

# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

## KEY ASX INFORMATION

As at 28 February 2017

ASX code: PIC

Listing date: 18 December 2014

Market capitalisation: \$265,386 million

Share price: \$1.05

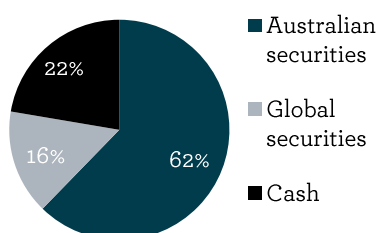
Shares on issue: 252,748,485

## FEBRUARY 2017 MONTHLY INVESTMENT UPDATE AND NTA REPORT

### PORTFOLIO PROFILE

#### ALLOCATION OF INVESTMENTS

78% of capital invested in securities.



### PERFORMANCE

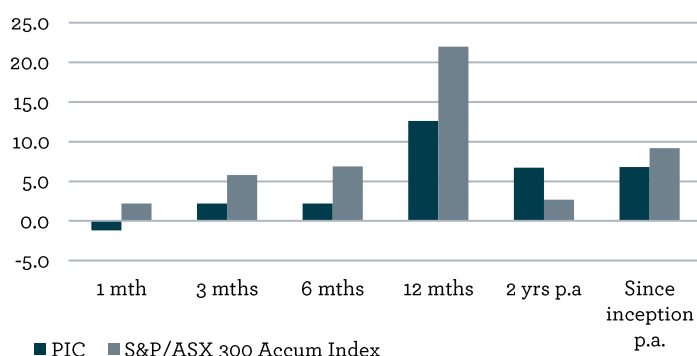
Net of fees, expenses and tax paid

AS AT 28 FEB 2017	1 MTH	3 MTHS	6 MTHS	1 YRS P.A.	2 YRS P.A.	SINCE INCEP P.A.
PIC	-1.2%	2.2%	2.2%	12.6%	6.7%	6.8%
S&P/ASX 300 Acc Index	2.2%	5.8%	6.9%	22.0%	2.7%	9.2%
Versus bench- mark	-3.4%	-3.6%	-4.7%	-9.4%	+4.0%	-2.4%

Inception date is 18 December 2014.

### PERFORMANCE - PIC VS BENCHMARK

Performance %



### PORTFOLIO COMMENTARY

The Portfolio performance, as measured by the growth in net assets per share, was -1.2% in February. The portfolio underperformed the benchmark S&P/ASX300, which rose by 2.2%. Since listing, the Perpetual Equity Investment Company Limited's (PIC) portfolio has returned 6.8% per annum.

During the month, the portfolio suffered from weak share price performance in several key positions. SKY Network Television, Deutsche Boerse AG and CYBG PLC all detracted from performance. Despite this, the Manager continues to believe these companies are fundamentally sound and offer compelling value over the medium to long term.

As at 28 February, 4.2% of the PIC portfolio was invested in SKY Television Network (ASX Code:SKT). SKY is a monopoly New Zealand pay TV operator with a conservative management group who have demonstrated a disciplined approach to bidding for content and sports rights, as well as a continued focus on cost control. SKY owns the exclusive broadcast rights to a range of sports including Rugby Union, Rugby League, English Premier League, Cricket and Netball. The business has an approximately 816,000-subscriber base, and produces strong cash flow. The issue for SKY has been around the delivery of this content – whilst most of the older demographic continue to consume content via the set top box, the younger demographic is more inclined to watch on-demand via a smartphone or tablet. This is an area which SKY has underinvested and as a result has experienced increased customer churn.

The Manager believes that SKY continues to offer value, particularly given their dominant market position and exclusive content offering. This view is further strengthened by the possibility of a commercial agreement with Vodafone NZ, despite the fact a proposed merger between the two was recently rejected by the competition regulator, with both SKY and Vodafone announcing they will not walk away from further consultation. The Manager cites several similar, successful deals between pay TV and telecommunication providers in overseas markets. The standalone business offers significant value trading on a forward P/E of 12x and paying an 8% yield.

