

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

SHAREHOLDER
REPORT
OCTOBER 2021

CHAIRMAN'S REPORT

Dear Fellow Shareholders,

Thank you for your ongoing support of the Perpetual Equity Investment Company ('Company' or 'PIC').

The past financial year (FY21) has been one of considerable activity, providing shareholders with strong investment outperformance, consistent fully franked dividends, and the opportunity to participate in the potential growth of the Company through a capital raising.

FY21 RESULTS

On Friday 20 August 2021, the Company announced its full year results for FY21. The Company posted a net operating profit after tax of \$108.4 million and an operating profit before tax of \$152.9 million. This represented a record financial year profit for the Company since listing on the ASX in 2014.

The Board also declared a fully franked final dividend of 2.8 cents per share, bringing the total dividend for FY21 of 5.6 cents per share fully franked. This represented an annual dividend yield of 4.3% and a grossed up dividend yield of 6.2%¹.

The Board's proactive capital management approach aims to strike an appropriate balance of providing income to shareholders, while maintaining profit reserves and franking credits for the future payment of dividends.

Importantly, the Board remains committed to paying a dividend to shareholders twice a year, fully franked or to the maximum extent possible.

The Board is delighted with the Company's results and in its ability to deliver these strong outcomes for our shareholders.

INVESTMENT PERFORMANCE AND TOTAL SHAREHOLDER RETURN

The Board remains committed to the Company's investment objective to provide investors with an income stream and long-term capital growth in excess of the benchmark (the S&P/ASX 300 Accumulation Index) over minimum 5 year investment periods. Underpinning this commitment is the Company's relationship with Perpetual Investment Management Limited (the Manager, Perpetual), one of Australia's most experienced fund managers.

By remaining focused on its disciplined and active investment approach, the Manager has been able to generate strong investment performance for PIC shareholders.

Over FY21, the Company's investment portfolio generated a return of 42.4%, outperforming the benchmark by 13.9%². In addition, the Company achieved total shareholder return of 51.2%, outperforming the benchmark by 22.7% over the 12 months to 30 June 2021³.

We continue to be encouraged by the position and outlook for the PIC portfolio and look forward to providing you with regular investment updates.

SHARE PURCHASE PLAN AND ONE-FOR-ONE BONUS ISSUE OF OPTIONS

In June 2021, and as market conditions afforded the Manager with numerous potential investment opportunities, the Company and Board announced a Share Purchase Plan (SPP) and one-for-one bonus issue of options (Options), believing it an appropriate time to grow the size of the Company, for the benefit of all our shareholders. Under the SPP, eligible shareholders were able to participate in the potential growth of the Company via allocation of PIC shares at a 2.5% discount to the closing PIC share price on the SPP record date, incurring no brokerage and no transaction costs.

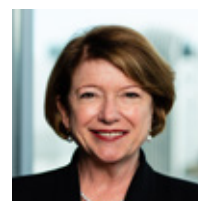
The SPP received strong support from eligible shareholders raising just over \$30 million and resulting in the issue of approximately 23.6 million new fully paid ordinary shares. This brought the Company's market capitalisation as at 30 June 2021 to \$485 million. The Board would like to thank all shareholders who participated in the SPP. All eligible directors also participated in the SPP.

In addition to the SPP, eligible shareholders also received, at no cost, PIC Options under the one-for-one bonus issue. The Company's Options commenced trading on the ASX on 30 June 2021 under the ASX code PICOA. The exercise price of the Options is \$1.35.

The Options provide a further opportunity for shareholders to participate in the potential growth of the Company. They deliver value to shareholders, providing the ability to purchase additional shares at a fixed exercise price while incurring no brokerage or transaction costs. The Options can be exercised by Option holders at any time up until the expiry date of 2 September 2022. Once exercised, issued shares will have the same voting rights, dividend rights and other entitlements as existing shares at the time of issue. Option holders may also sell their Options on the ASX at any time up until the expiry date, potentially providing additional value to shareholders.

The Board and the Manager always strive to deliver exceptional 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 8.0 cents per share (taking franking credits into account) and the closing share price of \$1.30 as at 30 June 2021.
- 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 Total shareholder return for the 12 months to 30 June 2021. Source: FactSet; Performance presented in AUD, based on the ASX share price assuming reinvestment of dividends on the ex-date.

Perpetual

PORTFOLIO MANAGER'S REPORT

ABOUT PIC

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

The investment strategy of the Company is to create a concentrated and actively managed portfolio of Australian and global securities, typically with a mid-cap bias.

While the portfolio typically has between 20 – 40 securities, we focus on diversifying the portfolio across industry sectors and via offshore investments.

