

# INVESTMENT UPDATE AND NTA REPORT

## August 2017

### PORTFOLIO SNAPSHOT

#### NET TANGIBLE ASSET (NTA) BACKING PER SHARE<sup>1</sup>

AS AT 31 AUGUST 2017	AMOUNT
NTA before tax <sup>2,3</sup>	\$1.093
NTA after tax <sup>2,3</sup>	\$1.083

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

<sup>1</sup>All figures are unaudited and approximate.

<sup>2</sup>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.

<sup>3</sup>All figures include an accounting provision for the final dividend that was declared on 21 August 2017 and will continue to be recognised until payment on September 8<sup>th</sup>

### KEY ASX INFORMATION

#### AS AT 31 AUGUST 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 AUGUST 2017	1 MTH	3 MTHS	6 MTHS	1 YRS P.A.	2 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio <sup>4</sup> Net of fees, expenses and before tax paid	1.27%	1.20%	6.00%	9.94%	9.55%	8.81%
S&P/ASX 300 Acc Index	0.75%	0.99%	2.43%	9.54%	9.60%	8.34%
Excess Returns	<b>+0.52%</b>	<b>+0.22%</b>	<b>+3.57%</b>	<b>+0.40%</b>	<b>-0.06%</b>	<b>+0.47%</b>

<sup>4</sup>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. Past performance is not indicative of future performance. Inception date is 18 December 2014.

### TOP SECURITIES

#### TOP 5 AUSTRALIAN LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Woolworths Ltd	7.59%
Westpac Banking Corp	6.45%
Star Entertainment Group Ltd	6.03%
CYBG PLC	5.47%
Alumina Ltd	4.92%

#### TOP 3 GLOBAL LISTED SECURITIES

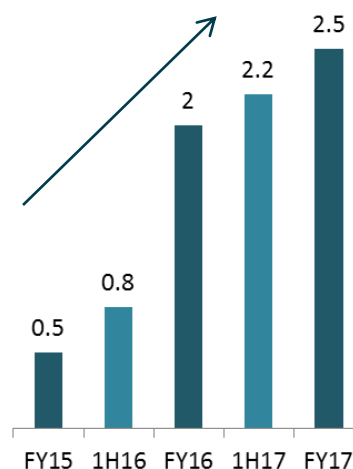
COMPANY	PORTFOLIO WEIGHT
Shire PLC	6.51%
AXA SA	5.38%
Bank of America Corp	3.96%

### DIVIDEND PER SHARE, CPS

FY17 final dividend: 2.5 cents per share

Annual dividend yield: 4.43%<sup>5</sup>

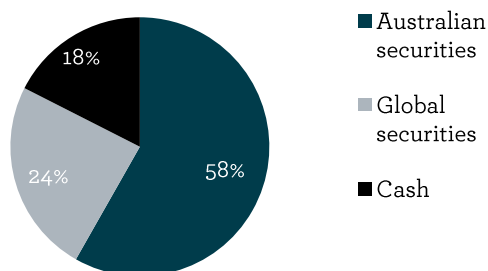
Grossed up annual dividend yield: 6.32%<sup>5</sup>



<sup>5</sup> Yield is calculated using the 31 August 2017 share price of \$1.06. Grossed up yield takes franking credits into account.

## ALLOCATION OF INVESTMENTS

82% of capital invested in securities.



## PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was 1.27% in August. The portfolio outperformed the benchmark S&P/ASX300 Accumulation Index, which returned 0.75%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 8.81% per annum net of fees and expenses.

During the month, the Telecommunication Services and Financials (ex-Property) sectors experienced the largest declines. Key contributors to this under performance were Telstra and CBA. PIC has no exposure to these securities and this assisted PIC's relative performance.

The portfolio's overweight positions in Alumina, Clydesdale and Medibank also assisted returns.

The Energy sector was the strongest performer over the month. The portfolio held an underweight position to the sector, which detracted from relative performance.

The portfolio continued to hold elevated levels of cash, which detracted from performance relative to benchmark.

## STOCK NEWS

Medibank is one of Australia's largest private health insurers, with a current market share of approximately 27%. As at 31 August 2017 the portfolio's allocation to Medibank was 3.89%. The portfolio built a position in the second half of 2016 when concerns about rising claims costs and management change resulted in valuations the Manager believes were attractive.

The Manager took the view that through scale and investment in technology, Medibank would be able to keep claims inflation to manageable levels. By leveraging data, Medibank has improved hospital contracting and lowered levels of fraudulent and excessive claims. As a result, margins have proven to be more resilient than was feared at the time.

The Manager believes, further opportunities exist from initiatives such as vertical integration into rehabilitation, where significant savings are possible without impacting clinical outcomes. Medibank has the flexibility to pursue such opportunities due to their net cash balance sheet and strong capital position.

In recent years, Medibank has given up some market share to competitors, and turning this around is a priority for management. The focus has been on improving customer service levels and enhancing policyholder benefits. The Manager sees positive signs in Medibank's FY17 result and believes they support the view that Medibank's turnaround is on track.

## MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, finished slightly higher (+0.75%) for the month. Reporting season preoccupied the market throughout August as most companies announced their full FY17 earnings. Results were, for the most part, lacklustre and FY18 earnings guidance was generally disappointing across most sectors. General themes that emerged were declining payout ratios, rising capital expenditure and increasing cost pressures. The standouts from reporting season included Flight Centre and Orora, while the laggards were BlueScope Steel, Dominos, Healthscope and Telstra.

Economic data released during August provided a buffer for the market, as business confidence and employment figures strengthened, whilst growth in housing prices continued and construction rose at a higher-than-expected rate. The RBA left interest rates on hold and retail sales grew for the third consecutive month. Mining stocks finished stronger, backed by stronger commodity prices as base metals rallied following global economic optimism, supply constraints and a weakening US dollar. Iron ore, coal and steel prices climbed following China's call to temporarily reduce steel production in an attempt to improve air quality. Gold rallied on the back of 'risk-off' buying triggered by North Korea's recent missile tests, while oil prices slumped despite the impact of Hurricane Harvey on Texas oil refineries.

Global markets were generally mixed, with emerging markets and China being the standout performers. The S&P 500 finished slightly ahead (+0.31%) following firm economic activity and low inflation, though performance was dampened later in the month from concerns over North Korea, ongoing political battles in Washington, and from the potential costs caused by Hurricane Harvey. The Australian dollar remained stable while the US dollar lost ground against most major currencies on the back of ongoing political tensions. The Euro strengthened on improved investor confidence in the Eurozone, while weakening confidence in the British economy amidst continued Brexit negotiations took its toll on the Pound.

The best performing sectors for the month were energy (+5.18%), consumer staples (+5.17%) and industrials (+4.57%).

The worst performers were telecommunication services (-7.20%), financials (-2.12%) and consumer discretionary (-1.54%). As a whole, industrial stocks (-0.19%) underperformed resource stocks (+5.41%) and large cap stocks (+0.50%) underperformed small cap stocks (+2.71%).

## COMPANY NEWS

### PIC ANNOUNCES 2017 FULL YEAR RESULTS

Disciplined investing has seen PIC deliver strong full year results. During August, PIC announced a 2.5cents per share fully franked final dividend for FY17 taking total dividends declared for FY17 to 4.7 cents per share fully franked. PIC also announced a \$31.8 million net profit for the year ending 30 June 2017, a 318% increase on FY16. [Full result highlights.](#)

## 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

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