

PERPETUAL
EQUITY
INVESTMENT
COMPANY

INVESTOR UPDATE

OCTOBER 2016

Perpetual 

IMPORTANT NOTE

This information was prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 and issued by Perpetual Trustee Company Limited (PTCL) ABN 42 000 001 007, AFSL 236643. PIML is the Manager for the Perpetual Equity Investment Company Limited (Company) ACN 601 406 419.

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References to securities in this publication are for illustrative purposes only, and are not recommendations and the securities may or may not be currently held by the Company. Past performance is not indicative of future performance.

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WELCOME

PERPETUAL
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YOUR PRESENTERS TODAY – BRISBANE, SYDNEY, MELBOURNE

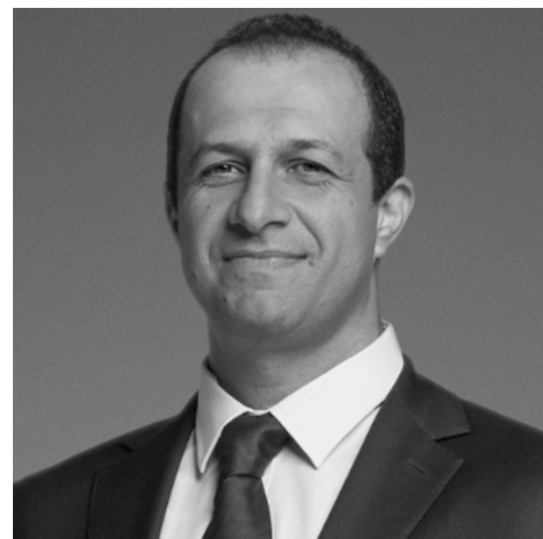
GEOFF LLOYD

CEO and Managing Director, Perpetual
Executive Director, PIC



VINCE PEZZULLO

Portfolio Manager, Perpetual Investments



WELCOME

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YOUR PRESENTERS TODAY – PERTH ONLY

JAMES HOLT
Investment Specialist



WELCOME

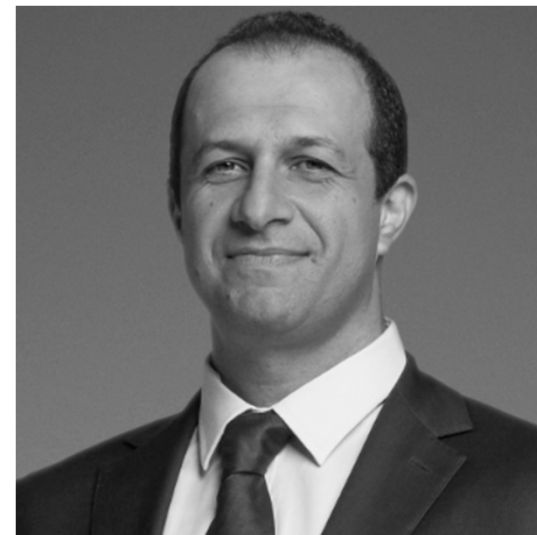
PERPETUAL
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YOUR PRESENTERS TODAY – ADELAIDE ONLY

ANNE ROZENAUERS
Investor Relations



VINCE PEZZULLO
Portfolio Manager, Perpetual Investments



AGENDA

PERPETUAL
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COMPANY

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COMPANY UPDATE



PERPETUAL EQUITY INVESTMENT COMPANY (ASX: PIC)

PERPETUAL
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- > Actively managed
- > Concentrated 20 – 40 stock portfolio
- > Access to high quality Australian and global listed securities (typically mid-cap)
- > Benchmark and sector unaware

Investment objectives:

- ✓ Deliver a growing income stream
- ✓ Provide long term capital growth
- ✓ Exceed its benchmark

Portfolio Manager – Vince Pezzullo:

