

**PERPETUAL**  
EQUITY  
INVESTMENT  
COMPANY  
LIMITED

Perpetual Equity Investment  
Company Limited  
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14 October 2021

ASX Limited  
ASX Market Announcements Office  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

**Perpetual Equity Investment Company Limited**  
**Monthly Investment Update and NTA Report**

Perpetual Equity Investment Company Limited (the Company) (ASX: PIC) advises that it has released the Monthly Investment Update and NTA Report (the Report) for the period ending 30 September 2021 (as attached).

If shareholders or other interested parties have any queries regarding the Report, they can contact:

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Perpetual Investment Management Limited  
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Yours faithfully



Sylvie Dimarco  
Company Secretary  
(Authorising Officer)

# INVESTMENT UPDATE AND NTA REPORT

September 2021

## PORTFOLIO SNAPSHOT

### NET TANGIBLE ASSET (NTA) BACKING PER SHARE

AS AT 30 SEPTEMBER 2021	AMOUNT
NTA after tax	\$1.330
NTA before tax	\$1.401

Daily NTA is available at [www.perpetualequity.com.au](http://www.perpetualequity.com.au)

All figures are unaudited and approximate.

The before and after tax numbers relate to provisions for deferred tax on capital raising cost and unrealised gains and losses of the Company's investment portfolio. The NTA figures above have been reduced by a provision for the 2.8 cents per share final dividend that was declared on 20 August 2021. The ex date for the final dividend was 28 September 2021 and the payment date is 20 October 2021.

NTA figures are calculated as at the end of day on the last business day of the month.

### KEY ASX INFORMATION

#### AS AT 30 SEPTEMBER 2021

ASX Code:	PIC
Structure:	Listed Investment Company
Listing Date:	18 December 2014
Market Capitalisation:	\$476 million
Share Price:	\$1.275
Shares on Issue:	373,553,609
Dividends:	Half-yearly
Management Fee	1.00% p.a.*
Manager	Perpetual Investment Management Limited

\* exclusive of GST

## INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 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	0.9%	5.5%	14.9%	42.4%	21.4%	15.2%	13.8%	12.0%
Net of fees, expenses and before tax paid								
S&P/ASX 300 Acc Index	-1.9%	1.8%	10.4%	30.9%	8.5%	9.9%	10.5%	9.7%
Excess Returns	2.8%	3.7%	4.4%	11.6%	12.9%	5.3%	3.2%	2.2%

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. Inception date is 18 December 2014. Portfolio and Index return may not sum to Excess Return due to rounding.

## TOP SECURITIES

### TOP 5 AUSTRALIAN LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Oil Search Limited	6.0%
Crown Resorts Limited	5.7%
Commonwealth Bank of Australia	4.5%
PWR Holdings Ltd.	4.3%
Westpac Banking Corporation	4.1%

### TOP 3 GLOBAL LISTED SECURITIES

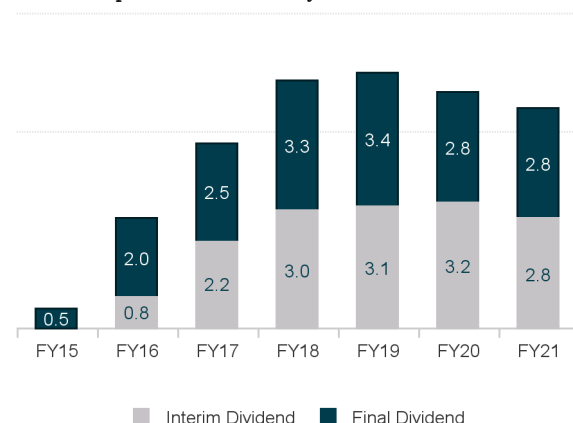
COMPANY	PORTFOLIO WEIGHT
Flutter Entertainment Plc	5.4%
La Francaise des Jeux SA	4.1%
Ferguson Plc	3.5%

Portfolio weight based on direct investments in securities and does not include any derivative exposure

