PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

SHAREHOLDER REPORT OCTOBER 2020

CHAIRMAN'S REPORT

Dear Fellow Shareholders,

Thank you for your ongoing support of and investment in the Perpetual Equity Investment Company Limited (Company or PIC).

The Board is committed to delivering 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).

REFLECTING ON THE LAST 12 MONTHS

2020 has been a challenging year on many fronts. We understand that investors may have found the market sell-off in March very unsettling. We believe the Manager has responded well to the changing environment as a result of the COVID-19 pandemic. In our view, it is in times like these that active professional management with a focus on company fundamentals including a strong balance sheet becomes particularly important. This is consistent with Perpetual's investment philosophy and the approach taken by PIC Portfolio Manager Vince Pezzullo.

On 26 August 2020, the Company announced its full year results for financial year 30 June 2020 (FY20). Below is a summary:

- A fully franked final dividend of 2.8 cents per share, bringing the total dividends for FY20 to 6.0 cents per share fully franked
- Annual dividend yield of 6.6% and a grossed-up dividend yield of 9.5%[1]
- Investment portfolio outperformance of 6.4% above the benchmark for the 12 months to 30 June 2020[2]
- Net Tangible Assets (NTA) after tax per share of $1.046 as at 30 June 2020[3]

The Company had a net operating loss after tax of $0.4 million and an operating loss before tax of $3.8 million. This result predominantly reflects unrealised losses attributed to market volatility caused by COVID-19 in the second half of the financial year.

INVESTMENT PERFORMANCE

While the market volatility during 2020 has presented challenges, it has also provided some excellent investment opportunities. For the first time in many years, numerous companies are now trading at very attractive valuations. This has provided Vince and his team with opportunities to purchase stocks that they would have previously considered as quality businesses but were overvalued.

The Board is pleased with the strong investment portfolio outperformance for the 12 months to 30 June 2020 and are further encouraged by the performance thus far in financial year 2021 (FY21).

Investment returns for the year to 30 September 2020 were 3.5% outperforming the benchmark by 13.4%[2]. In this environment of ongoing economic uncertainty and continued market volatility, this gives the Board further confidence that Vince and his team are managing the portfolio in a prudent manner that is consistent with the long-standing Perpetual investment philosophy.

HOW FRANKING CREDITS ARE GENERATED FOR THE PORTFOLIO

We recognise the importance of a sustainable dividend stream for our shareholders as well as strong investment performance. As such, the Board and Manager are conscious of the Company's franking credit balance and profit reserve. The Manager actively manages the portfolio, with the objective of not only achieving positive investment returns, but also to generate franking credits which will be used to frank dividend income for shareholders.

Franking credits are generated through:

- tax paid on realised gains in the portfolio;
- franked dividends received from underlying Australian listed companies in the portfolio; and
- tax paid on unfranked dividends and dividends received from global listed securities.

The Manager employs an active management style. This means the Company is not solely reliant on dividends received from underlying companies in the portfolio to generate franking credits. Rather, the Manager seeks to identify numerous opportunities throughout the year to also generate franking credits through realised gains in the trading portfolio.

The Board and the Manager always strive to deliver strong outcomes to shareholders, without losing sight of the investment philosophy and discipline that we believe underpin our success. Thank you for your continued support.

Yours sincerely,

Nancy Fox

Nancy Fox
Chairman

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.

2 The benchmark is the 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.

3 'After tax' refers to tax paid and provisions for deferred tax on unrealised gains and losses in the Company's investment portfolio.

Perpetual

PORTFOLIO MANAGER'S REPORT

ABOUT PIC

The Perpetual Equity Investment Company Limited (PIC) is a listed investment company that offers investors a simple and transparent way to invest in a diversified portfolio managed by a professional investment team – Perpetual Investment Management Limited (we or Perpetual).

PIC's investment strategy is to create a concentrated and actively managed portfolio of Australian securities with typically a mid-cap bias and global listed securities. While the portfolio typically has 20 – 40 securities, we focus on diversifying the portfolio across industry sectors and offshore investments.