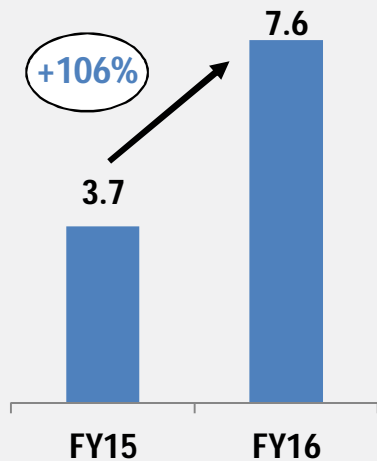
- ✓ Over 20 years in financial services industry
- ✓ Extensive domestic and global equity experience

FY16 OVERVIEW

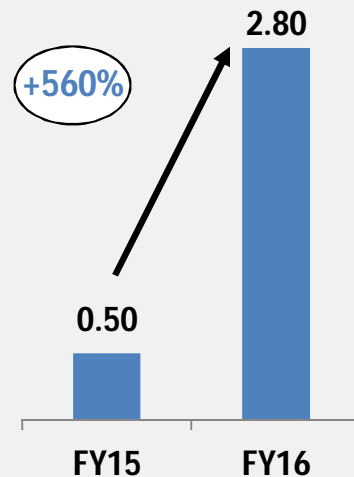
SOLID RESULTS IN VOLATILE MARKETS

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NPAT, \$m



DIVIDEND PER SHARE, CPS



Solid Results

NPAT up
106%
on FY15

DPS up
560%
on FY15

Net Profit After Tax of **\$7.6 million** for the period ending 30 June 2016.

The total dividends declared for FY16 was **2.8 cents per share.**

The Net Tangible Assets per share was **\$1.014** as at 30 June 2016.

