Substantial increase in the allocation of global listed securities (7.8% in September 2019 compared to 26.0% in September 2020) as we found that a number of offshore companies represented better value than Australian companies. This was further supported by the Board's decision to increase the maximum allowable allocation to global listed securities to 35% of the PIC portfolio.
- Our active management style can be an advantage during volatile market conditions, particularly as markets reach an inflection point as they did in March 2020.
  - The ability to invest up to 25% in cash provides flexibility during changing market conditions and we can act quickly to invest in companies we believe are high quality and are trading at attractive and discounted valuations.
- We actively manage the franking credit balance including realised and unrealised positions in the portfolio and work closely with the Board throughout the year.

PORTFOLIO POSITIONING – TOP 10 STOCKS

A MIX OF AUSTRALIAN AND GLOBAL LISTED SECURITIES

LON: FLTR

PAR: FDJ

ASX:CWN

ASX: ILU

ASX: AUB

ASX: ALL

ASX: BLD

LON: FERG

ASX: NAB

ASX: HT1

Source: Perpetual Equity Investment Company Limited; as at 30 September 2020

INVESTMENT PORTFOLIO PERFORMANCE

POSITIVE PERFORMANCE COMPARED TO THE BENCHMARK

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

[1.] 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 set up costs and on unrealised gains and losses are excluded. Past performance is not indicative of future performance. Inception date is 18 December 2014. Portfolio and Index return may not sum to Excess Return due to rounding.

Source: Perpetual Equity Investment Company Limited; as at 30 September 2020

SUMMARY

ACTIVE MANAGEMENT CAN PROVE BENEFICIAL IN TIMES OF MARKET VOLATILITY

- PIC's flexible investment strategy combined with our in-depth research means we can quickly take advantage of opportunities to add to our existing positions or invest in new companies.
- PIC can provide diversification to your portfolio through our typically mid-cap bias and ability to invest offshore.
- We believe our highly active approach has contributed to strong investment performance with the portfolio returning 3.5% in the 12 months to 30 September 2020, outperforming the benchmark by 13.4%[1].
- We actively manage the franking credit balance throughout the year and aim to deliver investors with a fully franked dividend and a dividend yield that compare favourably to the market.

Source: Perpetual Equity Investment Company Limited

[1.] 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 set up costs and on unrealised gains and losses are excluded. Past performance is not indicative of future performance. Inception date is 18 December 2014. Portfolio and Index return may not sum to Excess Return due to rounding.