PERPETUAL
EQUITY
INVESTMENT
COMPANY
LIMITED

ACN 601 406 419

INVESTMENT UPDATE AND NTA REPORT
September 2017

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

AS AT 30 SEPTEMBER 2017	AMOUNT
NTA before tax [2]	$1.112
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 30 SEPTEMBER 2017

ASX code: PIC
Listing date: 18 December 2014
Market capitalisation: $269.077 million
Share price: $1.06
Shares on issue: 253,845,980

INVESTMENT PERFORMANCE

AS AT 30 SEPTEMBER 2017	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	2 YRS P.A.	SINCE INCEP P.A.
PIC Investment Portfolio[3] Net of fees, expenses and before tax paid	1.72%	2.96%	5.03%	13.12%	11.66%	9.21%
S&P/ASX 300 Acc Index	0.04%	0.80%	-0.78%	9.02%	11.22%	8.10%
Excess Returns	**+1.69%**	**+2.16%**	**+5.82%**	**+4.11%**	**+0.44%**	**+1.11%**

[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. Past performance is not indicative of future performance. Inception date is 18 December 2014.

TOP SECURITIES
TOP 5 AUSTRALIAN LISTED SECURITIES

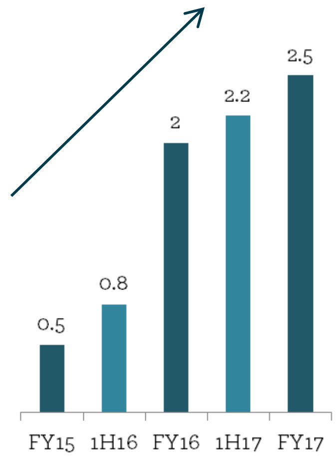
COMPANY	PORTFOLIO WEIGHT
Woolworths Ltd	8.43%
Westpac Banking Corp	6.18%
Star Entertainment Group Ltd	5.97%
CYBG PLC	5.52%
Alumina Ltd	5.01%

TOP 3 GLOBAL LISTED SECURITIES

COMPANY	PORTFOLIO WEIGHT
Shire PLC	6.80%
AXA SA	5.57%
Bank of America Corp	4.16%

DIVIDEND PER SHARE, CPS

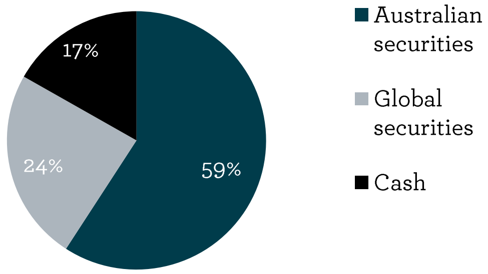
FY17 final dividend: 2.5 cents per share
Annual dividend yield: 4.43%[4]
Grossed up annual dividend yield: 6.32%[4]



[4] Yield is calculated using the 30 September 2017 share price of $1.06. Grossed up yield takes franking credits into account.

ALLOCATION OF INVESTMENTS

83% of capital invested in securities.



INVESTOR UPDATE AND ANNUAL GENERAL MEETING 2017

We value the opportunity to meet with shareholders and PIC is pleased to invite you to attend our national investor update.

The events offer an excellent opportunity to hear directly from the Portfolio Manager, Vince Pezzullo, on current market conditions, performance and profile some of the individual Australian and global securities held in the portfolio.

The dates and locations are in the table below. To register to attend one of the sessions, please use the following REGISTER NOW link or visit www.perpetualequity.com.au

Importantly, the Sydney Investor Update will coincide with our third **Annual General Meeting on 2 November 2017** at Perpetual's Sydney office at 2.00pm.