INVESTMENT GUIDELINES TYPICALLY 20 – 40 SECURITIES

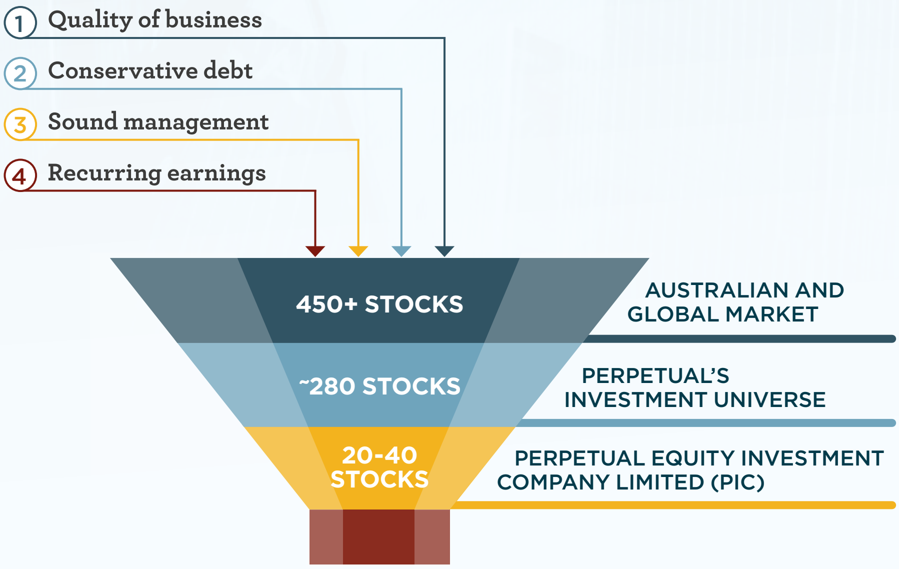
50% - 100%	**AUSTRALIAN LISTED SECURITIES** We typically have a mid-cap bias which refers to a typical preference for Australian listed securities outside the top 20 listed securities by market capitalisation.
0% - 35%	**GLOBAL LISTED SECURITIES** The allocation to global listed securities is opportunistic in nature and any global listed securities are not expected to have any consistent capitalisation bias, but will typically be larger and more liquid than comparable Australian entities.
0% - 25%	**CASH** Our active management style means we have the flexibility to vary the portfolio's exposure to manage downside risk and deploy cash where we are presented with compelling and attractive opportunities.

HOW WE INVEST – VALUE & QUALITY

Value investing is an investment style which involves identifying stocks that the market has undervalued and are trading at a discount relative to the company's underlying or "intrinsic" value.

At Perpetual we combine value investing with quality filters to provide our investors with access to an actively managed portfolio that in our view, are high-quality companies trading at attractive valuations.

The following diagram illustrates Perpetual's investment process and how we construct the PIC portfolio.



Companies must pass all four quality filters to be in Perpetual's investment universe.

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.

Based on in-depth research, each stock is ranked 1 to 5. However, to promote conviction in recommendations, analysts are not permitted to rate a stock 3 (hold).

1. Strong overweight – substantial outperformance
2. Overweight – strong performance
4. Underweight – underperformance/ relative pricing too high
5. Sell – fails the stock selection criteria step or is substantially overpriced

Stocks held in PIC are typically ranked 1 or 2 indicating the high conviction that the analysts have in each stock.

This investment process means 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 understand the fundamental risks and opportunities of each company held in the PIC portfolio. Through this approach we aim to minimise downside risk and protect the portfolio during periods of market stress.

BENEFITS OF ACTIVE MANAGEMENT

Perpetual is an active manager which means we actively look for opportunities in the market and manage the portfolio to take advantage of these opportunities. Each day, we conduct in-depth research to identify companies that meet our four quality filters, so we are ready to pull the trigger when we believe they are trading at attractive valuations.

The PIC portfolio turnover across listed securities was 97% for FY20 (compared to 37% for FY19). Our highly active approach in FY20, which has continued into FY21, was predominantly the result of the COVID-19 led volatility. We believe that active professional investment management combined with a flexible investment strategy can prove beneficial in times of market volatility as we utilise our research to quickly take advantage of opportunities to add to our existing positions or invest in new companies.