## DIVIDENDS IN CENTS PER SHARE

Annual dividend yield: 4.4%

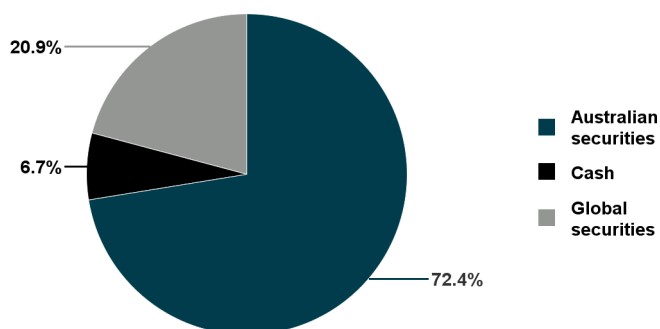
Grossed up annual dividend yield: 6.3%



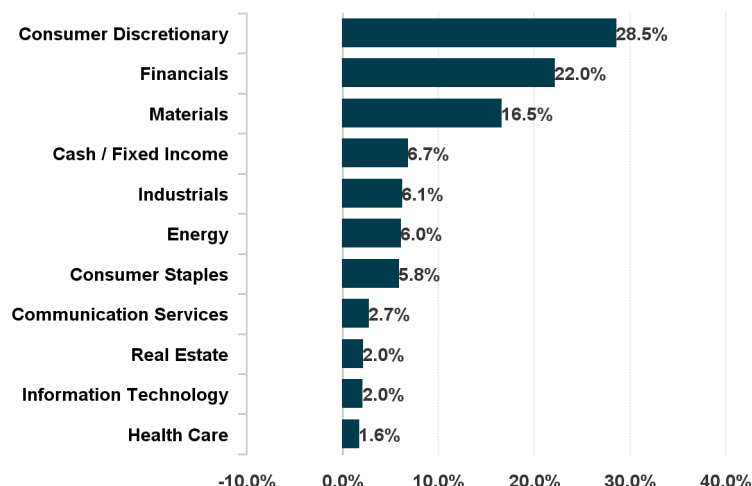
Yield is calculated based on the total dividends of 5.6 cents per share and the closing share price of \$1.275 as at 30 September 2021. Grossed up yield takes into account franking credits at a tax rate of 30%.

## ALLOCATION OF INVESTMENTS<sup>^</sup>

93.3% of capital invested in securities



## PORTFOLIO SECTORS<sup>^</sup>



<sup>^</sup>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. Allocations may not sum to 100% due to rounding.

## PORTFOLIO COMMENTARY

A number of factors combined in September to weigh on market sentiment, leading the S&P/ASX 300 Accumulation Index to decline -1.9%. COVID-19 lockdowns continued to take their toll, with the August employment report (released in September) showing 146,300 fewer people employed during the month and a drop in the labour market participation rate<sup>1</sup>. An ongoing crackdown on steel and property markets in China saw iron ore prices continue to fall, dropping from US \$159 per tonne on 31 August, to US \$117 on 20 September, and ending the month of September at US \$120. This was nearly half the near US \$220 a tonne peak set in July<sup>2</sup>. The continued shift in government policy in China toward “Common Prosperity” and the Evergrande refinancing crisis also weighed on these sectors as investors speculated on the impact to commodity demand. Many countries have also been affected by shortages in energy and other products, highlighting the ongoing dislocations in the global system from COVID-19 and the risk of “transitory inflation” becoming more entrenched and persistent. 10-year bond yields continued their upward trend, with the Australian 10-year bond yield rising from approximately 1.2% to 1.5% during the month<sup>3</sup>, reflecting the rising concerns about the inflation outlook. Rising bond yields, in the Manager’s view, also reduced the perceived value of future equity market earnings, weighing on expensive growth sectors such as those in the technology sector.

For the 12 months to 30 September 2021, the PIC portfolio outperformed the S&P / ASX 300 Accumulation Index (the benchmark) by 11.6% and outperformed the benchmark for the month of September by 2.8%\*\*<sup>4</sup>. The top contributors to portfolio performance in September were Oil Search Limited (ASX: OSH) and Scientific Games Corporation (NAS: SGMS). On the domestic front, the share price for OSH (referred to below), rallied on the back of rising energy prices, climbing from \$3.72 on 20 September to end the month at \$4.39<sup>4</sup>. Abroad, SGMS benefited from what the Manager sees as the on-going structural shift to digital online entertainment, with SGMS providing online gaming and lottery technologies. SGMS is a new position for PIC in FY22 and has been one of the top contributors to the portfolio’s performance for the 3 months to 30 September.

For the month of September, the largest detractors to the portfolio’s performance were BHP Group Limited (ASX: BHP) and Iluka Resources Limited (ASX: ILU). As news of the Evergrande refinancing crisis surfaced, and more broadly, the fallout from within the Chinese economy, companies reliant on supplying demand for commodities (e.g. Iron Ore and Titanium) faced strong headwinds. However, the Manager is of the view that a broad-based capital trend within the mining sector to pursue value over volume has left many commodities under-supplied. As such, the Manager remains confident in the position of the portfolio.

