

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

2015 ANNUAL
GENERAL MEETING

ADDRESSES TO SHAREHOLDERS

Perpetual 

FY15 ANNUAL GENERAL MEETING

CHAIRMAN'S SPEECH

It is now more than 10 months since we listed the Company on 18 December 2014. We raised more than \$250m from our investors which, at the time, was the largest listed investment company capital raising since the global financial crisis.

This success continued and in our first financial year of operation, we were pleased to announce a net profit after tax of \$3.7m, and annual dividend payment of 0.5 cents per share for the period ended 30 June 2015.

When we launched the Company, we stated the investment objective was to deliver a growing income stream and long-term capital growth in excess of the benchmark, over minimum five-year investment periods. The benchmark is the S&P/ASX300 Accumulation Index.

The dividend payment and profit announcement reflect that we are already making progress in delivering on those objectives. We look forward to continuing to make progress during the years ahead for the benefit of our investors.

Investment strategy

The Company's investment strategy is to hold an actively managed portfolio of typically 20-40 quality securities, underpinned by the Manager's fundamental, in-depth, bottom-up active investment process.

Up to 25% of the portfolio's net asset value can be allocated to global listed securities. The portfolio structure also offers the flexibility to manage potential equity market risk by moving up to 25% of the portfolio's net asset value into cash, deposit products and senior debt. The remaining 50-100% can be invested in Australian listed securities, typically with a mid-cap bias.

Market conditions

During the year, market conditions have been volatile and this has influenced the Manager's decisions to invest the portfolio.

The Manager uses a disciplined investment process focused on value and quality, and has remained true to label throughout the year, patiently deploying capital only when quality companies have been trading at attractive valuations.

This, I trust, outlines the rationale behind the Board's decision in May to grant an extension to the Manager's capital deployment period, to 18 December 2015. There is a clear difference between speculators who react to market volatility, and investors who invest for the long-term and stick to their philosophy throughout the market highs and lows. Perpetual Investments is a long-term investor and we have faith in the Manager's investment process that has been tried and tested through difficult market conditions during many years.

As market conditions have changed and value has emerged, the Manager has responded, and the portfolio is now fully invested. At the end of September the portfolio comprised 64% investment in Australian equities and 20% in global equities. The remaining 16% was in cash.

Shareholders have been rewarded for the Manager's patience in waiting for the right opportunities. As at 30 September the Company had achieved a return of 2.3% on its net tangible assets (NTA) since inception, and outperformed the S&P/ASX300 Accumulation Index benchmark by 1.9%.

Investor insights

In the same way market conditions frequently change, so does investor behaviour. We are here today at the Company's first AGM, and it is worth revisiting why Perpetual launched the Perpetual Equity Investment Company.

We believe investors are increasingly seeking transparent and liquid investments as part of a diversified portfolio. The structure of the Company gives investors direct access to Perpetual Investments' expert investment team. This team has a

consistent track record of superior performance in Australian and global equities. We believe this direct access and transparency appeals particularly to investors using Self-Managed Super Funds (SMSFs).

Transparency of information

It is important in our view for investors to understand the value of what they own. The Company is the first Listed Investment Company in the market to release to the ASX the net tangible asset backing of its shares on a daily basis. This enhances transparency and means every day you will know the Net Tangible Asset value of your investment.

By communicating regularly, we are upholding our commitment to keeping investors informed. In addition to the daily net tangible asset, we publish a monthly report on the 14th of the following month, and we have held Investor Updates across the country. We also provide information on our website and encourage investors to sign up for automatic email alerts.

Positive feedback

We are pleased to have received positive feedback from investors and financial advisers during our first year. We also know that our global equities allocation has been well received; with investors believing they have benefitted from exposure to global companies, they may not have previously had the opportunity to invest in. This reflects the growing interest in global equities as investors recognise the impact of the domestic equities bias in their portfolios. These are typically heavily concentrated in local banks and resources companies. Consequently it is our view investors will be looking to increase diversification in their portfolios in the future.

