

# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

All Registry communications to:  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Telephone: +61 1800 421 712  
Facsimile: +61 2 9287 0303  
ASX Code: PIC

Email: [pic@linkmarketservices.com.au](mailto:pic@linkmarketservices.com.au)  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

24 August 2022

ASX Limited  
ASX Market Announcements Office  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

## **FY22 Financial Results**

The following announcements to the market are provided:

- FY22 Appendix 4E
- ✓ Annual Report to Shareholders
- Corporate Governance Statement 2022
- Appendix 4G
- FY22 Summary

Yours sincerely



**Sylvie Dimarco**  
Company Secretary



**PERPETUAL**  
EQUITY  
INVESTMENT  
COMPANY  
LIMITED

**ANNUAL REPORT 30 JUNE 2022**

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ACN 601 406 419

Perpetual 



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# PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

## Board of Directors



*Left to right: Amanda Gillespie (Apted), John Edstein, Nancy Fox (Chairman), Virginia Malley*

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## Annual General Meeting and Investment Manager Update 2022

Thursday 20 October 2022  
2:00pm (Sydney time)

For more details visit  
[www.perpetualequity.com.au](http://www.perpetualequity.com.au)

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# FY22 ANNUAL RESULTS OVERVIEW

## DELIVERING A FULLY FRANKED DIVIDEND STREAM

### 3.3 cps fully franked final dividend

Comprised of a 2.8 cps ordinary dividend + 0.5 cps special dividend

**\$85.5m<sup>1</sup>**

Profit reserve

**4.1 years<sup>1</sup>**

Dividend coverage

**5.3%<sup>2</sup>**

Annual dividend yield

**7.5%<sup>2</sup>**

Grossed up dividend yield

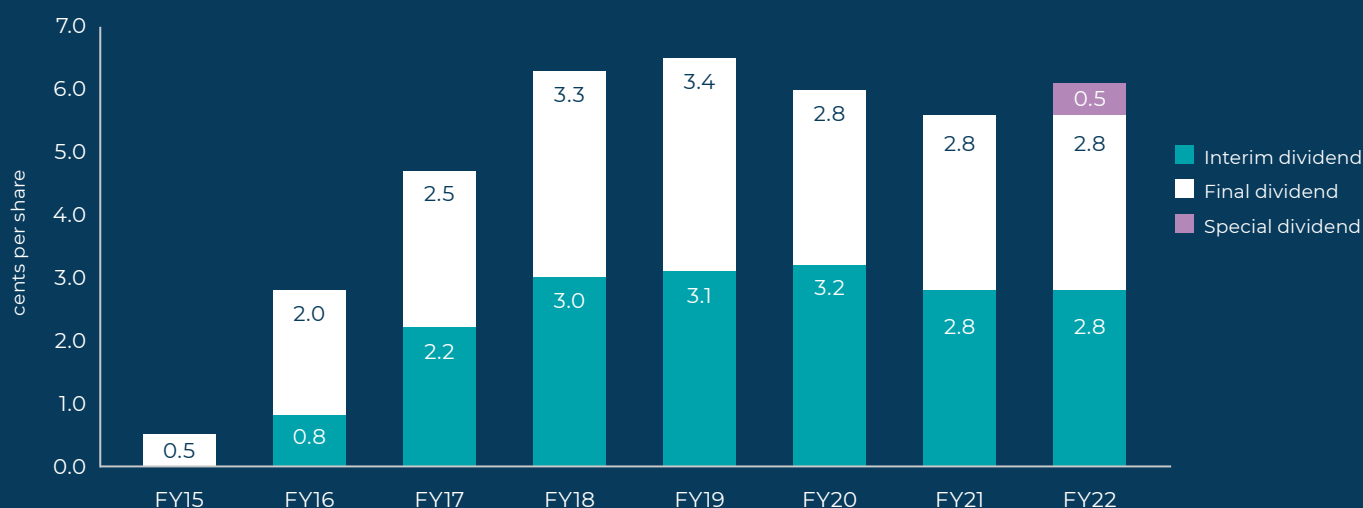
**8.9%<sup>3</sup>**

Investment portfolio performance per annum over 5 years to 30 June 2022

**\$1.191<sup>4</sup>**

Net tangible assets (NTA) after tax per share as at 30 June 2022

### Fully franked dividends since inception



- Profit reserve of \$85.5 million as at 30 June 2022 after taking into account the estimated payment of the final dividend. This equates to 22.7 cents per share and represents 4.1 years dividend coverage based on a total dividend payment of 5.6 cents per share per annum. This does not take into account any changes to share capital or options exercised in the future. No representation is made in relation to the payment of future dividends, which will be at the discretion of the Company's Board.
- Yield is calculated based on the total dividends of 6.1 cents per share and the closing share price of \$1.16 as at 30 June 2022. Grossed up yield takes into account franking credits at a tax rate of 30%.
- Returns have been calculated on the growth of NTA after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on unrealised gains and losses are excluded. Past performance is not indicative of future performance.
- 'After tax' refers to tax paid and provisions for deferred tax on unrealised gains and losses in the Company's investment portfolio.