DATE	LOCATION
2 November 2.00pm to conclude by 4.00pm **(Annual General Meeting & Update)**	SYDNEY Perpetual Offices, Angel Place Level 18, 123 Pitt Street, Sydney
15 November 10.15am for 10.30am, to conclude by 11.30am	ADELAIDE Perpetual Offices Level 11, 101 Grenfell Street, Adelaide
16 November 10.15am for 10.30am, to conclude by 11.30am	PERTH Perpetual Offices, Exchange Tower Level 29, 2 The Esplanade, Perth
21 November 10.15am for 10.30am, to conclude by 11.30am	BRISBANE Perpetual Offices, Central Plaza 1 Level 15, 345 Queen Street, Brisbane
29 November 10.15am for 10.30am, to conclude by 11.30am	MELBOURNE Perpetual Offices, Rialto South Tower Level 36, 525 Collins Street, Melbourne

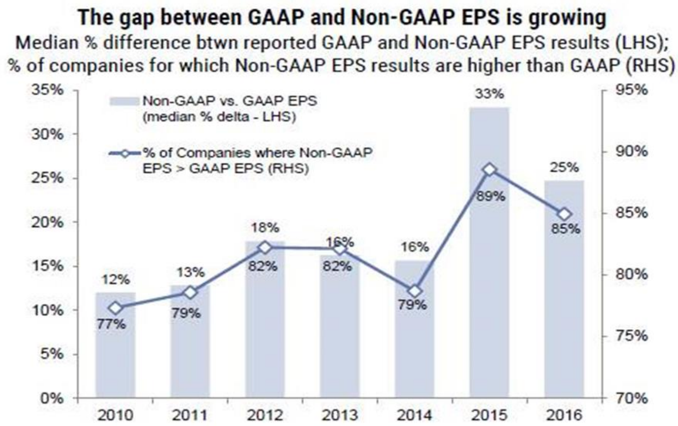
PORTFOLIO MANAGER INSIGHTS

THE GAP IN GAAP

The Australian stock market has entered the ninth year of a bull market. After an extended bull market corporate margins tend to peak, sales growth becomes harder to achieve, cost out plans start to cut into the bones of businesses and the risk of underinvestment tends to increase. One other feature is that the difference between the accounting earnings and cash earnings tends to increase.

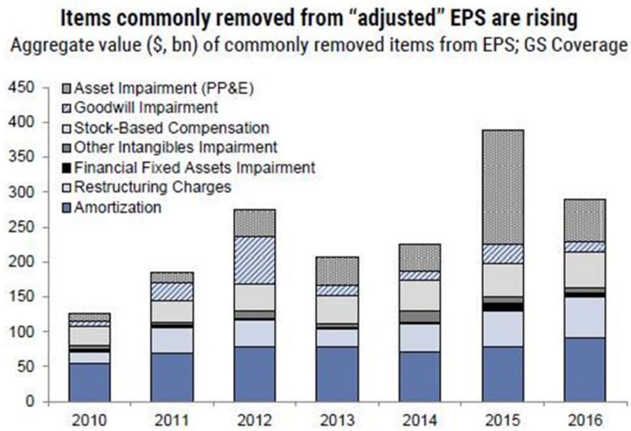
The difference in accounting earnings and cash earnings arises as management attempts to compensate for declining earnings growth by adjusting earnings measurement. In these conditions it is more important than ever for investors to fully understand the true nature of a company's earnings.

Below there are two charts that highlight this fact. What we see is the difference between the GAAP (generally accepted accounting principles) and Non-GAAP earnings, typically Non-GAAP earnings are above GAAP earnings, which on many occasions is what affects the CEO's remuneration targets. As can be seen from the chart the gap between Non-GAAP and GAAP has gone from 12% in 2010 to approximately 25% in 2016 and the number of companies where there is such a difference has gone from 77% to 85%.



Source: Goldman Sachs Global Investment Research

A majority of the companies now "adjust" their earnings for what is not considered ongoing or recurring costs, but that we believe are necessary costs and should be included in reported earnings. We can look at what contributes to the "gap in GAAP" in the chart below.



Source: Goldman Sachs Global Investment Research

Amortisation is a large contributor to adjusted earnings. This could reflect intellectual property being amortised or customer lists being written down. This should be considered an ongoing cost which will need to be replaced and therefore should be included in earnings. Restructuring charges are also a large adjustment that we feel should always be in the reported earnings as this is a normal part of business and reflects cost of doing business. Some companies take the costs out of their reported earnings for "realigning the business " but take most of the benefits into their reported earnings, again this leads to overstating the true earnings of the business.

The other large item is the magical stock based compensation or what we prefer to call wages by another name. This has historically been a tool used by start-up and tech companies to keep the cash expense of wages out of the P & L and to somewhat overstate the operating earnings of the business, without having to adjust the EPS impact for the dilution of all these pieces of paper that may be issued. While we are all for staff and employee ownership of companies as it aligns interests between shareholders and employees, companies should be treating this as a real cost of business and deducting the impact of this from earnings.