Looking ahead

As we look ahead to the rest of the 2016 financial year, one of the decisions facing investors in the next six months is whether to exercise their options. Options expire on 10 June 2016. If you are interested in exercising your options today, please collect an options exercise form from outside the room, near where you registered, or contact LINK Market Services whose details can be found on our website. The exercise price for the options is \$1.00 which compared favourably to the net tangible

asset after tax valuation of \$1.037 at the end of October, 581,000 options have already been exercised. We will be in contact closer to the expiry date in June 2016 to provide you with further information.

As I mentioned earlier, we are pleased to have announced a profit and annual dividend payment for the year ended 30 June 2015 and we hope to be able to do the same in 2016. The Board has an objective to pay a regular and growing dividend and it is our intention to pay a fully franked dividend twice per year wherever possible.

Board Matters

In my role as Chairman, I'd like to thank my Board colleagues for their service this year and bid farewell to Michael Gordon. Michael is Group Executive of Perpetual Investments and an Executive Director of Perpetual Equity Investment Company. Michael has announced his retirement from Perpetual Investments and intends to retire from his Executive Director role on the Perpetual Equity Investment Company, sometime in the future. We will update you in due course.

At this AGM we are required to seek shareholder approval for the election of all directors including myself. Later in the meeting I will ask my Board colleagues (myself included) to provide a short overview of their experience so you can make an informed decision when you consider the resolutions to appoint each director to the Board. Further details on each director are provided in the Notice of Meeting for your consideration.

Conclusion

Finally, I'd like to thank the Board, the Manager and our investors for their support and commitment to delivering the 2015 results. We look forward to continuing this success in 2016 and beyond.

FY15 ANNUAL GENERAL MEETING

EXECUTIVE DIRECTOR'S SPEECH

Good afternoon and thank you Mr. Chairman.

It is a pleasure to be able to provide an update to shareholders today as we approach the first anniversary of the listing of the Perpetual Equity Investment Company (PIC).

Company update

The Company reported a Net Profit After Tax (NPAT) of \$3.7m for the period ended 30 June 2015. It is important to bear in mind the Company had not been in operation for a full year. Investment income was \$7.45m comprised of \$3.1m from dividends accrued and received, \$4.3m from realised and unrealised gains, while FX was a small loss. Expenses were \$2.2m largely made up of fees for the Manager, ASX, auditors and directors. This resulted in a Profit Before Income Tax of \$5.2m, with a tax expense of \$1.5m leading to the Net Profit After Tax (NPAT) outcome of \$3.7m. We were pleased to be able to pay an inaugural dividend of 0.5 cent per share for the period. As the Company was invested predominantly in cash for most of the period to 30 June 2015, the income generated by the portfolio was relatively small. The Board remains committed to paying a regular and growing fully franked dividend as stated in our prospectus.

The Company introduced a Dividend Reinvestment Plan with a 2.5% discount during the year which will make the dividend reinvestment process more efficient and easier to administer for shareholders. If you would like to sign up for the Dividend Reinvestment Plan please contact our share registry LINK Market Services.

Company Performance

Importantly, as Peter mentioned, our investment performance has been strong. As at the end of September the Company had delivered 2.3% growth in net tangible assets or NTA versus a benchmark return of 0.4%. The NTA measure tells shareholders what the value of the Company's assets are, at market value. Markets have been volatile recently and if I draw your attention to the six month return, you

can see that in the six months to 30 September, the market fell 12.5%. We are proud of the Company's ability to deliver a small positive return under these circumstances.

Capital Deployment

When the Company listed on 18 December last year, the Manager had three to six months to deploy the Company's capital. As this slide demonstrates, the market, as represented by the benchmark S&P/ASX300 in red on this chart, was very buoyant right from our listing date through to the last week of March. It rose by more than 14% during this period.

Perpetual's disciplined investment process means we look for quality companies trading at attractive prices and at the time, the Manager's view was that the market was looking frothy and overvalued. As a value investor we do not chase markets, preferring to purchase when prices reflect good value. The Board had confidence in the Manager's investment process and in May granted an extension to the capital deployment period. This extension enabled the Manager to remain patient and I am pleased to say market developments have shown that was the right decision.

