

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

KEY ASX INFORMATION

As at 31 October 2016

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$242.639 million

Share price: \$0.96

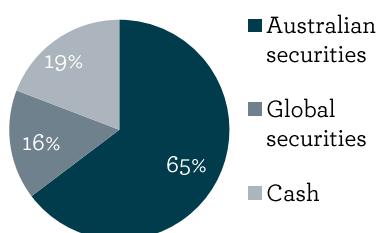
Shares on issue: 252,748,485

OCTOBER 2016 MONTHLY INVESTMENT UPDATE AND NTA REPORT

PORTFOLIO PROFILE

ALLOCATION OF INVESTMENTS

81% of capital invested in securities.



PERFORMANCE

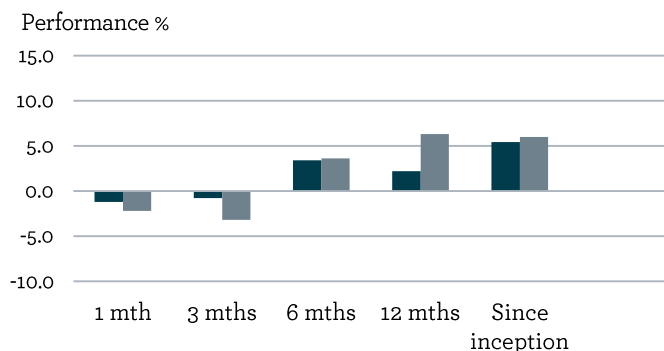
Net of fees, expenses and tax paid

AS AT 31 OCTOBER 2016	1 MTH	3 MTHS	6 MTHS	12 MTHS P.A.	SINCE INCEP P.A.
PIC	-1.2%	-0.8%	3.4%	2.2%	5.4%
S&P/ASX 300 Acc Index	-2.2%	-3.2%	3.6%	6.3%	6.0%
Performance Relative to benchmark	1.0%	2.4%	-0.2%	-4.1%	-0.6%

Inception date is 18 December 2014.

PERFORMANCE - PIC VS BENCHMARK

■ PIC
■ S&P/ASX 300 Accum Index



Returns shown for the Company have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees and any income tax on realised gains) and assuming reinvestment of dividends. 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

PORTFOLIO COMMENTARY

On 9 November 2016, in a surprise result Donald Trump was elected as President of the United States. Whilst it is too early to tell what the long-term implications of a Trump Presidency will be, there is little doubt that global economic uncertainty will increase if his policies are implemented. The Manager invests using Perpetual's disciplined and proven investment process that focuses on companies with strong balance sheets, low levels of debt, sound management and recurring earnings. Typically, quality companies such as these are better placed to ride out market uncertainty. The PIC portfolio was defensively positioned going into the US election with high levels of cash providing protection and the flexibility to take advantage of weakness in markets to acquire quality companies trading at attractive prices. The portfolio has also been positioned for a rising interest rate environment for some time. To learn more about Perpetual's views on the investment implications of President Trump, please click [here](http://www.perpetualequity.com.au/Investor-Centre/?page=Latest-News) or visit our website <http://www.perpetualequity.com.au/Investor-Centre/?page=Latest-News>

The Portfolio performance, as measured by the growth in net assets per share, was -1.2% in October. The portfolio outperformed the benchmark S&P/ASX300, which fell by 2.2%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 5.4% per annum.

Bond yields increased in October putting pressure on stocks exposed to higher interest rates. The Manager has avoided yield stocks, such as property and infrastructure, due to expensive valuations and high levels of debt. The US Election also weighed on markets during October with fears that Trump was closing the gap in the polls adding to overall uncertainty.

A recent global addition to the PIC portfolio has been Deutsche Boerse AG. Deutsche Boerse is a high quality business in the exchange space due in part to its derivative platform Eurex. Eurex has consistently contributed around 45% of the company's income over the past 5 years. The Eurex business is Europe's largest single stock options exchange, equity index derivatives platform, and clearinghouse (Eurex Clearing) as well as trading around 70% of listed and centrally cleared interest rate derivatives.

Perpetual

Sixty percent of Eurex's revenue comes from its European Index and interest rate derivative products, which have strong barriers to entry as Eurex provides the main source of liquidity.