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

As at 28 February, 5.4% of the PIC portfolio was invested in Deutsche Boerse AG (ETR Code:DB11). Deutsche Boerse is the dominant European exchange operator offering derivatives and cash equities trading as well as settlement, clearing and custodial services. The Eurex business offers the main trading and clearing services for futures and options contracts in Europe. The Clearstream business offers post-trade services for bonds, equities and other asset classes, along with custody services. The Market Data and Services business is an annuity-style service offering, providing information to key market participants such as brokers and trading desks. The Manager was attracted to Deutsche Boerse given the fixed cost base and operating leverage to any increased volatility and liquidity. The Manager initiated a position in October 2016 when Deutsche Boerse was trading at a P/E of 14.5x, representing a 20-30% discount to global peers.

Despite buying Deutsche Boerse below current levels, the Manager continues to believe that the stock has upside potential. Deutsche Boerse has a strong balance sheet, is carrying net cash and the Manager believes the business is at the bottom of an improving cycle in both interest rates and volatility.

As at 28 February, 5.5% of the PIC portfolio was invested in Star Entertainment (ASX Code:SGR). Star owns and operates casino assets in Sydney (Star) and Queensland (Jupiters, Treasury). The Star Casino is a high quality asset that has undergone significant capital expenditure upgrades in recent years which has led to disruptions on the main gaming floors, evident in the 1H17 result. However, this build is now completed and gaming revenues should normalise. Further, Star Casino now has a compelling customer loyalty program, which should allow them to improve yield. The Queensland assets are also receiving upgrades, with a 6 star hotel at Jupiter's due to be completed by calendar year end. This hotel, being developed by Star and its consortium partners, will target premium mass customers and should drive traffic through the main gaming floor.

The stock has traded lower in recent months on the back of 18 Crown Casino (ASX Code:CWN) employees being arrested and detained in October 2016, on gambling related crimes. Whilst Star was not directly involved in this event, the share price has come under pressure due to concerns around the impact to their Chinese VIP gaming revenues. The Manager continues to believe that any impact will be short term in nature, and the current share price undervalues a high quality, defensive portfolio of assets.

## MARKET REVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose 2.18% over the month of February. Global markets performed well over the period with the US market posting strong gains. Defensive sectors generally outperformed over the period with Consumer Staples, Healthcare and A-REIT the standouts, with cyclical sectors generally lagging. The US Federal Reserve kept rates on hold and the post meeting statement indicates rates will increase gradually over the year commencing in May 2017. Reporting season in Australia proved positive with ~38% of companies beating analyst's earnings estimates. Iron ore rose through the month by 9.5% driven by higher steel prices as a result of curbed Chinese production. The RBA kept rates on hold at 1.5% with inflation coming in as expected at the lower range. The Australian dollar performed well over the period gaining against most major currencies and appreciating 0.9% against the USD.

The best performing sectors for the month were consumer staples (+6.0%), real estate (+4.3%) and financials ex-property (+4.1%). The worst performers were materials (-3.3%), telecommunication services (-3.1%) and energy (-2.1%). As a whole, industrial stocks (+3.3%) outperformed resource stocks (-3.4%) and large cap stocks (+2.4%) outperformed small cap stocks (+1.3%).

## TOP SECURITIES

### TOP 5 AUSTRALIAN SECURITIES AS AT 28 FEBRUARY 2017

COMPANY	PORTFOLIO WEIGHT
Woolworths Ltd	10.5%
Star Entertainment Group	5.5%
Medibank Private Ltd	5.4%
CYBG PLC	5.3%
Suncorp Group Ltd	4.9%

### TOP 3 GLOBAL SECURITIES AS AT 28 FEBRUARY 2017

COMPANY	PORTFOLIO WEIGHT
Deutsche Boerse AG	5.4%
Icon Plc	4.4%
Bank of America Corp	3.7%

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

AS AT 28 FEBRUARY 2017	AMOUNT
NTA before tax <sup>2</sup>	\$1.069
NTA after tax	\$1.060

Daily NTA is available on the website.

<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.

The before and after tax NTA numbers include an accounting provision for the interim dividend for the half-year ended 31 December 2016 of 2.2 cents per share that was declared on 20 February 2017.

This provision will continue to be recognised until the payment date being 17 March 2017.

## KEEPING YOU INFORMED

### HALF YEAR RESULTS TELECONFERENCE

The Board would like to thank those who dialed into our 1H17 results investor update teleconference on Thursday 9th March. If you were unable to join us the teleconference is now **available for on-demand viewing**, please [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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