The light blue on the chart represents our allocation to global stocks, the darker blue is our Australian mid cap exposure and stocks in the Top 20 are in purple. The market, as already noted, is represented by the benchmark S&P/ASX300 Index in red. As you can see the Manager has built our portfolio steadily and has been able to buy into a falling market at attractive prices. We kept our powder dry and were therefore able to protect your capital until the time was right to deploy it.

Investment Philosophy

The Manager, Perpetual Investment Management Limited, is an active, value manager with a bottom-up investment process. Today I would like to go into more detail on the investment process to help shareholders become more familiar with our investment approach.

Perpetual has a proven, disciplined investment process that targets quality companies. To be considered "quality" each company **must** exhibit the following four characteristics:

- ☐ Quality business

- Conservative debt levels
- Sound management, and
- Recurring earnings.

In assessing a quality business, the Manager looks at the markets in which the company operates, its products and their positioning, and any issues such as social and environmental impacts that may impact the future share price of the company. For example, we analyse barriers to entry, the company's industry structure and sources of competitive advantage. We look for businesses with a good and sustainable market share, and assess the quality of the products and brands. We look to see whether the business is cash generative and is able to provide a good return on capital. Companies that pass this test should be viable ongoing concerns from an operational sense irrespective of the economic cycle.

Conservative debt levels is the most quantitative of our four filters. Here we look at debt to equity and interest coverage ratios. We steer away from highly leveraged companies to minimise the risk to investors.

Sound management is based on Perpetual's assessment of the track record of a company's management. We are looking for management with a history of using shareholder's capital sensibly, a clear focus on maximising shareholder value and strong governance practices. We look to see that management is disciplined, delivers on promises, and is overseen by an effective, ethical board of directors.

Finally, we look for companies that have a three year track record of generating earnings, or a demonstrable ability to provide visible earnings in the future. This test also takes account of Environmental, Social and Governance (ESG) risk or opportunities relevant to a company's current and future prospects.

The use of these quality filters has been proven to add value over time by aiming to ensure we avoid highly leveraged companies, poor quality management, untested ideas, conceptual, or start-up stocks.

The Portfolio Manager, Vince Pezzullo, constructs the portfolio using this proven investment process and ensures the portfolio complies with all of the investment guideline limits.

Vince has the benefit of working with one of the largest and most experienced investment teams in the country. Our equities investment team has 21 members. Due to Perpetual's position and relative size, the investment team gains excellent access to company management and market opportunities – a direct benefit for shareholders.

Investment Portfolio

I will now focus in on the portfolio and highlight some of the largest investments.

The Manager recently added Woolworths to the portfolio. Woolworths has an excellent franchise in Food and Liquor, but had been under pressure due to poor management and its Masters hardware business. Woolworths now has a new Chairman, while two directors and the CEO have recently departed. We believe the company is embarking on a new strategy which will include exiting their Masters business.

Caltex is another large position in the Company's portfolio. Caltex is appealing as it is moving away from its traditional oil refinery operations, which is a highly volatile business. It is reinventing itself as a fuel distribution and marketing business which will result in a more stable, predictable earnings profile.

Suncorp is a small regional bank that is already holding sufficient capital to meet the new APRA capital requirements. We like their General Insurance business and think the smaller regional banks will enjoy a relative advantage while the major banks are working through the impact of recent regulation. We are already seeing this with the majors increasing their loan rates during the past few weeks.

Having the ability to take global exposure differentiates the Perpetual Equity Investment Company (PIC) from many of the other pure domestically focused listed investment companies. Shareholders can benefit from access to a wider investment universe.

An example is Bank of America, which has a very large deposit base which we expect will be a benefit when the US Federal Reserve eventually raises interest rates. From a valuation perspective, Bank of America is much cheaper than the four Australian majors. Importantly, US banks like this have already met their capital adequacy requirements and have no regulatory headwinds.

The Company also has a position in the Spanish bank Banco Bilbao Vizcaya (BBVA). Whilst BBVA is a Spanish bank, it generates 50% of its revenue from its Mexican subsidiary, BBVA Bancomer. We believe BBVA will be a major beneficiary from growth in the Mexican banking sector. It is trading on attractive multiples and has an excellent management team.