KEEPING YOU INFORMED WITH EXCELLENT SERVICE



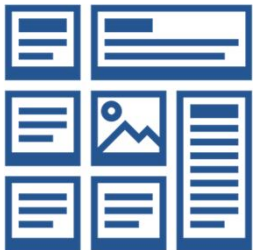
Monthly emails
including market
updates



Daily NTA
announcement



Half & full year
financial results



Media

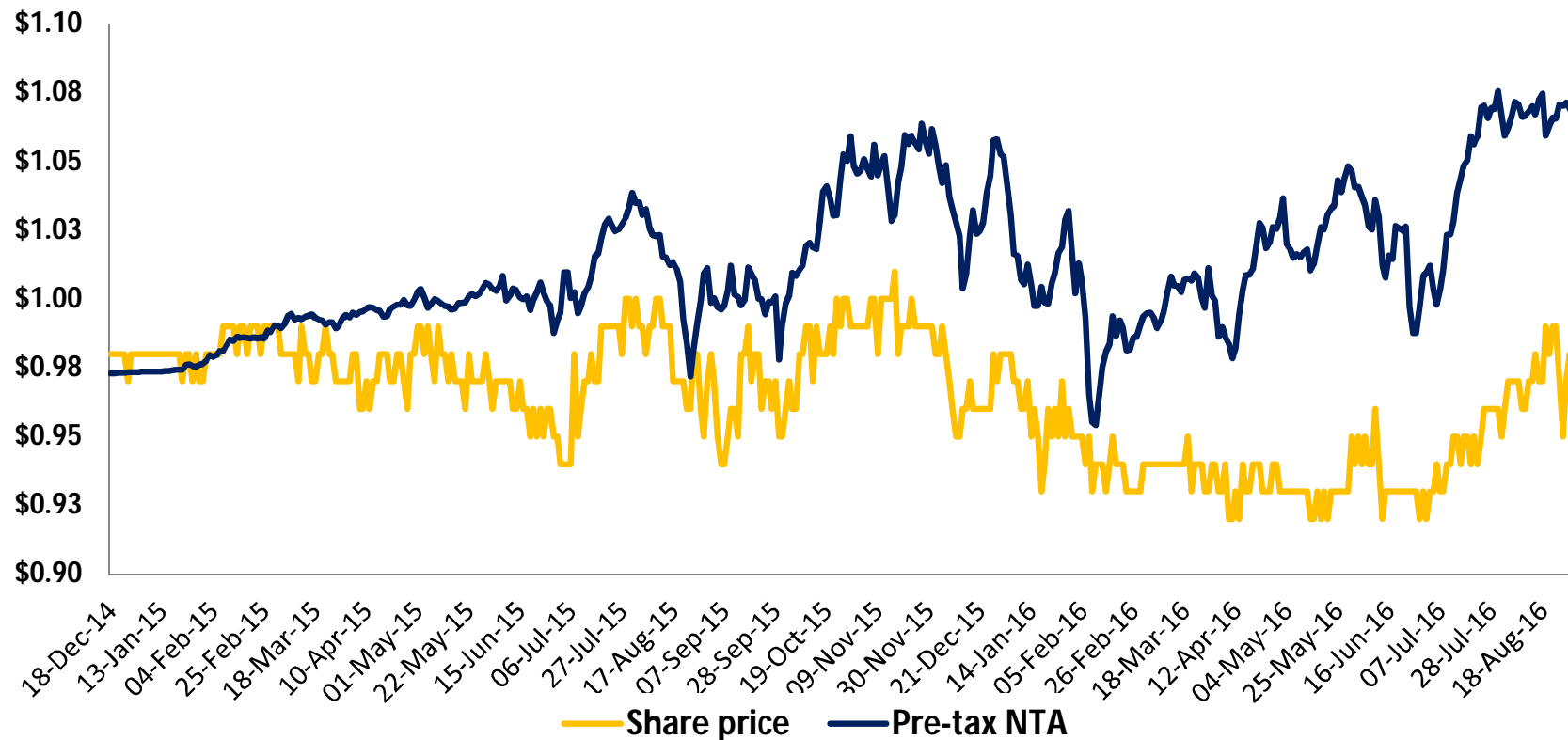


Website
www.perpetualequity.com.au



Half yearly national
investor presentations
and broker roundtables

PORTFOLIO NTA HAS GROWN 9.3% OVER 12 MONTHS



Pre tax NTA 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.

PROVEN TRACK RECORD

- Established in 1886, Perpetual is one of Australia's **most respected** fund managers, with a passion for **protecting** and **growing** our clients' wealth
- Perpetual is an **active, value** manager, with a bottom-up investment process
- One of the largest investment teams in Australia that conducts **more than 1,000 company meetings** each year
- **A\$30.7bn** funds under management (at 30 September 2016)
- Perpetual Investments is part of Perpetual Limited (ASX:PPT)
- Provider of **market-leading** equities, fixed income, cash and multi-asset solutions



