



PERPETUAL
EQUITY
INVESTMENT
COMPANY

1H19 RESULTS INVESTOR UPDATE

SIX MONTHS TO 31 DECEMBER 2018

13 March 2019

IMPORTANT NOTE

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YOUR PRESENTERS



DAVID LANE

Group Executive,
Perpetual Investments and
Executive Director, PIC



VINCE PEZZULLO

Deputy Head of Equities,
Perpetual Investments and
Portfolio Manager, PIC

AGENDA

- | Company Update
- | Markets, Process And Performance
- | Questions



PERPETUAL
EQUITY
INVESTMENT
COMPANY

COMPANY UPDATE

RESULT HIGHLIGHTS

INVESTING FOR INCOME AND LONG-TERM CAPITAL GROWTH

PIC: MANAGER WITH PROVEN TRACK RECORD



Actively managed by
Perpetual investment
professionals



Concentrated
20 – 40 stock
portfolio



Ability to access high quality
Australian and global listed
securities (typically mid-cap)



Benchmark
and sector
unaware

INVESTMENT OBJECTIVES

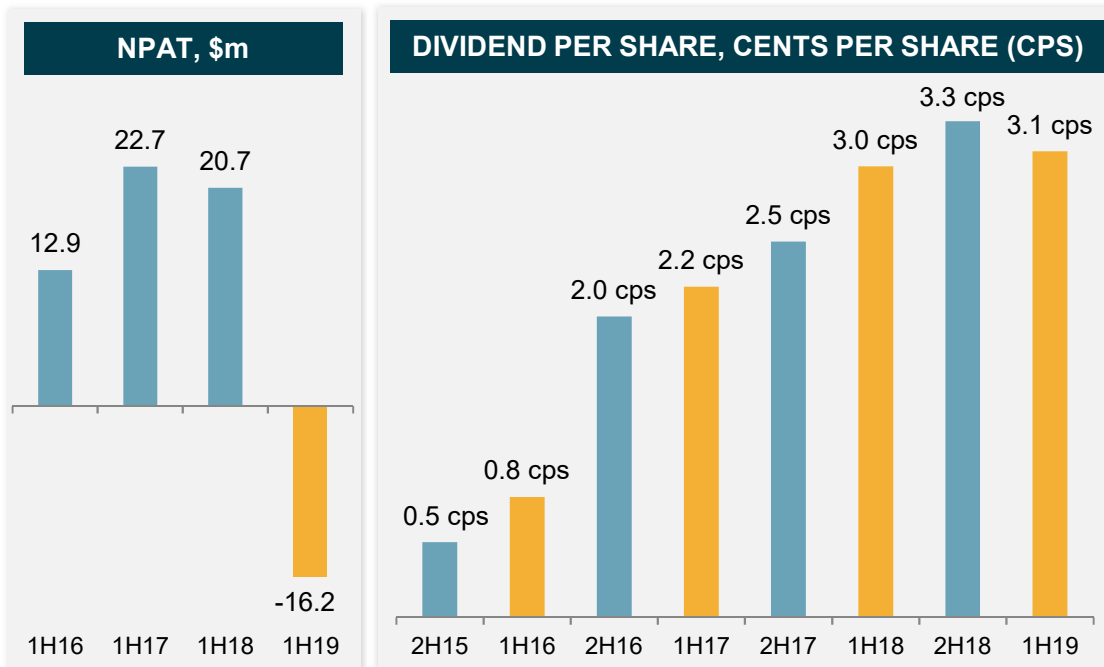
- Deliver a growing income stream
- Provide long term capital growth
- Exceed its benchmark

PORTFOLIO MANAGER – VINCE PEZZULLO

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

1H19 RESULTS OVERVIEW

INCREASED INTERIM DIVIDEND



3.1 cps
Fully franked
interim
dividend

8.45%*
Gross dividend
yield taking
franking credits
into account

\$1.045
Share price
as at
31 Dec 2018

\$1.055^
Net tangible assets
after tax per share
as at 31 Dec 2018

Source: Perpetual Equity Investment Company Limited (PIC) as at 31 December 2018.

*Based on a grossed up dividend of 8.8 cents per share, and the closing share price of \$1.045 on 31 December 2018.

^ 'After tax' refers to tax paid and provisions for deferred tax on set-up costs and on unrealised gains and losses in the company's investment portfolio

Past performance is not indicative of future performance.

CAPITAL RAISING

FULL OFFER AMOUNT RAISED & FULLY INVESTED

ENTITLEMENT OFFER

An offer to eligible Shareholders to participate in a non-renounceable pro rata Entitlement Offer of 1 New Share for every 4 Existing Shares owned.