Other functions of the business include operating the German stock exchange, the STOXX and DAX families of indices, the European Energy Exchange, and Clearstream – an International Central Securities Depository providing post-trade infrastructure to 54 markets worldwide with customers in 110 countries. The Manager believes that there are a number of reasons for holding the stock; interest rate leverage, operating leverage, growth initiatives and merger opportunities.

Deutsche Boerse will perform best in an environment of higher interest rates and interest rate volatility, generating \$100m to the bottom line for every 1% increase in global interest rates. They will also benefit from an increase in derivative activity and commercial lending as hedging and speculation volumes increase. The company provides operating leverage to higher volumes with around 75% of the costs of the business being fixed costs and 50% of revenues coming from volume driven sources. Deutsche Boerse has a number of growth initiatives underway including the expansion of their 360T FX trading offering, the European Energy Exchange platform and the STOXX index business.

Deutsche Boerse is in the process of merging with the LSE, subject to regulatory approvals, which will provide them with control over the OTC derivatives market, as well as further aggregation of equity markets and index offerings. Through this and system integration, they are targeting €450m of cost saving synergies and €200m of revenue synergies.

Finally, it is the opinion of the Manager that Deutsche Boerse is currently priced as one of the least expensive exchanges because of uncertainty around the approval of the merger with the LSE and weak volumes in Europe. The current stock price reflects a rejection of the merger and the Manager believes this provides a free option – upside should approval be received and an inexpensive, strong core business should the merger be rejected. Equity markets in Europe are in their sixteenth month of declining volumes, with hedging activity and commercial lending at depressed levels, due to “lower for longer” interest rates. This is cyclical and if interest rate volatility and the likelihood of higher interest rates increases, the Manager believes Deutsche Boerse will offer significant upside. As at 31 October 2016, Deutsche Boerse AG was 3.5% of PIC's portfolio.

MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, fell 2.17% during October. Global equity markets delivered mixed returns over the month, with Japan, Europe and the UK posting gains while most other markets lost ground. While US economic data was generally soft, US quarterly corporate earnings were generally better than expected. Economic data in Europe was strong, while in the UK increasing fears of a ‘hard Brexit’ led to a sharp sell-off in the British Pound against most major currencies. Long-term bond

yields steepened during the month, which led to a subsequent sell-off in ‘bond proxy’ stocks, particularly amongst the healthcare and REITs sectors. Commodity prices were also mixed, with iron ore and coal posting strong gains while oil and gold sold off. The Australian dollar gained ground against most major currencies but closed the month 0.56% lower against the USD.

The best performing sectors for the month were materials (+1.1%), financials ex-property (+0.7%) and energy (-2.0%). The worst performers were health care (-8.1%), property trusts (-7.1%) and information technology (-6.6%). As a whole, industrial stocks (-2.8%) underperformed resource stocks (+1.2%) and large cap stocks (-1.5%) outperformed small cap stocks (-4.7%).

TOP SECURITIES

TOP 5 AUSTRALIAN SECURITIES AS

AT 31 OCTOBER 2016

COMPANY	PORTFOLIO WEIGHT
Woolworths Ltd	12.3%
Suncorp Group Ltd	7.3%
Sky Network Television Ltd	6.4%
CYBG Plc	4.8%
BlueScope Steel Ltd	4.8%

TOP 3 GLOBAL SECURITIES AS

AT 31 OCTOBER 2016

COMPANY	PORTFOLIO WEIGHT
Icon Plc	6.6%
Deutsche Boerse AG	3.5%
Bank of America Corp	2.8%

NET TANGIBLE ASSET (NTA) BACKING PER ORDINARY SHARE ¹

AS AT 31 OCTOBER 2016	AMOUNT
NTA before tax ²	\$1.041
NTA after tax	\$1.037

Daily NTA is available on the website.

¹All figures are unaudited and approximate.

²The 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.

INVESTOR UPDATE AND RESULTS OF THE ANNUAL GENERAL MEETING 2016

Thank you to our shareholders who attended our recent Investor Updates and the Annual General Meeting.

To obtain a copy of the Investor Update presentation, please visit our website (www.perpetualequity.com.au) or [click here](#).

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To obtain the results of the Annual General Meeting please visit our website (www.perpetualequity.com.au) or [click here](#).

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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This monthly report has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535, AFSL 234426 and Perpetual Trustee Company Limited ABN 42 000 001 007 AFSL 236643. 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. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the Company or the return of an investor's capital.

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