# CHAIRMAN'S REPORT

## AUGUST 2022

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**Nancy Fox AM**  
Chairman

Dear Fellow Shareholders,

Thank you for trusting us to manage your investment in the Perpetual Equity Investment Company Limited (ASX: PIC, the Company). The Board is pleased the Company is delivering on its investment objective of providing investors with an income stream and delivering long-term capital growth in excess of the benchmark<sup>1</sup> over minimum 5 year periods. The Board appreciates that many of you seek income, particularly during this time, and is proud to have announced a fully franked final dividend for FY22, comprised of an ordinary dividend of 2.8 cents per share and a special dividend of 0.5 cents per share.

Financial year 2022 (FY22) presented a challenging environment for investment markets, with inflation, central bank activity, geopolitical tensions and the COVID-19 pandemic all being contributing factors to a relatively uncertain period for markets across the globe. Economic conditions impacted investment portfolio performance and the Company's net operating loss of \$17.9 million for FY22. Despite this, the Board is optimistic about the Company's ability to provide a sustainable income stream to shareholders. Moreover, it has full confidence in Perpetual Investment Management Limited (Manager) and its ability to navigate all market conditions.

The Manager is one of Australia's largest and most experienced fund managers in the Australian market and has a long-standing commitment to deliver superior outcomes over the long-term for its clients. Its investment process that focuses on value and quality has proven to deliver returns over various market cycles.

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<sup>1</sup> Benchmark is the S&P/ASX 300 Accumulation Index.

## FY22 dividend and profit reserve

The Board declared a fully franked final dividend of 3.3 cents per share, comprised of an ordinary and special dividend. The ordinary dividend of 2.8 cents per share fully franked is consistent with the dividend of prior periods. The Board also announced shareholders will receive a special dividend of 0.5 cents per share fully franked, based on its consideration of the strength of the profit reserve at this time. This brings the total dividend payment to shareholders in FY22 to 6.1 cents per share fully franked. The Board believes this translates to an attractive annual cash dividend yield of 5.3% and a grossed up dividend yield of 7.5%<sup>2</sup>.

The Company has an established track record of paying fully franked dividends twice a year to shareholders since its listing in 2014. Over recent years, the Board has been focused on retaining more capital for investment and building a healthy profit reserve to position the Company well to provide returns to shareholders over the long-term.

The Board's approach to capital management has sought to strike the appropriate balance between providing income to shareholders while maintaining profit reserves and franking credits for the payment of future dividends.

Looking ahead, the Board remains focused on growing the Company and continues to progress its strategy to deliver sustainable long-term dividend payments for shareholders. This strategy involves many considerations for the Board, including how it seeks to prudently manage capital and apply the reserve in exercising its discretion to pay dividends. The Company's profit reserve is \$85.5 million after the payment of the final dividend which equates to 4.1 years dividend coverage<sup>3</sup>.

## Company options

In June 2021, the Company issued bonus options on a one-for-one basis at no cost to eligible shareholders. The options have an exercise price of \$1.35 and expiry date of 2 September 2022. The options are trading on the ASX under the ASX code PICOA.

It is unfortunate that market volatility has impacted the Company's share price, particularly in the last quarter of FY22. The Board will continue to prudently monitor the capital position of the Company and remains committed to the growth of the Company.

## Investment performance

The Board believes that through active management, combined with the Company's flexible investment strategy, the Manager will seek out the best investment opportunities for shareholders.

This includes managing equity market risk during periods of market stress as well as identifying opportunities where companies are trading at attractive valuations.

During the year, the Manager maintained strict adherence to its value and quality investment approach by applying its investment process centred around four filters – quality business, conservative debt, sound management and recurring earnings.

<sup>2</sup> Yield is calculated based on the total dividends of 6.1 cents per share and the closing share price of \$1.16 as at 30 June 2022. Grossed up yield takes into account franking credits at a tax rate of 30%.

<sup>3</sup> Profit reserve of \$85.5 million as at 30 June 2022 after taking into account the estimated payment of the final dividend. This equates to 22.7 cents per share and represents 4.1 years dividend coverage based on a total dividend payment of 5.6 cents per share per annum. This does not take into account any changes to share capital or options exercised in the future. No representation is made in relation to the payment of future dividends, which will be at the discretion of the Company's Board.