MARKETS, PROCESS AND PERFORMANCE

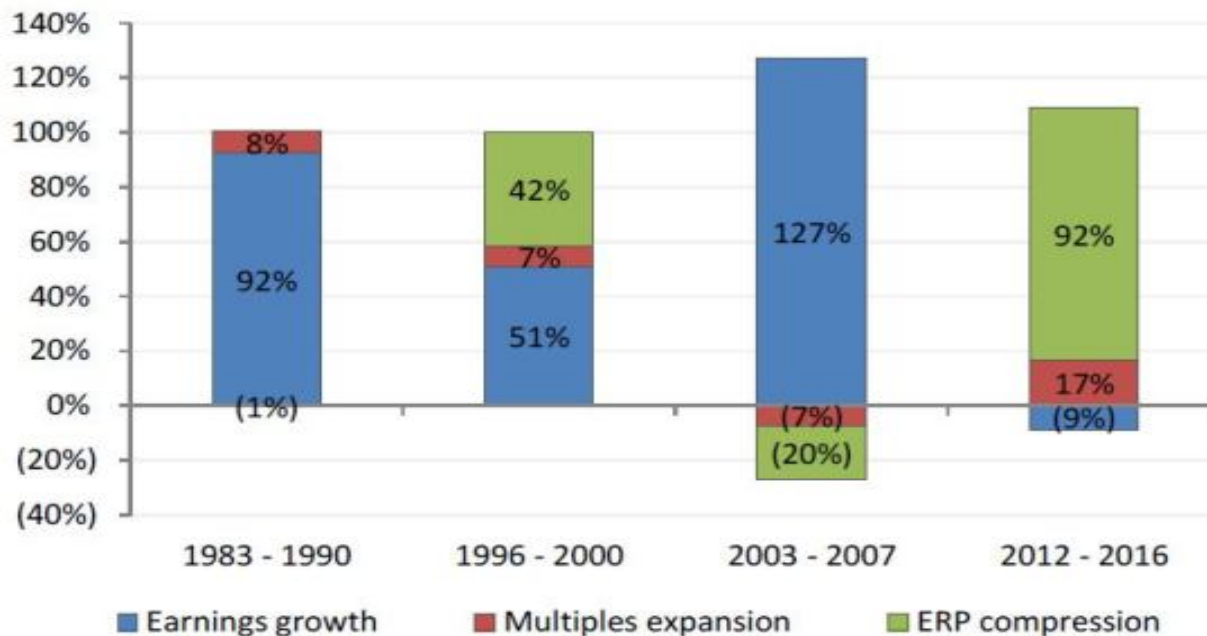
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MACRO EVENTS CREATING OPPORTUNITIES

- Taking advantage of the aggressive sell off of the British Pound we have bought Henderson and Clydesdale
- The HIPP trade (HealthCare, Infrastructure, Property and Pizza) has been in favour but steepening yield curves globally are starting to have an impact on these sectors and we are only just seeing the early phase of an unwind
- Have used recent market weakness in mid-caps to initiate new positions
- Stock selection is critical in this market

WHAT IS DRIVING THE MARKET? NOT "E" GROWTH

Contribution to SPX rallies in past expansion cycles



Source: Haver Analytics and Deutsche Bank

- All rallies are driven by different factors
- Rallies driven by earnings growth tend to be high quality (when not driven by leverage 2003 – 2007)
- Falling global yields have driven the current expansion

*ERP: Equity Risk Premium is the excess return that equity investments provide over the risk free (or cash) rate

OUR INVESTMENT PHILOSOPHY

QUALITY & VALUE FOCUS

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We focus on:

1 Quality business

2 Conservative debt

3 Sound management

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**

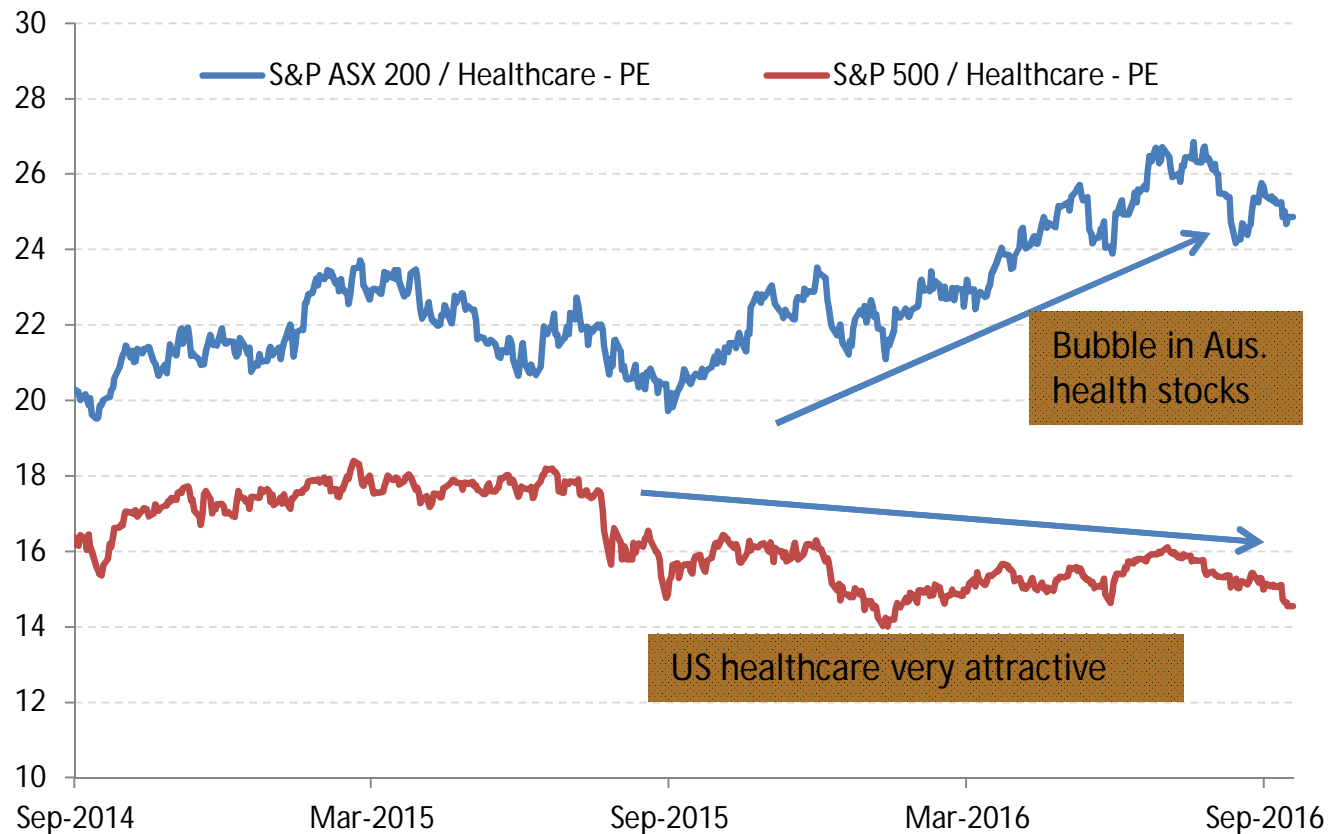
OUR PROCESS IN ACTION

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PROCESS IN ACTION

US HEALTHCARE



- US healthcare looks much cheaper than Australian healthcare
- Australians tend to overpay for limited opportunities
- Overblown fears of healthcare cuts have also made US health even cheaper than normal

PROCESS IN ACTION

– ICON

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CORE BUSINESS:

Provision of contracted research services for clinical studies of drug development

SECTOR: Healthcare

INITIAL ENTRY PRICE: ~US\$65.50

PRICE/EARNINGS: 16.4x

DIVIDEND YIELD: 0.0%

WHY WE LIKE IT?

- Leading market position in a growing industry
- Strong history of earnings growth and stable cash flows
- Good management with strong track record
- Opportunity to take market share from smaller operators unable to compete effectively



Source: Perpetual & FactSet

ICON

PROCESS IN ACTION

IDEA IDENTIFICATION

- **Screening** – Compares well quantitatively with market
 - ICON appears on a list of companies we generated with good returns on capital and attractive valuations
- **Initial Look** – Ticks a lot of boxes:
 - ✓ Understandable business – it's a service business
 - ✓ Great long term track record – cash-flow is up 2.5x in the past 10 years
 - ✓ Industry growing – by 6-7% driven by R&D and increased outsourcing
 - ✓ Barriers to Entry – Ability to do global trials increasingly important
 - ✓ Generating lots of Free Cash – Capex needs are low
 - ✓ Predictable sales – Sales relate to the R&D budgets of Pharmaceutical organisations
 - ✓ Valuation low for transient reasons – Revenue slowing while bookings fine

