



Perpetual Equity Investment Company Limited

Company/ASX Code	Perpetual Equity Investment Company Limited/PIC
AGM date	Thursday 15 October 2020
Time and location	Virtual AGM 2:00pm-4:00pm (AEST)
Registry	Link
Webcast	Yes
Poll or show of hands	Poll
Monitor	John Cowling assisted by Taylan Behayi
Pre AGM-Meeting?	Yes, with the Chair, Nancy Fox

The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

Governance of the company involves a Board made up of five directors, including three independent members who monitor and review the operations of the manager. The board has delegated the day-to-day management of the company to Perpetual Investment Management Limited.

The board have strong experience in financial services, regulation, and risk management.

PIC's strategy targets long-term growth with an emphasis on consistent, reliable income for shareholders. This has resulted in a concentrated and actively managed portfolio with mainly Australian securities with typically a mid-cap focus as well as some global listed securities.

Although a list of investments held on 30 June 2020 is included in the Annual Report there is no sector or geographic analysis as is usual with LICs other than -

- 65.1% in Australian listed securities
- 27.9% in global listed securities
- 7.0% in cash.

Financial performance

Per the 2020 Annual report PIC has achieved a 6.0 cps fully franked dividend.

Recent market conditions, mainly the volatility caused by COVID-19 has resulted in an **operating loss before tax of \$3.8 million** and **negative investment returns** of -6.38% for the 12 months to 30 June 2020.

However, PIC has achieved a **8.6% fully franked dividend yield**, a **6.4% Investment portfolio outperformance** against its benchmark for the 12 months to 30 June 2020 and **\$1.046 NTA** after tax per share.

TSR in recent years is mainly driven by dividends 1 Year – 4.5%; 3 years - 4.6% and 5 years - 6.6%.

KPI's

	2020	2019	2018	2017	2016
Profit/(loss) after tax (\$'000)	(434)	15,219	24,827	31,814	7,613
Dividends paid (cents per share)	6.6	6.4	5.5	4.2	1.3
NTA after tax (\$ per share)	1.046	1.117	1.139	1.097	1.014
Directors' remuneration (\$)	187,000	187,000	170,000	170,000	170,000
Shareholder's equity (\$'000)	363,822	385,225	289,987	277,960	255,759
Closing share price (\$)	0.905	1.040	1.170	1.035	0.925

Share Price Discount on NTA

The share price discount on 30 June 2020 at 13.4% is the worse it has been since incorporation and requires urgent attention. See below.

This discount has since been significantly reduced.

Key events

Due to the impact of COVID-19 the Board increased the frequency of its meetings to monitor changing market conditions. A key focus was to increase communication to shareholders on how the manager was navigating through the volatility during this time. This objective has been achieved.

On 25th March 2020, the Board announced an amendment to its investment strategy to increase the maximum allowable allocation to global securities from 25% to 35%.

Key board or senior management changes

The Manager, Perpetual Investment Management Limited, receives a management fee of 1.00% per annum (plus GST) for the first \$1 billion of the Portfolio Net Asset Value, and 0.85% per annum (plus GST) of the Portfolio Net Asset Value in excess of \$1 billion.

Per the 2020 annual report, the Board commissioned an independent review of the Manager and resolved to continue the Management agreement for a further five years. The closeness of the Board to Perpetual requires conflict of interest to be carefully managed.

David Lane joined the board during 2020.

David Lane is not entitled to Directors' fees or any other form of remuneration from the Company for his services. He is remunerated by Perpetual Limited, the parent company of the Manager.

ASA focus issue

Shareholder participation

The 2019 and 2020 June Annual Report suggests PIC understands the importance of shareholder participation. In the 2019 Report they referenced a survey conducted for shareholders so the company could gather feedback to better learn what is important to investors. The results from the survey indicated that shareholders wanted an emphasis on franking credits and ensuring communication is upheld.

PIC largely fulfils the above requirements from shareholders. Their website has comprehensive access to monthly reports, daily NTA announcements and information on their portfolio composition. Furthermore, they have a monthly investor update newsletter, half-year result webinars and annual shareholder presentations in major capital cities.

Regarding franking credits, the 2020 annual report stated a 2.8 cents per share fully franked final dividend, referencing the importance of franking credits to its shareholders. This would bring the total dividend declared for the financial year of 2020 to 6.0 cents per share. Consequently, PIC provides both an avenue to express shareholder concerns as well as proven practice to involve their participation.