Finally Viacom is listed in the United States and is a media content provider. It owns content channels such as MTV, Nickelodeon and Paramount. The Manager believes the market has overplayed the threat of Netflix and that over the long-term, content providers will be successful.

Shareholder Services

Each month we publish a Monthly Report that goes into detail on stocks and themes within the portfolio and it is intended to be a valuable source of information for shareholders. We hope you are finding it of interest and of use. The Board is committed to providing transparency and to being highly engaged with our shareholder base. Your best source of information is always the website for this. I also strongly encourage you to sign up for automatic email alerts via the website.

We remain committed to delivering strong portfolio performance, sustainable and growing fully franked dividends and providing access to an experienced investment Manager who will continue to navigate volatile markets on your behalf.

Thank you for your support during our first year of operation.

PERPETUAL
EQUITY
INVESTMENT
COMPANY

ANNUAL GENERAL MEETING

5 NOVEMBER 2015

Perpetual 



MICHAEL GORDON – EXECUTIVE DIRECTOR

Perpetual 

COMPANY UPDATE

PROFIT

- Net Profit After Tax of \$3.7m for the period ended 30 June 2015

DIVIDENDS

- Paid an annual dividend of 0.5 cents per share
- The Board's objective is to pay a regular and growing dividend
- Where possible the Company will pay fully franked dividends twice per year
- Introduced a Dividend Reinvestment Plan

COMPANY PERFORMANCE

PERPETUAL
EQUITY
INVESTMENT
COMPANY

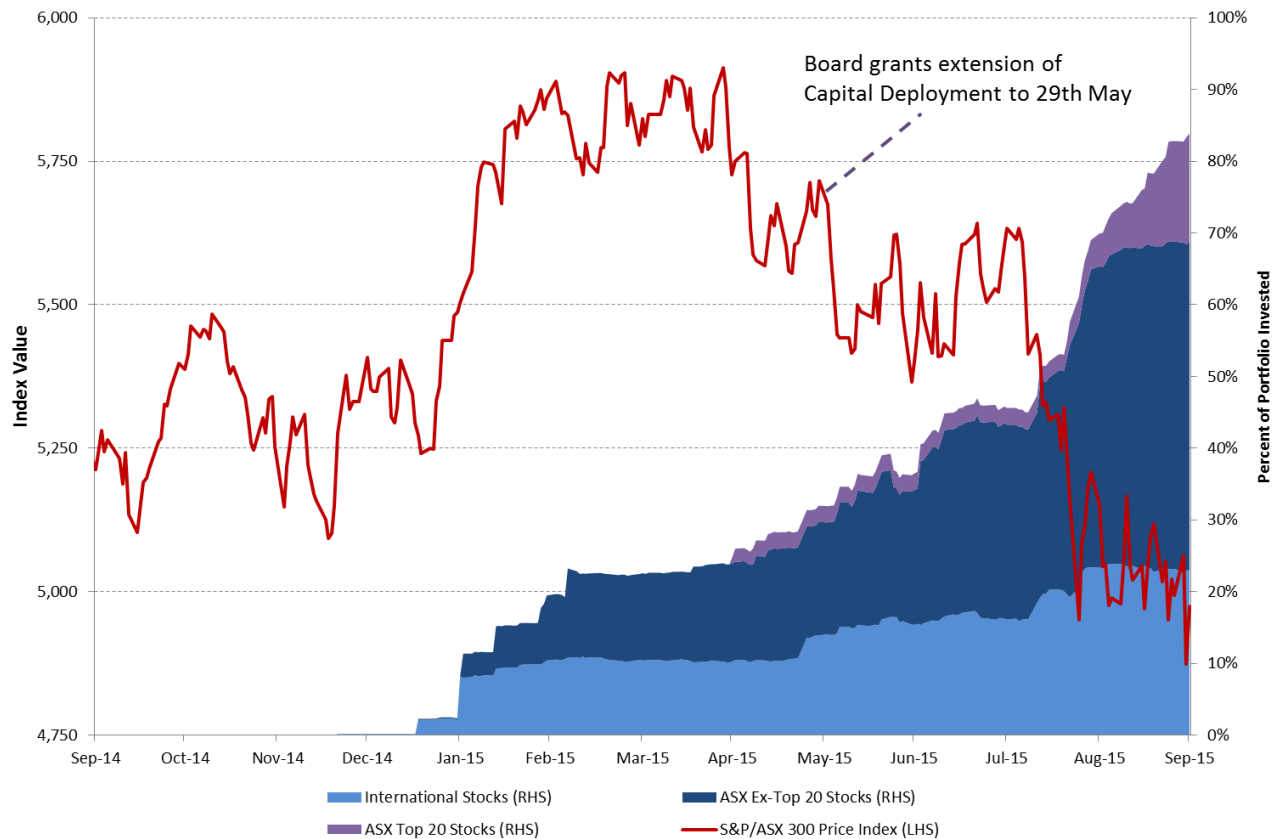
AS AT 30 SEPTEMBER 2015	1 MTH	3 MTHS	6 MTHS	SINCE INCEPTION
PIC	-2.1%	0.3%	0.1%	2.3%
S&P/ASX 300 Accumulation Index	-2.9%	-6.5%	-12.5%	0.4%
Performance Relative to benchmark	+0.8%	+6.8	+12.6%	+1.9%