INVESTMENT GUIDELINES TYPICALLY 20 – 40 SECURITIES

50% - 100% AUSTRALIAN LISTED SECURITIES

We typically have a mid-cap bias; this refers to our 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 does not have a consistent capitalisation bias; these will typically be larger and more liquid than comparable Australian entities.

0% - 25% CASH

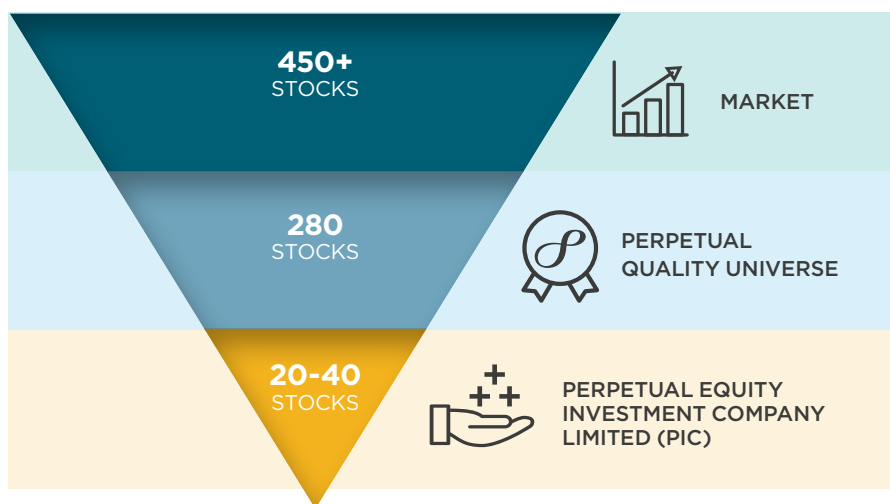
Our active management style means we have the flexibility to vary the portfolio's exposure to manage downside risk and deploy cash where we are presented with compelling and attractive opportunities.

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 a bottom-up, in-depth research process, each stock is ranked 1 to 5. However, to promote conviction in recommendations, our equity team are not permitted to rate a stock 3 (hold).

- 1. Strong overweight** – substantial outperformance
- 2. Overweight** – strong performance
- 3. Weight** – fair 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 equity 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 bottom-up, 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

As the Manager, we actively seek opportunities across domestic and global markets, following our stringent bottom-up investment process. By conducting in-depth research, and through the application of our four-quality filters, we are able to quickly identify when companies that meet our criteria begin to trade at what we believe are attractive valuations. This, together with the Company's flexible investment strategy, allows us to opportunistically position the portfolio to benefit through market cycles, and provides flexibility and potential for outperformance, as seen by the FY21 PIC portfolio results.

Over the 12 months to 31 August 2021, and in line with our active management, the portfolio's turnover across listed securities was 44%. PIC moved nimbly, acquiring new stocks throughout the year, selling others, and as the broad growth to value stock rotation took shape, we added to, and reduced pre-existing positions.

We believe that active professional management combined with a flexible investment strategy can prove beneficial in times of market volatility, and as unexpected trends come to light.

PORTFOLIO POSITION

The Board's proactive and timely decision to increase the maximum allowable allocation to global listed securities from 25% to 35% in March 2020, provided us with more flexibility to take high conviction positions in offshore opportunities. This benefited portfolio performance over FY21, where particularly in the first half of FY21, the portfolio consistently held more than 25% in global listed securities. This contributed to benchmark outperformance for FY21, with both La Francaise De Jeux (PAR: FDJ) and Flutter Entertainment Plc (LON: FLTR) being the top overall contributors to portfolio performance.

As at 31 August 2021, the PIC portfolio held 35 listed securities, diversified across a number of markets, sectors and industries. In line with the Company's investment strategy, the majority of the portfolio is held in Australian listed securities at 70.6%, with 23.8% allocated to global listed securities, and 5.6% allocated to cash.

PORTFOLIO OUTLOOK⁴

While COVID-19 and protracted lockdowns have hindered the re-opening of the Australian economy, foreign markets have re-opened to a greater extent, providing, in our view, a number of global opportunities, and compelling value when measured to their Australian listed peers. We continue to position the portfolio with companies that we believe provide structural advantage (relative to their peers), value and the potential for realistic future growth. FDJ in particular holds a competitive advantage, operating its French lotteries business under a 25-year monopoly licence, and has 45% market share in the French sports betting market. Combined with the structural shift to online business, and through the digital penetration of lotteries, we believe FDJ provides a strong potential for earnings growth.