Board Composition and Directors skills

The Board is well constructed with a diverse range of tenure, gender, skills, and board experience with 60% of the board comprising of Independent directors. The board has an average age of 60 and an average tenure of 4 years.

Risk management

Key to PIC's investment philosophy and process is the use of four quality filters when picking investments including-

1. Quality of Business

A test looking at the industry of the company and considering factors such as barriers to entry and market share as well as any issues such as social and environmental impacts.

2. Conservative debt

Strict balance sheet scrutiny to avoid overleveraged companies.

3. Sound Management

Management with a history of using shareholder's capital sensibly, a clear focus on maximising shareholder value and strong governance practices.

4. Recurring earnings

At least a three-year track record of generating earnings and cash flow.

COVID-19

PIC's information regarding COVID 19 is minimal in regard to staying contemporary in a constantly changing scenario. Regarding COVID-19, PIC's website provides a link to Perpetual's CEO Rob Adams statement on COVID-19.

Furthermore, a webinar was given for shareholders on Friday 15 May 2020 concerning the impact COVID-19 would have on the market and PIC's portfolios followed by a Q & A. The slides and audio were posted on PIC's website for access by shareholders.

Remuneration

As per the 2020 June Annual Report PIC has no established Remuneration Committee. Per the advice from the Nomination and Corporate Governance Committee, there is no need to establish a committee as there are no paid employees.

Total remuneration available to the Directors is a maximum of \$250,000 as set out in the Company Constitution. In 2020 \$187,000 was paid (\$55,000 + 3 x \$44,000). According to OpenDirector the mean remuneration for non-executive directors in the financial sector is \$155,214 so PIC directors are very reasonably paid for their service.

Retirement Policy

Directors who have been in office for 3 years since their last election must retire and may seek re-election at the next AGM.

Skin in the Game

3.79% of total ownership of PIC is Insider Ownership

Directors	Balance on 1 July 2019	No. Shares Acquired	No. Shares Disposed	Balance on 30 June 2019
Nancy Fox	213,783	16,299	-	230,082
Virginia Malley	128,124	9,769	-	137,893
John Edstein	122,835	-	-	122,835
Christine Feldmanis	282,284	21,522	-	303,806
David Lane	18,497	-	-	18,497

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	(434)	15,219	24,827	31,814	7,613
UPAT (\$m)	na	na	na	na	na
Share price (\$)	0.905	1.040	1.170	1.035	0.925
Dividend (cents)	6.6	6.4	5.5	4.2	1.3
TSR (%)	-6.6	-5.6	18.4	16.4	-1.3
EPS (cents)	-0.001	0.05	0.10	0.13	0.03

Item 2	Re-election of Ms Nancy Fox Director
ASA Vote	For

Summary of ASA Position

In reference to the Director selection process, Ms Nancy Fox advised that Perpetual has the right to appoint a nominee director who is unpaid by PIC, however PIC has the power to veto such appointment.

Regarding any conflicts of interest, we asked the Chair, Ms Nancy Fox about any potential conflicts of interest resulting from association with Perpetual as manager. Ms Fox confirmed that conflicts are managed as the board comprises of 3 independents and 2 people on the board who are not independent. Ms Fox also said that they were conscious of the fact that the Board supervises the manager.

Moreover, in dealing with Conflict of Interests generally Ms Fox explained that, Vince Pezzullo (Portfolio Manager), presents at every board meeting on the performance of the portfolio, whilst the board monitors that there is compliance in investment policy. She also highlighted that the board fully understands that it represents shareholders and emphasized that the board has nothing to do with the actual choosing of the stocks but determines factors like dividends and franking as these are the focuses shareholders have expressed are important.

Ms Nancy Fox gave full explanation of how the board balanced the decline in NTA to still retain some cash reserves and a 100% fully franked dividend.

Furthermore, she agreed with our recommendation to incorporate a Directors Skill Metric as an important factor in future annual reports.

As such we have confidence in Ms Nancy Fox as Director and Chair of PIC and support her re-election.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

We offered observations regarding PIC's reporting style in particular:

- 1) Offering a clear link to the AGM for small shareholders.
- 2) Providing reasons as to why Shares fall from the Top 5 Stock holdings in the Investor Updates offered by PIC to its shareholders.
- 3) Contain a 'Sector Analysis' in the Annual Report and not just the Monthly Reports to investors.

Ms Fox supported this feedback.

We intend to support the adoption of the Remuneration Report of the company for the financial year ended 30 June 2020.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document; it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents, or related bodies corporate:

- *makes any representations, warranties, or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.