And lastly, the other adjustment is the asset impairment taken typically by new management, clearing away the errors of previous management at no cost to them or the board, but at great expense to shareholders. We always look at the history of companies and their propensity to write off assets. Some companies have written down significant amounts of book value over the decades. This reflects the poor decision making of the management and understates the true capital expenditure and costs of maintaining the business.

The preceding discussion highlights the potential complexity behind reported earnings. Investors need to ensure that when they look at an earnings multiple they always ascertain what "earnings" are being presented, is it a GAAP earnings number which fully reflects the full costs of management decisions or is it a Non-GAAP number where investors may only be receiving the part of the picture that management and the board want to portray.

PORTFOLIO COMMENTARY

The portfolio performance net of fees and expenses was 1.72% in September. The portfolio outperformed the benchmark S&P/ASX300 Accumulation Index, which returned 0.04%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 9.21% per annum net of fees and expenses.

During the month the defensive sectors of Utilities and Telcos were the worst performers, weighed down by rising bond yields. PIC is underweight both these sectors, which assisted PIC's relative performance. Healthcare was the best performing sector, and PIC's overweight to this sector contributed positively to relative performance

The PIC portfolio's overweight positions in Clydesdale, AXA, Bank of America and Shire PLC all assisted returns. The portfolio continued to hold elevated levels of cash, which contributed positively to relative performance this month.

STOCK NEWS

Oil Search(OSH) is a A$10.5bn (market cap) oil & gas company, incorporated in Papua New Guinea but listed in Australia. As at 30 September 2017 the portfolio's allocation to Oil Search was 3.98%.

The Manager took the view that, at the bottom of the oil price cycle, OSH represented a high quality, low risk exposure to the energy sector. OSH is one of the lowest cost producers globally and management has delivered a world class LNG facility in PNG with partner ExxonMobil as operator. LNG remains the clean transition fuel in Asia as an alternative to coal and the demand outlook remains strong while LNG sells under oil linked contracts.

The LNG plant continues to deliver above nameplate capacity volumes increasing profit while reducing unit production costs even further and allowing the company to pay down project finance debt despite the collapse in the oil price. Despite its small size relative to the major oil companies in the joint venture, OSH maintains a critical role given its deep relationship with the PNG Government. While PNG is enjoying a period of political stability following recent elections, government relations will remain a key focus as the country continues to develop and grow through testing financial times.

In addition, the Manager sees significant value upside in OSH over the medium term with sufficient reserves of gas in PNG to allow the company to advance a low-cost brownfield expansion project. Again with world class joint venture partners in ExxonMobil and TOTAL operating, OSH looks set to double its net production over the next 5 years and remains an exciting investment opportunity.

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, finished flat (+0.04%) for the month. Defensive stocks struggled as utilities, the telcos and consumer staples finished in negative territory, weighed down by rising bond yields. The miners also disappointed as most base metals fell during the month with the assistance of a strengthening US dollar. Looming steel production cuts in China, in an attempt to curb pollution, saw the price of iron ore fall by over 20% during September. In contrast, oil prices gained ground following the International Energy Agency's upwards revision of global demand growth for the year, which allowed energy stocks to finish higher. The standout performers for the month included CSR, South32 and Lend Lease, while the laggards included Fortescue Metals Group, Oz Minerals and Evolution Mining.

Domestic economic data released during September was mixed, with employment figures growing stronger than expected and business conditions and consumer confidence also strengthening. However, second quarter real GDP, business confidence and retail sales growth came in weaker than expected. The RBA kept interest rates on hold at 1.5%, mentioning low wage growth, and household debt continuing to pull-away from household income growth. The Australian dollar slid against most major currencies on the back of falling iron ore prices while the US dollar strengthened in reaction to President Trump's proposed corporate tax cuts from 35% to 20%. Hawkish commentary from the Bank of England allowed the Pound to rally sharply.

The MSCI Chinese market gained slightly as industrial profits and production rose, along with manufacturing and retail sales coming in above expectations. The S&P500 rallied on the back of the positive outlook from the Federal Reserve, while the DJ Euro Stoxx 50 Price Index finished ahead following stable inflation figures and increased consumer confidence.

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.

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