We also see attractive structural opportunities, both inside and beyond the digital / technology space. As an example, during FY22, we have taken a position in ICON Plc (NAS: ICLR), a global healthcare organisation undergoing a merger transaction with PRA Health Science. ICON Plc provides outsourced clinical trial services to pharmaceutical, biotech and medical device companies. As a combined entity with PRA Health Science, they provide comprehensive mobile health technology for managing decentralised trials, essential during COVID-19. We consider this structural change a path forward for the industry, providing an attractive opportunity for the portfolio, especially when acquired at what we believe is a discounted valuation.

In FY21, the portfolio benefited significantly from its exposure to the cyclical Materials sector as demonstrated by our top domestic contributors OZ Minerals (ASX: OZL), an Australian mining company with a focus on copper, and Iluka Resources Limited (ASX: ILU), an Australian mineral sands producer with a potential rare earth business. We believe that as China's rate of urbanisation increases, demand for mineral resources such as Copper, Nickel and rare earth will likely increase, and our FY22 outlook for the Materials sector remains positive. Copper also forms a significant component of emerging electric vehicles, while rare earth plays an essential role in the shift to clean energy and decarbonisation.

Combined with China's dominance in rare earth mining and refining, and supply side constraints in the form of declining grades at the major global copper mines, we find this market compelling, and continue to position the portfolio accordingly. This includes the recent FY22 addition of Jervois Global Limited (ASX: JRV), a battery minerals company with significant nickel and copper exposure, refinery assets and growth opportunities. We also believe the Materials sector (e.g. metals) provides the portfolio with inflation protection, as rising commodity prices incorporate rising inflation. Typically with rising inflation, the strength of the US dollar, in our view, would negate the benefits of an inflation hedge that some commodities can provide. However, this cycle has the added factor of new demand from electrification and a broad based capital discipline within the mining sector to pursue value over volume. This has left many commodities under-supplied, and in an environment with the potential for persistent inflation, we believe the Materials sector exposure is a prudent approach.

I would like to thank you for your continued support, and I look forward to providing you with updates in the future.

Yours sincerely,



Vince Pezzullo
Portfolio Manager

⁴ As at 31 August 2021.

PIC PORTFOLIO POSITION – 31 AUGUST 2021

TOP HOLDINGS

AUSTRALIAN LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Crown Resorts Limited (ASX: CWN)	5.6%
PWR Holdings Ltd. (ASX: PWH)	4.5%
Commonwealth Bank of Australia (ASX: CBA)	4.4%
Westpac Banking Corporation (ASX: WBC)	3.9%
Oil Search Limited (ASX: OSH)	3.9%

GLOBAL LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Flutter Entertainment Plc (LON: FLTR)	5.9%
La Francaise des Jeux SAEM (PAR: FDJ)	4.1%
Scientific Games Corporation (NAS: SGMS)	3.3%

INVESTMENT PERFORMANCE

AS AT 31 AUGUST 2021	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS P.A.	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio Net of fees, expenses and before tax paid	4.6%	6.4%	18.6%	40.0%	22.0%	14.6%	13.3%	12.0%
S&P/ASX 300 Acc Index	2.6%	6.1%	15.1%	28.6%	10.6%	10.1%	11.1%	10.2%
Excess Returns	2.0%	0.3%	3.5%	11.4%	11.4%	4.5%	2.2%	1.8%

Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on unrealised gains and losses are excluded. Past performance is not indicative of future performance. Inception date is 18 December 2014. Portfolio and Index return may not sum to Excess Return due to rounding.

FULL YEAR 2021 RESULTS OVERVIEW

DELIVERING A RECORD PROFIT AND FULLY FRANKED DIVIDEND STREAM

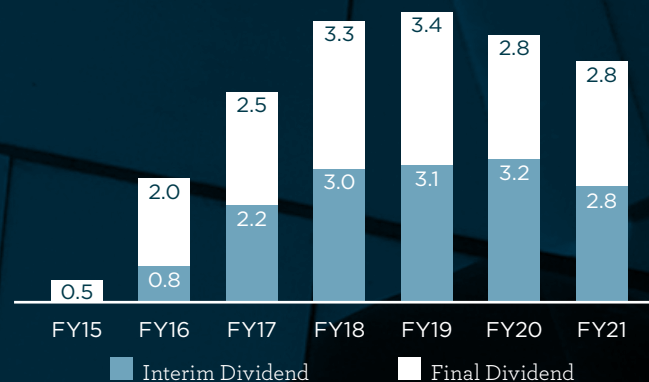
FULLY FRANKED FINAL DIVIDEND

2.8 cps

GROSSED UP ANNUAL DIVIDEND YIELD

6.2%*

DIVIDENDS IN CENTS PER SHARE (CPS)



Source: Perpetual Equity Investment Company Limited (PIC) as at 30 June 2021.

* Based on the total grossed up dividends of 8.0 cents per share (taking franking credits into account) and the closing share price of \$1.30 as at 30 June 2021.

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