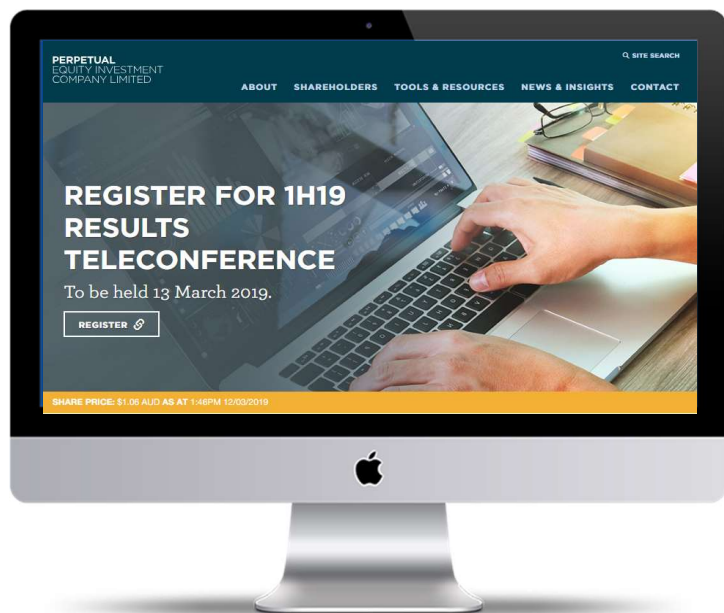
Strong support was received from existing shareholders with the Entitlement Offer & Top Up Facility raising approximately **\$44.8 million**.

GENERAL OFFER & SHORTFALL OFFER

An offer to the general public to purchase New Shares and an offer of the shortfall to eligible Shareholders who wish to apply for additional New Shares and the general public.

The General Offer was full subscribed raising **\$30 million** and the Shortfall raised **\$26.4 million**.

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MARKETS, PROCESS & PERFORMANCE