The COVID-19 led volatility was a clear example of this as we saw numerous companies trading at discounted valuations, some whose share price was even trading at multi-year lows. Accordingly, we deployed cash by investing in Australian and global companies that met our 4 quality filters and where we believed the market was overly discounting the underlying intrinsic value of those companies. Our long-term investment approach means that the companies we select today may have short-term headwinds but we believe are long-term winners. Our view is that over the long term, the share price of the companies we acquired will ultimately align with or trade above the company's intrinsic value.

We have started FY21 cautiously optimistic and are keeping a close eye on markets to assess the impact of the changing economic landscape. Volatility has and we believe will continue given the backdrop of the US Presidential election this year. We believe that with volatility comes opportunity and we are seeing more opportunities now than when markets were reaching all-time highs.

We believe our highly active approach has contributed to solid investment performance over the past 12 months to 30 September compared to the benchmark. The portfolio returned 3.5%, outperforming the benchmark by 13.4%[4].

HOW WE ARE POSITIONING THE PORTFOLIO

As at 30 September 2020, PIC's portfolio included 36 companies which are diversified across sectors and industries. 69.1% was invested in Australian listed securities, 26.0% in global listed securities and 4.9% in cash.

The portfolio has been positioned with:

1. Companies which provide structural advantages, are well positioned for realistic 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.

AUSTRALIAN LISTED SECURITIES – OUR MID-CAP BIAS

As noted above, PIC's investment strategy includes a bias towards mid-cap Australian listed securities. However, our active management style means, that the extent to which we invest in mid-cap versus large-cap securities will be based on market conditions and relative valuations.

We believe investment opportunities will be present over the next 6 to 12 months across mid-cap companies as we believe they currently represent better value relative to large-cap stocks. Importantly, we understand that many Australian investors may have traditionally favoured investing in large-cap or blue-chip stocks directly or indirectly via managed funds, ETFs or listed investment companies. As a result, PIC can provide investors diversification benefits from a mid-cap bias (as well as the ability to invest offshore). Our actual exposure will vary over time in line with our dynamic investment strategy based on opportunities identified through research, relative valuations and our active management style.

In recent months, we have increased our allocation to mid-cap stocks in line with our investment strategy. As at 30 September 2020, the allocation to Australian mid-cap stocks was 21.8% of the PIC portfolio and is defined by companies in the S&P/ASX 100 excluding those in the S&P/ASX 50. This compares to the benchmark where mid-cap stocks make up 14.6% and the stocks in the S&P/ASX 20 make up 55.3% of the benchmark.

Examples of mid-cap stocks included in the PIC portfolio as at 30 September 2020 include Iluka Resources Limited (ASX: ILU), Boral Limited (ASX: BLD) and Premier Investments Limited (ASX: PMV).

GLOBAL LISTED SECURITIES – IDENTIFYING GLOBAL COUNTERPARTS WHEN ANALYSING DOMESTIC COMPANIES

At Perpetual, we have an extensive and experienced investment team which includes Portfolio Managers and Analysts specialising in particular sectors of the market. The investment team are encouraged to present ideas and research analysis on companies listed in Australia and offshore. When it comes to investing offshore, the investment team often identify global counterparts when conducting in-depth analysis on a domestic company.

Investments offshore will only be considered when we believe they offer better value than Australian companies and we have a high degree of conviction in the investment case of the stock. For example, we view UK based Persimmon Plc (LON: PSN) as the more attractive investment compared to Australian companies, Mirvac Group (ASX: MGR) or Stockland Corporation Limited (ASX: SGP). This is based on PSN having very valuable land holdings which sets them apart from peers and is far more significant than listed Australian peers. 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 also generates much higher returns than Australian peers. PSN's return on equity (ROE) is in the mid 20% over recent years whereas the ROEs for MGR and SGP are 6-7%.

Over the next 6 to 12 months, we believe offshore cyclical companies such as PSN and AutoTrader Plc (LON: AUTO) represent attractive investment opportunities. Both were previously trading at steep discounts to their mid-cycle valuation during the market pullback in March.

