PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

INVESTMENT UPDATE AND NTA REPORT

JULY 2017

PORTFOLIO SNAPSHOT

NET TANGIBLE ASSET (NTA) BACKING PER SHARE[1]

AS AT 31 JULY 2017	AMOUNT
NTA before tax [2]	$1.105
NTA after tax [2]	$1.097

Daily NTA is available at www.perpetualequity.com.au

[1]All figures are unaudited and approximate.

[2]The before and after tax numbers relate to provisions for deferred tax on set-up costs and on unrealised gains and losses in the Company's investment portfolio.

KEY ASX INFORMATION

AS AT 31 JULY 2017

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: $268.568 million

Share price: $1.06

Shares on issue: 253,366,220

INVESTMENT PERFORMANCE

AS AT 31 JULY 2017	1 MTH	3 MTHS	6 MTHS	1 YRS P.A.	2 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio[3] Net of fees, expenses and before tax paid (New calculation see page 2)	-0.1%	-0.4%	4.0%	10.7%	7.9%	8.6%
PIC Investment Portfolio[4] Net of fees, expenses and after tax paid (Old calculation see page 2)	-0.2%	-1.3%	2.1%	7.4%	6.0%	7.1%
S&P/ASX 300 Acc Index	0.0%	-2.5%	3.9%	7.0%	4.9%	8.3%

[3]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. [4] Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees and any tax on income or realised gains) and assuming reinvestment of dividends. Past performance is not indicative of future performance. Inception date is 18 December 2014.

TOP SECURITIES

TOP 5 AUSTRALIAN SECURITIES

COMPANY	PORTFOLIO WEIGHT
Westpac Banking Corp	9.3%
Woolworths Ltd	8.1%
Star Entertainment Group Ltd	5.8%
CYBG PLC	5.2%
Bapcor Ltd	4.8%

TOP 3 GLOBAL SECURITIES

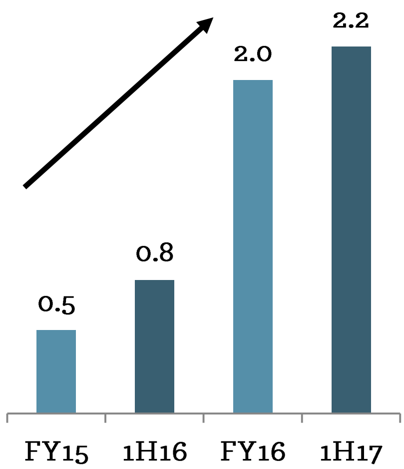
COMPANY	PORTFOLIO WEIGHT
AXA SA	5.4%
Shire PLC	4.9%
ING Group NV	4.2%

DIVIDEND PER SHARE, CPS

FY17 interim dividend: 2.2 cents per share

Annual dividend yield: 3.96% [5]

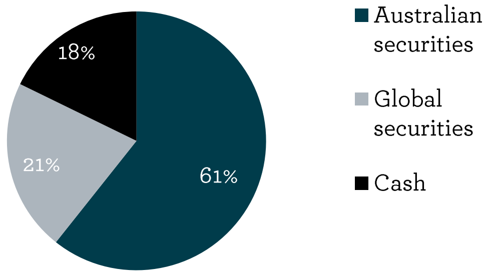
Grossed up annual dividend yield: 5.66%[5]



[5] Yield is calculated using the 31 July 2017 share price of $1.06. Grossed up yield takes franking credits into account.

ALLOCATION OF INVESTMENTS

82% of capital invested in securities.



PERFORMANCE REPORTING

Please note the change to the way we report investment performance in the table on page 1. Moving forward the Company will report investment returns net of fees and expenses but before tax paid. We believe this provides a more accurate reflection of investment performance as tax paid by the Company generates franking credits, which may ultimately be to the benefit of shareholders through franked dividends. The Company will continue to disclose the NTA daily to provide transparency to shareholders.

PORTFOLIO COMMENTARY

The Portfolio performance net of fees and expenses was -0.1% in July. The portfolio underperformed the benchmark S&P/ASX300 Accumulation Index, which was flat at 0.0% . Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 8.6% per annum net of fees and expenses.