PORTFOLIO MANAGER UPDATE

REPORTING SEASON INSIGHTS

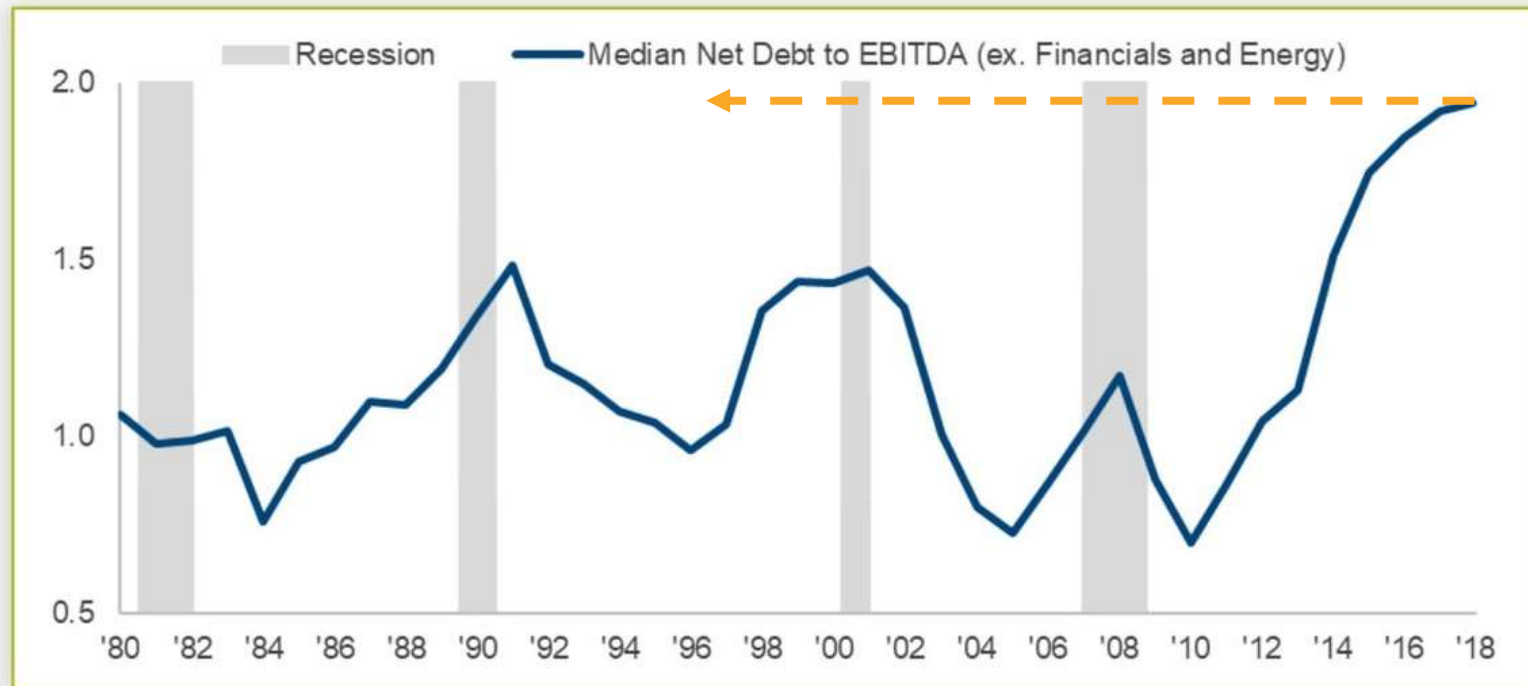
CORPORATE AUSTRALIA DOING IT TOUGH

- Global backdrop challenging alongside local issues:
 - US in 10th year of expansion and tightest labour market in 50 years
 - \$22 trillion public debt plus late cycle fiscal expansion: \$1 trillion
 - Trade war, Brexit & European recession hovering in background
 - Global Market volatility led to Fed turning dovish
 - House prices under challenge
- Very few upgrades / outlooks often challenging
- Inventory levels up 26% post Xmas trading.
- Companies were keen to pay dividends albeit below historical averages, some paid special dividends
- Costs or expenses continue to lift as companies look for growth

CORPORATE DEBT RATIO HIGHEST EVER

THIS NEVER ENDS WELL

Net Leverage of Russell 3000 Companies (Ratio of Net Debt to EBITDA)







US:
unprecedented
debt levels

Source: FactSet as of September 30, 2018

POSITIVE CONTRIBUTORS TO PERFORMANCE

WHAT WORKED

COMPANY	RATIONALE	WHATS HAPPENED?
	<p>Industrial exposure to resources. Undervalued on a sum of the parts basis. The regulated asset base and above rail assets traded at a ~20% discount to global peers with declining risks</p>	<p>The stock rallied post results and as regulatory risks resolved as expected</p>
	<p>High quality gold miner with solid domestic gold assets and AUD cost base. Strong net cash flows likely even in a range of gold price scenarios</p>	<p>Gold prices rallied sharply into year end as investors focused on geopolitical risks, inflation, deficits and Fed policy</p>
	<p>Combination of lotteries and wagering provides uncorrelated cashflows. \$130m+ in synergies still being realised and strong growth in direct online</p>	<p>Strong lotteries business offset intense, but temporary, wagering competition.</p>
	<p>Large cost out program and rationalisation of product offerings is structurally reshaping the business going forward post NBN</p>	<p>Reasonable results combined with Huawei challenges and TPG abandonment of 5G boosts prospects</p>

DETRACTORS FROM PERFORMANCE FINANCIALS

Banks look relatively cheap vs industrials

THE OPPORTUNITY

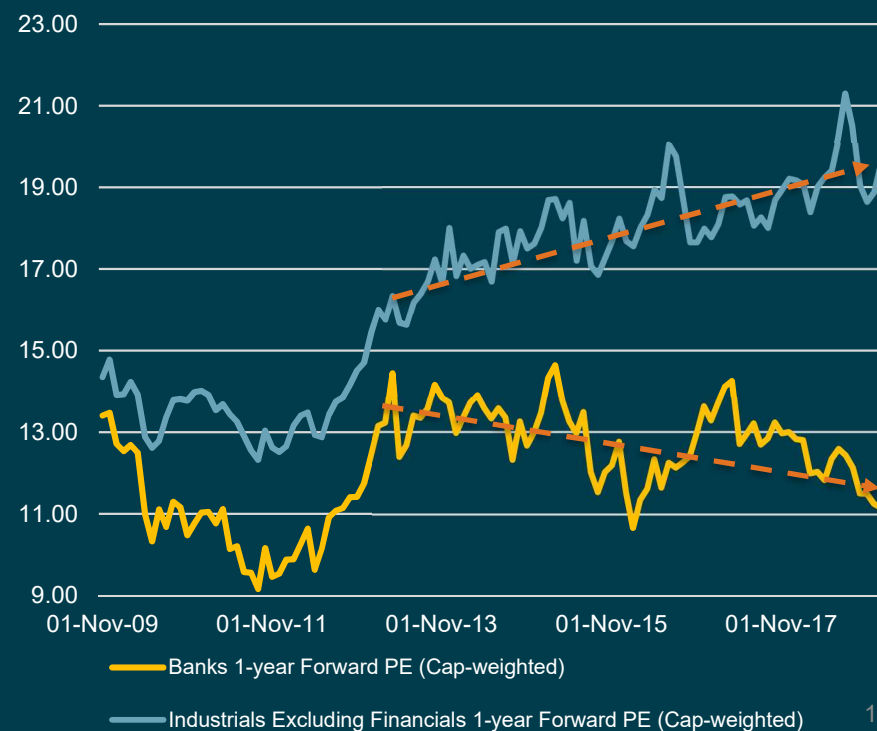
- The Industrials PE has re-rated to 19.6x
- Banks are trading on 11.2x
- Market pricing in dire scenario
- Widest gap since the March 2000