PROCESS IN ACTION

IN DEPTH RESEARCH

- **Major Concerns**
 - Industry Growth - Revenue growth has been significantly lower than booking growth
 - ICON - Success with Pfizer which peaked at 30% of the business's revenue and their long term contract was coming up for renewal
- **Work**
 - Model the company and industry - to make sure we understand the numbers
 - Spoke with
 - Company – multiple times
 - Competitors (we spoke with nearly every listed peer)
 - Customers (we spoke with reps from 4 major pharma research depts)
 - Industry experts and sell side researchers

PROCESS IN ACTION

QUESTIONS AND CONCLUSION

- **Sample of the types of questions we asked:**

- Why should the industry grow at 6-8%, Why has “backlog conversion” slowed?
- Why will outsourcing continue – what is the advantage of large players? How sticky are relationships that CROs have with their customers (will Pfizer leave ICON)?
- What would happen to earnings if Pfizer left?
- How reliant on capital markets are their smaller customers? Is competition rational? What are the differences between the CROs?
- Why have margins increased at ICON, is this sustainable?
- What are they going to do with their cash? What do we think of management, can we trust them with our cash

- **Conclusion**

- We like the industry – Contract Research Organisations provide a valuable service to pharmaceutical companies and benefit from the increasing discovery of new molecules without the risk of actually having to find a specific “winner”
- ICON is a top tier player and the likelihood of losing their Pfizer contract was low and also in the price in the low/mid 60s
- PIC began buying at \$65 on a PE ratio of 13.2x, EV/EBIT 9.5x with earnings growth of 12% and no debt

PORTFOLIO POSITIONING

AS AT 30 SEPTEMBER 2016

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DOMESTIC SECURITIES

TOP 5 HOLDINGS	PORTFOLIO WEIGHT %
Woolworths Ltd	12.0
Suncorp Group Ltd	7.3
Sky Network Television Ltd	6.7
GrainCorp Ltd	5.2
BlueScope Steel Ltd	5.1

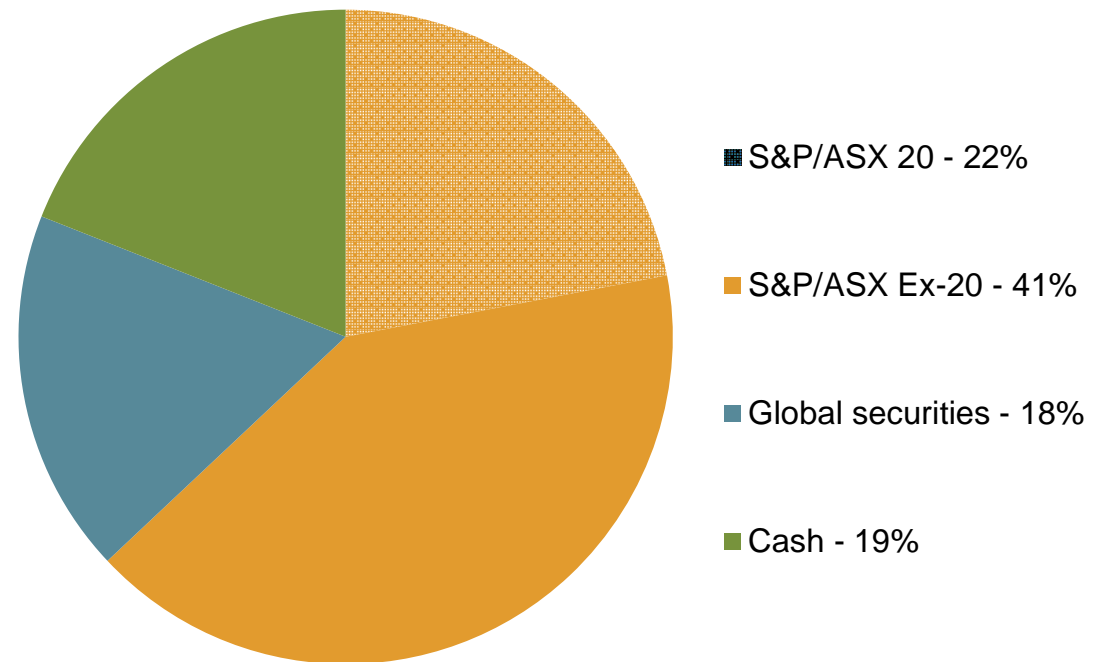
GLOBAL SECURITIES

TOP 3 HOLDINGS	PORTFOLIO WEIGHT %
Royal Philips	7.3
Icon PLC	6.2
Bank of America Corp	3.6