During the month, the Australian Healthcare and Utilities sectors both experienced large declines, but since PIC has no exposure to these sectors this assisted PIC's relative performance. The Materials sector was the strongest performer, which impacted relative performance of the portfolio negatively given the underweight exposure. The portfolio continued to hold elevated levels of cash. Markets have performed well over the last 12 months, and given the significant changes that have occurred both at an economic and political level the market performance is even more impressive. Markets do have a tendency to move between states of **fearing the future** where there is no justification for being in markets (usually coincides with market bottoms) to believing that **risk is easily measured and controlled** whereby the fear of missing out is all encompassing (correlations with a market top is typically quite high).

When considering measures of risk there are several indicators that the Manager looks at to give an indication of attitudes towards risk. One such measure is the CBOE Volatility Index or VIX index, which is a measure of implied volatilities based on a number of S&P 500 index options. Some market participants' believe the VIX index reflects the risk in the market at a point in time – in the Manager's opinion this is incorrect. The Manager thinks it reflects what people believe is the current risk in the market and it becomes self-fulfilling. As markets climb the VIX index usually falls, as investors believe that risk is falling. In fact, it is the Manager's opinion, that investors should be thinking quite the opposite, and this is why observing the valuation you are paying to gain access to a company's future dividends and cash flow is the best indication of the risk you are taking on to earn that return.

We can observe behaviour of investors by looking at the current valuations that the market is willing to pay to gain access to a company's future dividends and cash flows. Below is a chart supplied by Goldman Sachs, which shows the beta (a measure of volatility or systemic risk of a company) for "low volatility" companies. Typically "low volatility " stocks have historically had lower levels of market risk. The chart indicates that the market has pushed up the prices of what are considered "low volatility" stocks to a point where if you purchase these companies today you are taking on close to market risk or materially higher risk than has historically been the case. A sample of the stocks included in this "low volatility" basket are listed below –

Telstra, Transurban, Scentre Group , CBA , Stockland, GPT, NAB, ANZ, Westpac, APA, Mirvac, Spark Infrastructure, Suncorp, Investa Office Fund, CSL.

The 'systematic' risk of 'Low Vol' stocks sits at a 20-year high
Average Beta (4-yr vs ASX 200) of 'Low' Volatility stocks.

Source: Goldman Sachs Global Investment Research, FactSet, IRESS, I/B/E/S

These companies tend to have low volatility in earnings and cashflow. Due to low interest rates the market has pushed the valuations of these companies up to a point whereby any change to expectations of interest rate changes may lead to a material change in the value of these companies. Analysis of the balance sheets of these companies shows that quite a few of them have significant levels of financial leverage. This is in part due to a market environment over the last 10 years where interest rates have been extremely low and real rates have been negative. As long as interest rates do not rise these valuations may be justifiable. However many central bankers, from the Federal Reserve to the European Central Bank to the Bank of England have been "jawboning" about unwinding the asset purchases that have occurred over the last ten years which will place upward pressure on the long end of the interest rate yield curve. Even the Reserve Bank of Australia has been talking about a neutral interest rate setting for Australia, which will be approximately 3.5%, materially above current levels.

What the Manager takes away from this is that firstly and most importantly be aware of what price/valuation you are paying to get access to a company's future cash flows/dividend stream. Secondly, the valuation that other investors are willing to pay can tell you critical information about the risk appetite of the market. The above example has shown that "low risk/low volatility" companies have had their valuations pushed up to levels whereby investors may be taking on a lot more risk than they think.

The Manager remains focused on identifying quality companies with conservative debt levels that are trading at attractive valuations.

STOCK NEWS

A recent addition to the portfolio is Shire PLC (GB:SHP). Founded in 1986, Shire is a high quality healthcare company focused on developing and marketing innovative medicines for rare diseases. Shire has become a market leader in rare disease solutions through a series of acquisitions, the most recent of which was Baxalta for US$32 billion in January 2016.

Shire has exposure to seven therapeutic areas: neuroscience, genetic disease, haematology, immunology, ophthalmology, internal medicine and oncology. The Manager is particularly attracted to Shire's immunoglobulin (plasma) business, which is a strong growth area for the company. In the last quarter, Shire grew its intravenous immunoglobulin (IVIg) business by 19% year-on-year, and IVIg now represents approximately 30% of group sales. It is the Manager's opinion that the market underappreciates the IVIg business and is overly concerned with the risk of increased competition from competitor products. The Manager believes the market has overreacted to this risk, and that the current market price implies that Shire's haemophilia business sales may halve in the near term – an assumption we believe is overly bearish, based on the Manager's analysis.