The Board is confident the Manager can consistently identify what it believes are high-quality companies trading at attractive valuations.

As part of ongoing governance activities, the Board continues to monitor the Company's investment strategy. The Board's decision to increase the maximum allowable allocation to global securities from 25% to 35% in March 2020 has provided additional flexibility to execute opportunistic allocations to compelling investments in global securities. The Manager believes that global listed securities can add value above the Australian equity market return, particularly where it finds the opportunity set in Australia to be limited.

Investment portfolio performance of -6.7% for the 12 months to 30 June 2022 was impacted by markets, though outperformed the benchmark by 0.1%. The Company is delivering to its investment objective of providing long-term capital growth in excess of the benchmark over minimum 5-year periods. Over an annualised 5 year period, PIC investment portfolio performance was 8.9%<sup>4</sup>, outperforming the benchmark by 2.0%.

I encourage you to read the Portfolio Manager's Report for a more detailed update on how the portfolio is being managed in the current environment. The Company also publishes an estimate of the Net Tangible Assets (NTA) of the portfolio daily to the ASX to provide transparency of the portfolio.

## Governance

The Company's Board of Directors includes independent Non-Executive Directors Virginia Malley and John Edstein, Executive Director, Amanda Gillespie and myself, Nancy Fox as Chairman. Since listing, the Board has had modest turnover enabling fresh perspectives to come in and deep experience from both independent Non-Executive Directors who have been on the Board since inception. The Board is committed to high standards of corporate governance and undertakes rigorous governance processes over the year to provide oversight of the Company's activity, performance and service providers.

The Board considers and adopts corporate governance practices set out in the ASX Corporate Governance Council Principles and Recommendations where appropriate.

This includes having various policies in place such as a Continuous Disclosure Policy, Securities Trading Policy, Risk Management Policy, Code of Conduct and Diversity Policy. The Board meets frequently throughout the year and actively discusses and reviews its strategic objectives, the performance of the Manager and a risk-aware and ethical culture.

## Shareholder communications

In a fast-evolving environment, the Board knows that now, more than ever, you want confidence in your investment and how it is being managed. The Manager sends out a monthly newsletter which you can subscribe to and have emailed directly to your inbox. Throughout the year, the Manager also presented at various conferences hosted by the ASX, Australian Shareholders Association (ASA), Switzer, Australian Investors Association and Morningstar. It has also featured on various media channels including Livewire, Equitymates and nabtrade.

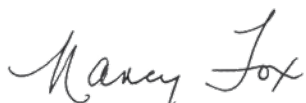
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<sup>4</sup> Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on unrealised gains and losses are excluded. Past performance is not indicative of future performance.

The Board is fully supportive of the Manager's activity and encourages you to stay informed by visiting the Company's website [www.perpetualequity.com.au](http://www.perpetualequity.com.au) for the latest company news and insights from the Manager. It also recommends that you elect to receive electronic communications to ensure you receive timely information. You can elect your communication preference by going to the Link Investor Centre at <https://investorcentre.linkmarketservices.com.au>

I hope you will join us again at the Annual General Meeting (AGM) in October this year. Thank you for your continued support.

Yours sincerely,

A handwritten signature in cursive script that reads "Nancy Fox".

**Nancy Fox** AM  
Chairman

# PORTFOLIO MANAGER'S REPORT

## AUGUST 2022

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**Vince Pezzullo**  
Portfolio Manager

Perpetual Investment Management Limited (we or Perpetual) has been investing for over 50 years and throughout that time, we have witnessed the peaks and troughs of various market cycles. Financial year 2022 (FY22) was one of the most unique and volatile years in markets in recent memory, marked by dominant macro-economic themes including rising inflation, war, spiking bond yields and swinging equity markets. Perpetual Equity Investment Company (PIC) delivered investment portfolio performance of -6.7%<sup>1</sup> for the 12 months to 30 June 2022 which outperformed the S&P/ASX 300 Accumulation Index (benchmark) by 0.1%.

As stock pickers that conduct in-depth, bottom-up research on individual companies, we stuck to our fundamental approach centred around quality and value and screened out the macro noise. While this has impacted and may continue to impact short term performance, we have a positive view on generating sustainable returns over the long-term and through the economic cycle. Our active management style and disciplined approach to investing provides the flexibility to adapt to changing market conditions including varying the portfolio's exposure to equity market risk and identifying companies that we believe are undervalued and will deliver returns over time.