Source: Perpetual & FactSet

ALLOCATION OF INVESTMENTS

- At 30 September, 82% of the Portfolio's capital deployed
- Cash will be used to protect the portfolio and take advantage of attractive opportunities
- Patient and prudent investment style has rewarded shareholders



Source: Perpetual & FactSet
As at 30 September 2016

COMPANY PERFORMANCE

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AS AT 30 SEPTEMBER 2016	1 MTH	3 MTHS	6 MTHS	12 MTHS P.A.	SINCE INCEPTION P.A.
PIC	-1.2%	6.4%	6.1%	9.3%	6.4%
S&P/ASX 300 Accumulation Index	0.5%	5.2%	9.4%	13.5%	7.6%
Performance Relative to benchmark	-1.7%	1.2%	-3.3%	-4.2%	-1.2%

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.

Source: Perpetual & FactSet

QUESTIONS?

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SHAREHOLDER SERVICES

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SHAREHOLDER SERVICES

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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

The screenshot displays the Perpetual Equity Investment Company Limited website. At the top, the company logo and name are visible. Below the header, there is a navigation menu with links for 'ABOUT', 'ANNOUNCEMENTS & EVENTS', 'PRICE & TOOLS', 'SHAREHOLDER SERVICES', and 'CORPORATE GOVERNANCE'. The main content area features a prominent 'PERPETUAL EQUITY INVESTMENT COMPANY LIMITED' header. Below this, a brief description of the company's investment strategy is provided. Three key reports are highlighted: 'INVESTOR UPDATE OCTOBER 2015' (with a 'REGISTER NOW' button), 'ANNUAL REPORT TO 30 JUNE 2015' (with a 'DOWNLOAD' button), and 'DIVIDEND REINVESTMENT PLAN' (with a 'HOW OPEN' button). A 'SHARE PRICE' section shows the current price at \$0.99, with a table of daily price movements (Open, High, Low, Volume) and a 'SHARE CHART' showing price fluctuations over time. At the bottom, there are four main service categories: 'COMPANY OVERVIEW', 'PROSPECTUS', 'SHAREHOLDER SERVICES', and 'CORPORATE GOVERNANCE', each with a 'FIND OUT MORE' link. The footer includes the company logo, website URL, and copyright information.

PERPETUAL KEY CONTACTS

PERPETUAL
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COMPANY



DANIEL MOORE
VIC and SA State Manager
+61 400 032 819
daniel.moore@perpetual.com.au



STUART DUNN
NSW State Manager
+61 414 889 001
stuart.dunn@perpetual.com.au



TIM MCCALLUM
WA State Manager
+61 411 209 403
tim.mccallum@perpetual.com.au



TONY HARTE
QLD State Manager
+61 407 708 109
tony.harte@perpetual.com.au



ANNE ROZENAUERS
Investor Relations
+61 2 9229 3528
anne.rozenauers@perpetual.com.au

OR call Link Market Services on +61 1800 421 712, or email pic@linkmarketservices.com.au

SUMMARY

- Access a concentrated portfolio of high quality (typically mid-cap) Australian and global listed securities, managed by one of Australia's most respected fund managers, Perpetual Investments
- Perpetual Investments are an award-winning, active, bottom-up, quality and value manager, with a large investment team who complete an extensive number of company visits every year
- The Company aims to deliver long-term capital growth and regular income for investors, and pay regular fully-franked dividends
- PIC is the ONLY LIC to provide Daily NTA reports, highlighting our transparency and commitment to keeping you informed