Shire's other franchises are performing solidly, and the company recently reported a pleasing 2Q 2017 result – beating consensus at both the revenue and operating profit line. Shire has minimal patent expiry risk and a number of new potential revenue products coming to market over the next 3 years. Shire is expected to grow earnings at a compound average growth rate of 8% over the next 3 years, and has historically generated significant free cash flow. In the last quarter, Shire generated $1.1 billion in free cash flow, which it used to pay down debt by $880 million.

The Manager believes that Shire is attractively priced trading on a forward P/E multiple of 10.9x. By comparison, Australian-listed peer CSL Ltd (ASX:CSL) trades on a forecast P/E of 33x. On a sum of the parts basis, the Manager believes there is value in Shire at the current price. As at 31 July, 4.9% of the portfolio was held in Shire.

MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, finished flat over the month (+0.0%). Despite strong performance from the mining and banking sectors over the month, the market was weighted down by Industrial stocks, particularly healthcare which struggled as a sharp rise in the Australian dollar took its toll on stocks with large overseas exposures. The mining sector led the market, boosted by solid Q2 results and a bounce-back in commodity prices, particularly iron ore and crude following strengthening Chinese economic data and a weaker US dollar. The banking sector outperformed over the month on the back of APRA's revised capital requirements, obliging the major banks to maintain at least a 10.5% Common Equity Tier 1 ratio. The market responded positively to this result, as the requirement was seen as less onerous than initially anticipated. Retail sales figures were stronger than expected, assisting retail stocks to close the month higher despite the underperformance of the broader consumer discretionary sector.

The Australian market underperformed most markets in local currency terms, though outperforming in US dollar terms given the rally in the Australian dollar. The AUD finished stronger against most major currencies, exceeding US$0.80 for the first time in two years on the back of upbeat Chinese manufacturing data and broad based USD weakness following policymaking dysfunction in Washington. The MSCI world index closed the month higher, led by the Asian and emerging markets. The S&P500, NASDAQ and Dow Jones indices all reached a record high, whilst volatility fell to its lowest since 1993 following solid US corporate reporting and a positive economic outlook announced by the Fed.

The best performing sectors for the month were materials (+3.5%), financials (+1.3%) and Consumer staples (+1.0%). The worst performers were healthcare (-7.5%), utilities (-5.3%) and telecommunications services (-4.2%). As a whole, industrial stocks (-0.9%) underperformed resource stocks (+4.9%) and large cap stocks (+0.2%) underperformed small cap stocks (+0.3%).

COMPANY NEWS

ANNUAL RESULTS ANNOUNCED 21 AUGUST 2017

The Company will announce its annual results for the financial year to 30 June 2017 on Monday 21 August 2017.

INVESTMENT PHILOSOPHY

INVESTMENT OBJECTIVE

The investment objective of the Company is to provide investors with a growing 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 provide investors with the opportunity to invest in an actively managed portfolio and to gain access to the investment management experience and expertise of the Manager.

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 Investments
Vince has over 20 years' experience in the financial services industry, has outperformed consistently and has prior global experience as both an analyst and a portfolio manager. Vince leverages the expertise of the Perpetual Investments' Equity team, one of the largest investment teams in Australia.

PERPETUAL KEY CONTACTS

NSW

Aaron Russell
Head of Wholesale Business, Perpetual Investments
P: 0403 473 327
E: aaron.russell@perpetual.com.au

VIC/SA/NT/TAS

Daniel Moore
State Manager, Perpetual Investments
P: 0400 032 819
E: daniel.moore@perpetual.com.au

QLD

Tony Harte
State Manager, Perpetual Investments
P: 0407 708 109
E: tony.harte@perpetual.com.au

WA

Tim McCallum
State Manager, Perpetual Investments
P: 0411 209 403
E: tim.mccallum@perpetual.com.au

INVESTOR RELATIONS

Anne Rozenauers
P: 02 9229 3528
E: anne.rozenauers@perpetual.com.au

CONTACT DETAILS

Investor queries: Telephone: +61 1800 421 712
Mailing address: Link Market Services,
Locked Bag A14, Sydney South, NSW 1235
Email: pic@linkmarketservices.com.au

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