Below, the Manager discusses in more detail the investment thesis for specific stocks in the PIC portfolio and the research undertaken by the broader equities team to support PIC Portfolio Manager Vince Pezzullo’s stock selection. Senior Equities Analyst, Clarke Wilkins discusses his views on Oil Search Limited (ASX: OSH) and its recent performance, while Equities Analyst, James Rutledge discusses his views on Persimmon Plc (LON: PSN) and Ferguson Plc (LON: FERG), and the rationale for the change in PIC’s global exposure.

\*\* 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 returns may not sum to Excess Return due to rounding.

<sup>1</sup> Source: Australian Bureau of Statistics. [Labour Force, Australia, August 2021 | Australian Bureau of Statistics \(abs.gov.au\)](https://abs.gov.au)

<sup>2</sup> Iron Ore 62% Fe, CFR China. Source: Factset.

<sup>3</sup> Source: Factset.

<sup>4</sup> Source: ASX.

## OIL SEARCH (ASX: OSH) (SENIOR EQUITIES ANALYST - CLARKE WILKINS).

Oil Search (ASX: OSH) is an oil and gas resource company with 98% of its exploration, development, and production assets in Papua New Guinea (PNG). Oil Search operates all of PNG's oil producing fields and holds a 29% interest in the ExxonMobil operated PNG Liquefied Natural Gas (LNG) Project, exporting LNG to major markets in Asia.

In September 2021, OSH and Santos Limited (ASX: STO) announced their plans to merge, with a potential change of control through STO's majority stake in OSH. Although due diligence is currently in-flight, the key driver of OSH's performance during September was the strong appreciation in energy prices due to an emerging global energy crunch. Oil prices (Brent crude) have pushed through US\$80/BBL<sup>5</sup>, thermal coal prices have hit US\$250/tonne<sup>6</sup>, while spot LNG prices have rocketed to >US\$35/MMBTU<sup>7</sup>. This is quite a turnaround considering prices bottomed at US\$2/MMBTU during the height of the COVID-19 pandemic in 2020. For oil, demand is recovering post COVID-19 and is almost back to the pre-COVID-19 levels. With the return of mobility and aviation in certain parts of the world still hindered through on-going restrictions, demand is likely to increase further. In LNG/gas markets, European storage is historically low going into winter, and China has been increasing imports due to a shortage of electricity (coal shortages). Similarly, Brazil has been forced to increase imports of LNG due to the lack of hydro-generation.

With new oil and LNG supply delayed due to the turmoil in markets over the last couple of years, combined with increasing Environmental Social and Governance (ESG) and capital discipline pressures on producers, we anticipate a period of cyclically higher energy prices. In our view, this puts OSH in a favourable position as an oil producer, and factoring in the risk associated with ESG, we believe our position in OSH will materially benefit the portfolio. OSH have also initiated an Energy Transition review, with targets to reach net zero by 2050, and reduce emissions by 30% by 2030 and have a positive PNG social and health impact via the Oil Search Foundation. The Manager maintains a favourable view of OSH and as at 30 September, OSH represented 6% of the PIC portfolio.

## PORTFOLIO STOCK UPDATE - PERSIMMON Plc (LON: PSN) AND FERGUSON Plc (LON: FERG) (EQUITIES ANALYST - JAMES RUTLEDGE)

Persimmon Plc (LON: PSN) is one of the leading UK housebuilders, serving the local market across the UK. During September, we exited PIC's holding in PSN, utilising the sale proceeds to increase the portfolio's position in Ferguson Plc (LON: FERG).

While the Manager continues to view PSN and the strategy of the new CEO in a positive light, UK house price growth expectations have started to moderate. Combined with a pullback in new buyer enquiries, we believe this points to more subdued price growth in the coming months. Additionally, we see evidence of increased competition in some of PSN's focus areas which may see growth above the market challenging. Consequently, we believe there is greater upside in alternative positions, and as such, have increased our position in FERG.

FERG is the world's leading value-added distributor of plumbing and heating products, with listings both in the UK (LON: FERG) and US (NYS: FERG). In September 2021, FERG reported what we viewed as excellent full year results, with accelerated growth throughout the year, with over 23% like for like US revenue growth reported in the fourth quarter<sup>8</sup>. For the year ending 31 July 2021, US organic revenue growth was +12.8%, comparing favourably to its Australian listed peer Reece Limited (ASX: REH), which reported revenue growth of +9.5% for the 12 months ending 30 June<sup>9</sup>. In the Manager's view, the current valuation of FERG provides an attractive alternative opportunity, trading at what we see as 19 times its earning per share when compared to the 35 times for REH. As at 30 September, FERG represented 3.5% of the PIC portfolio.