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<sup>1</sup> Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on unrealized gains and losses are excluded. Past performance is not indicative of future performance.

## Market Overview

The Australian share market as measured by the benchmark finished FY22 down -6.8%. Significant and rising inflation from August 2021 was the centrepiece of the unfolding drama. Initially dismissed by central banks as “transitory”, inflation proved persistent and kept confounding pundits and policymakers alike. As significant inflation pressures began to emerge in supply chains, policymakers hoped that economic indicators in the data would start to demonstrate a return to normal. Instead, inflation proved more resilient, rising sharply through the final quarters of 2021. Early in 2022, any last hope that inflation might return to normal were dashed as war in Ukraine broke out, sending energy and food prices soaring and triggering a new round of supply disruptions. By this point, fears began to emerge that rising inflation expectations might become entrenched in the economy and central bankers turned their attention to rapidly raising interest rates to try and keep future inflation expectations “anchored” at lower levels.

The US Federal Reserve began a series of larger than usual rate increases and switched to “Quantitative Tightening”. Domestically the Reserve Bank of Australia (RBA) ditched a long-held pledge not to raise interest rates before 2024 and began to hurriedly implement a series of rate rises.

As these dynamics played out, bond markets experienced a massive reversal through the year. The crucial 10-year Australian bond yield surged above 2% in February, then 3% in April and breached 4% in June 2022 before peaking at near decade highs in mid-June of around 4.2%. This marked a sharp reversal of the decades long trend in structurally lower yields. The rise in bond yields, where income is usually paid as fixed coupon payments, was reflected in sharply lower bond prices, generating capital losses for bond holders. The Bloomberg AusBond Composite Index, which is a diverse representation of fixed interest securities, fell -10.5% for the financial year and was the worst financial year performance in at least 30 years.

We saw this same spike in bond yields lead to certain companies coming under pressure, namely the companies trading at rich valuations that had been amplified by the long decline in interest rates. Small caps and growth stocks felt the brunt of the sell off, in particular technology stocks with sky high valuations and little or no earnings. The strong swing to cyclical value stocks that had been underway since late 2020 re-emerged with greater force. In terms of sectoral performance for the market (as represented by the benchmark), Energy led the charge and rose 29.7% in the 12 months to 30 June 2022. This was driven by the invasion of Ukraine triggering sanctions against Russia and major global energy market dislocations following already-elevated levels of oil and gas demand. Information Technology fell -36.4% through the year as soaring interest rates and bond yields responded to a surge in consumer inflation. This also impacted the rate sensitive Healthcare and Real Estate sectors. Declining consumer confidence in the face of rising living costs, and falling durable purchases, also negatively impacted many consumer stocks.

## Portfolio composition

The Company's investment strategy is to create a concentrated and actively managed portfolio of Australian securities, with typically a mid-cap focus as well as investing up to 35% of the portfolio in global listed securities.

We have stayed true to our investment philosophy and process that seeks to invest in high quality businesses that trade at attractive prices below what we perceive as fair value. This is supported by our assessment of companies based on four quality filters:

1. Quality of business – This test looks at the industry in which the company operates, its market share and barriers to entry, its products and their positioning and any issues such as social and environmental impacts.
2. Conservative debt – involves strict balance sheet scrutiny to avoid overleveraged companies.
3. Sound management – Based on our assessment of the track record of a company's management. We are looking for management with a history of using shareholders' capital sensibly, a clear focus on maximising shareholder value and strong governance practices.

4. Recurring earnings – We look for companies that have at least a three year track record of generating earnings and cash flows.

Once a universe of quality companies is established, our investment team thoroughly researches and ranks these stocks and then selects the best of these ideas to populate the portfolio.

At the end of June, the portfolio composition was as follows:

- 77.8% Australian listed securities
- 17.2% Global listed securities
- 5.0% Cash

The portfolio turnover of 53% for the year was higher than previous years and reflects the active changes to the portfolio as a result of shifting market conditions. We have seen more opportunities in Australia this year compared to previous years where our allocation to global listed securities was higher.