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.

Perpetual


CAPITAL DEPLOYMENT

PERPETUAL
EQUITY
INVESTMENT
COMPANY



Perpetual

THE MANAGER'S INVESTMENT PHILOSOPHY

QUALITY & VALUE FOCUS

PERPETUAL
EQUITY
INVESTMENT
COMPANY

We focus on:

1 Quality business

3 Sound management

2 Conservative debt

4 Recurring earnings

This means:

- We seek **quality companies** at **attractive valuations** – Valuations can be more important than earnings, so we won't buy companies if they're overvalued
- **Committed to cautiously deploying your capital**

INVESTMENT PORTFOLIO

PERPETUAL
EQUITY
INVESTMENT
COMPANY

TOP 5 AUSTRALIAN LISTED SECURITIES*:

COMPANY	PORTFOLIO WEIGHT
Woolworths	8.5%
Caltex Australia Ltd	6.7%
Suncorp Group Ltd	6.6%
Reckon Ltd	6.0%
Sky Network Television Ltd	5.7%

TOP 3 GLOBAL LISTED SECURITIES*:

COMPANY	PORTFOLIO WEIGHT
Bank of America Corp	6.4%
Banco Bilbao Vizcaya	5.5%
Viacom Inc	5.4%

* As at 30 September 2015

Perpetual


SHAREHOLDER SERVICES

PERPETUAL
EQUITY
INVESTMENT
COMPANY

Visit www.perpetualequity.com.au to

1

Subscribe to email alerts

2

View monthly portfolio holdings and reports (released on the 14th of each month)

3

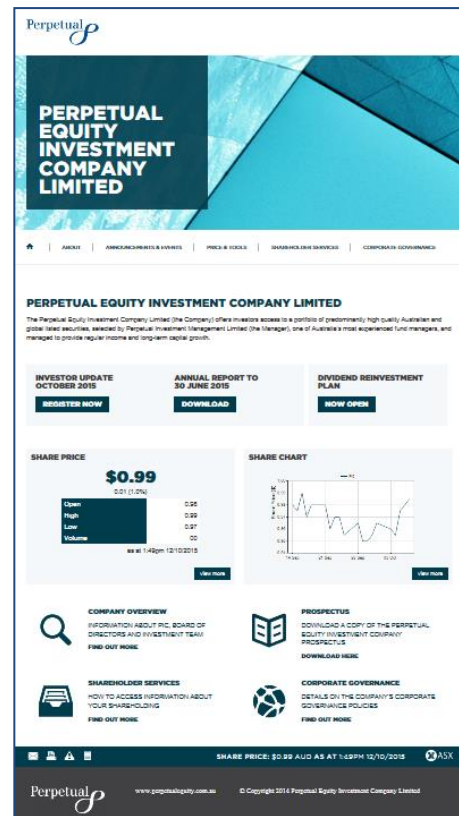
Daily NTA Reports keep you informed by disclosing the net asset backing per share each day

For all shareholder queries

Contact Link Market Services

Phone 1300 554 474

Email pic@linkmarketservices.com.au



Perpetual