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<sup>5</sup> BBL: Oil Carrying Barrel.

<sup>6</sup> Source: Factset.

<sup>7</sup> MMBTU: Metric Million British Thermal Unit. 1 MMBtu = 28.263682 m<sup>3</sup> of natural gas at defined temperature and pressure.

<sup>8</sup> Source: Factset.

<sup>9</sup> Source: Factset.

## COMPANY NEWS

### ANNUAL GENERAL MEETING (AGM) AND INVESTMENT MANAGER UPDATE

The AGM and Investment Manager Update will be broadcast live via an online event on Thursday 21 October 2021 at 2pm (Sydney time). Shareholders will be able to fully participate and have the ability to ask questions and vote live during the meeting. The Notice of Meeting is available on the Company's [website](#).

Shareholders and other interested parties are encouraged to register for the Investment Manager Update and pre-submit their questions. Click [here](#) to register now.

### BONUS ISSUE OF OPTIONS

On 29 June 2021, all eligible shareholders received their allotment of the one-for-one issue of bonus Options which the Company had [announced](#) on 2 June 2021. The Options are trading on the ASX, under the ASX code PICOA.

PIC Options provide holders with the opportunity to acquire a PIC ordinary share for \$1.35 (exercise price) per Option before the expiry date of 2 September 2022. The Options [Prospectus](#) should be read carefully and in its entirety before you decide whether to deal in or exercise the Options. Further information on the Options, including the Prospectus and Options Exercise Form is available [here](#).

### SHAREHOLDER COMMUNICATIONS

The [PIC website](#) hosts a range of information including Monthly Investment Updates, Portfolio Manager insights, dividend history and educational resources. The [News and Insights section](#) of the website also includes the ability for you to subscribe to receive regular updates via email.

### REMINDER: TAX CERTIFICATION COMPLETION

Under the Australian Government's participation in Automatic Exchange of Information (AEOI) regimes, PIC is required to collect FATCA/CRS certification information and an investor's tax residency from shareholders. The information in certain circumstances may be reported to the Australian Taxation Office (ATO) which in turn reports to various global tax authorities.

Please check that you have completed your FATCA/CRS certification by logging into the Link investor portal [here](#).

From there, under the Payments & Tax tab you will find 'FATCA/CRS', where you can fill in the Self Certification. Completing this information online is straightforward as the questions will guide you, and in some instances, it is only a couple of steps.

If you do not certify, PIC may be required to provide information about your account to the ATO. For more information on the self-certification process via Link please click [here](#). For further information on FATCA and CRS, please visit [here](#).



## INVESTMENT PHILOSOPHY

### INVESTMENT OBJECTIVE

The investment objective of the Company is to provide investors with an 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.

### INVESTMENT STRATEGY

The Company's investment strategy is to create a concentrated and actively managed portfolio of Australian securities with typically a mid-cap focus and global listed securities. The Company will typically hold 20 to 40 securities.

50% - 100%	Australian listed securities
0% - 35%	Global listed securities
0% - 25%	Cash

The Manager typically expects that the portfolio will be unhedged. Currency exposures may be hedged defensively where the Manager sees significant risk of currency weakness, but no attempt is made to add value to the portfolio by actively managing currency.

Derivatives are permitted (see Section 3.7 of the Replacement Prospectus dated 14 October 2014)

### ABOUT THE MANAGER

The Company's investment portfolio is managed by Perpetual Investment Management Limited, part of the Perpetual Group, whose consistent track record of investing excellence is underpinned by its proven investment process that focuses on value and quality.

### PORTFOLIO MANAGER

Vince Pezzullo  
Perpetual Asset Management Australia  
Vince has over 25 years' experience in the financial services industry, and has prior global experience as both an analyst and a portfolio manager. Vince leverages the expertise of Perpetual Asset Management Australia's Equity team, one of the largest investment teams in Australia.

## PERPETUAL KEY CONTACTS

### INVESTOR RELATIONS

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This monthly report has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. PIML is the investment manager of the Perpetual Equity Investment Company Limited (Company) ACN 601 406 419. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. This information does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of the Company's securities. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. References to securities in this publication are for illustrative purposes only and are not recommendations and the securities may or may not be currently held by the Company. Past performance is not indicative of future performance. This information is believed to be accurate at the time of compilation and is provided in good faith. No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) nor the Company guarantees the performance of the Company or the return of an investor's capital.

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