PREFERRED EXPOSURE

- SUN (attractive yield, digitisation program)
- CBA (best deposit base, peak regulatory costs)
- WBC (good relative value, well managed)

Source: Perpetual Investment Management Limited

Banks vs Industrials PERs



OUR INVESTMENT PHILOSOPHY

QUALITY & VALUE FOCUS

OUR FOCUS

1

Quality business

2

Conservative debt

3

Sound management

4

Recurring earnings

THIS MEANS:



We seek quality companies
at attractive valuations



We cautiously
deploy your capital

SOLID EARNINGS: SONIC HEALTHCARE (ASX:SHL)

HIGH QUALITY & GROWING GLOBAL BUSINESS AT NORMAL P/E MULTIPLES



THE OPPORTUNITY

- Aurora Diagnostics:
 - AUD \$750m acquisition to close in 2019
 - Complex anatomical pathology business with 32 practices and ~220 board certified pathologists.
 - Post acquisition US now Sonic's largest contributor to group sales (26%)
 - Sonic also now one of the largest path businesses globally

WHAT WE SEE

- Multiple growth engines:
 - US business was able to grow revenues by 8% vs ~2% for peers in recent results
 - German business temporarily challenged
 - Australian business likely to be immune from cuts regardless of change of govt

Yet stock trades at in line with the ~20x Industrial P/E multiple

MATURING THESIS: SHIRE PLC ACQUIRED BY TAKEDA PHARMACEUTICAL “DEAL OF THE YEAR”: BIOPHARMADIVE

SHIRE PLC (LON:SHP)

- Traded significantly below global peers
- P/E was 9x vs 38x for CSL
- Successful bid by Takeda vindicates value we saw



TAKEDA PHARMACEUTICALS (TYO:4502)

- \$1.4 billion in synergies post acquisition
- 80% will happen in first year
- \$10b of potential divestitures



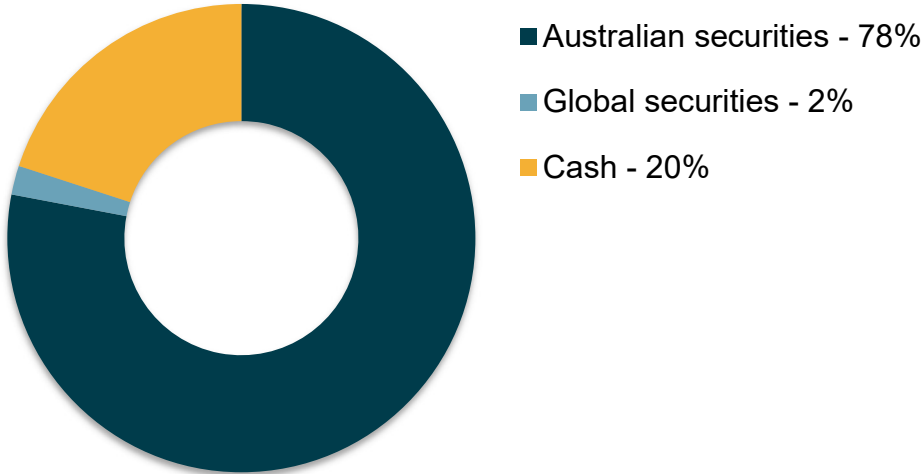
ALLOCATION OF INVESTMENTS

AS AT 31 JANUARY 2019

80% of the Portfolio's capital invested in securities

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

Patient and prudent investment style has rewarded shareholders



Source: Perpetual Equity Investment Company Limited

INVESTMENT PERFORMANCE

AS AT 31 JANUARY 2019

	1 MTH	6 MTHS	1 YR P.A.	3 YRS P.A.	SINCE INCEPTION P.A.
PIC Investment Portfolio ¹ Net of fees, expenses and <u>before tax paid</u>	1.8%	-6.2%	-2.0%	7.4%	7.0%
S&P/ASX 300 Accumulation Index	3.9%	-4.7%	1.1%	10%	7.5%
Excess Returns	-2.1%	-1.5%	-3.1%	-2.7%	-0.5%

¹Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on 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.

Source: Perpetual Equity Investment Company Limited

PORTFOLIO POSITIONING

TOP 10 STOCKS AS AT 31 JANUARY 2019



CommonwealthBank

ASX:CBA



ASX:WBC



ASX:SUN



ASX:EVN



ASX:TLS



Woolworths

ASX:WOW



ASX:SGR



ASX:TAH



ASX:SHL



ASX:MPL



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QUESTIONS