4 The benchmark is the 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.

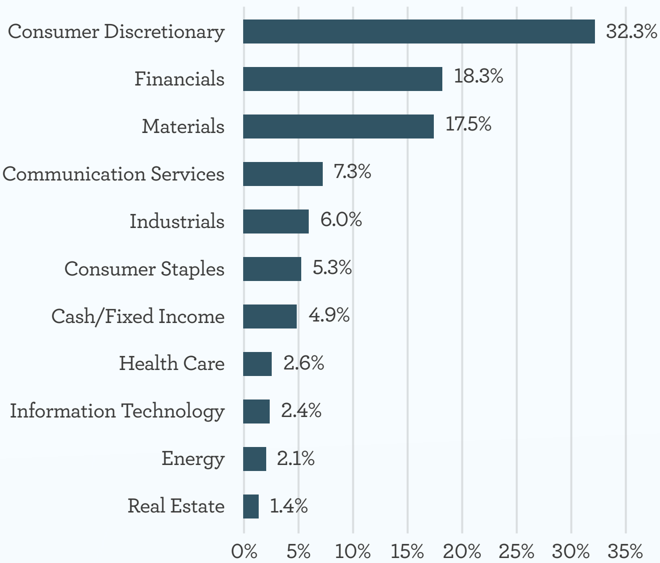
We believe these are high quality companies demonstrated by their strong balance sheets and capable management and therefore are poised for future growth in the mid to long-term.

The below table shows global companies in the PIC portfolio and which company they can be compared to in Australia.

GLOBAL LISTED SECURITY IN PIC PORTFOLIO AS AT 30 SEPTEMBER 2020	AUSTRALIAN COUNTERPART (NOT IN PIC PORTFOLIO)
La Francaise des Jeux SAEM (PAR: FDJ)	Tabcorp Holdings Limited (ASX: TAH)
Ferguson Plc (LON: FERG)	Reece Limited (ASX: REH)
AutoTrader Plc (LON: AUTO)	Carsales.com Ltd (ASX: CAR)
Persimmon Plc (LON: PSN)	Mirvac Group (ASX: MGR) or Stockland Corporation Ltd (ASX: SGP)
CME Group (NASDAQ: CME)	ASX Limited (ASX: ASX)

At Perpetual, we have always followed an investment process that identifies individual stocks (often called "bottom-up" investing) through in-depth research. We look for stocks that meet our four quality filters mentioned above and seek to invest in stocks when we determine them to be attractively valued. We will also consider how the stocks bring diversification benefits to the portfolio across industry sectors and offshore investments. Below is a breakdown of the portfolio by sector.

PORTFOLIO BREAKDOWN BY SECTOR AS AT 30 SEPTEMBER 2020



TOP HOLDINGS AS AT 30 SEPTEMBER 2020

AUSTRALIAN LISTED SECURITIES	PORTFOLIO WEIGHT
Crown Resorts Limited (ASX: CWN)	5.2%
Iluka Resources Limited (ASX: ILU)	5.0%
AUB Group Limited (ASX: AUB)	4.4%
Aristocrat Leisure Limited (ASX: ALL)	4.3%
Boral Limited (ASX: BLD)	4.2%

GLOBAL LISTED SECURITIES	PORTFOLIO WEIGHT
Flutter Entertainment Plc (LON: FLTR)	9.6%
La Francaise des Jeux SAEM (PAR: FDJ)	6.3%
Ferguson Plc (LON: FERG)	3.3%

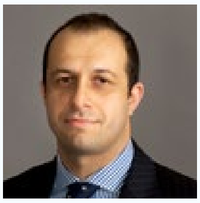
HOW FRANKING CREDITS ARE GENERATED FOR THE PORTFOLIO

As Manager, we share the same focus as the PIC Board on the Company's franking credit balance. We regularly monitor the tax position of the portfolio and maximising the franking credit balance is an important consideration when managing the portfolio.

We seek to identify numerous opportunities throughout the year to generate franking credits through realised gains in the trading portfolio. We are confident that the Company's investment strategy provides the flexibility to look for these opportunities in Australia and globally throughout the year.

Thank you for your continued support and I look forward to providing you updates in the future.

Yours sincerely,



Vince Pezzullo
Portfolio Manager

Perpetual