Investment in global listed securities remains opportunistic in nature and we believe can add significant value to investors when we assess there is a limited opportunity set in Australia. As an example, we regard CSL to be a high quality stock but is trading at a price well above its value. On the other hand, we see companies like Flutter Entertainment Plc which is listed on London Stock Exchange and La Francaise Des Jeux which

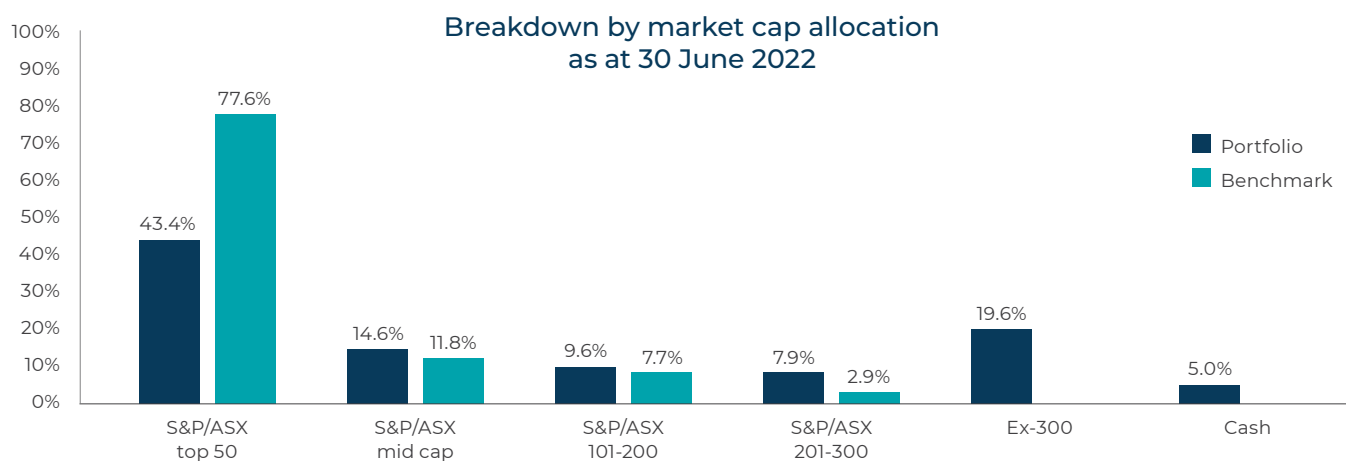
is listed on Paris Stock Exchange offering better value for investors as they are dominant in their market segments, have growing margins and excellent balance sheets. Both Flutter Entertainment Plc and La Francaise Des Jeux are long term positions in the portfolio that we have held since 2018 and they continue to be the top global positions in the portfolio.

Crucially, as an active manager, we are not fixated on one single valuation methodology or pre-set notion of investment opportunities. We are attracted to any quality business that meets our investment criteria which can include erstwhile growth companies, which are temporarily trading at discounted valuations.

The investment strategy is not constrained to the benchmark and provides investors with the opportunity to have exposures to Australian listed securities outside the top 20 by market capitalisation as well as global listed securities.

The chart on page 11 provides a breakdown of the portfolio by market capitalisation as at 30 June 2022. 43.4% of the portfolio comprises S&P/ASX50 companies which is significantly lower than the benchmark which invests 77.6% into S&P/ASX50 companies. 19.6% of the portfolio comprises companies not included in the benchmark as well as global listed securities.





Source: Perpetual. Weightings calculated based on direct investments in securities and any indirect exposure via S&P /ASX 200 related derivatives. All figures are unaudited and approximate. Allocations may not sum to 100% due to rounding.

## Investment performance

The Company's investment objective is to provide shareholders with an income stream and long-term capital growth in excess of the benchmark over minimum 5 year periods. Investment portfolio performance of -6.7% for the 12 months to 30 June 2022 was impacted by markets, though outperformed the benchmark by 0.1%. Over an annualised 5 year period, PIC investment portfolio performance was 8.9%, outperforming the benchmark by 2.0%.

Over the year, mining and energy stocks including BHP Group Limited, Western Areas Limited, Santos Limited and Jervois Global Limited were amongst the top contributors to absolute performance due to a surge in energy prices and a strong demand in export markets. Global listed securities, Flutter Entertainment Plc and La Francaise Des Jeux made valuable contributions to the portfolio in past years but gave back some gains and detracted from absolute performance in FY22. We trimmed our exposure

in Flutter to 3.8% in December and took significant profits, however have since re-established a larger position given it became undervalued amidst the sell-off in global markets in April and May 2022.

At the very end of the financial year, markets began a new rotation, punishing cyclical value and rewarding stocks we viewed as quality and defensive. We believe this is because markets started to "look through" current inflation and rate hikes to determine if the aggressive policy tightening by central banks is "too much, too late" and likely to result in a recession. Whilst we consider a recession in Europe and US seems likely, the jury is still out on whether the technical definition of a recession will be achieved in Australia. Hence, it has proven to be a more difficult investment environment. Whilst inflation may fall in the next year or two as a global economic downturn bites, we believe that some inflation will continue to persist beyond this with lingering supply issues, policy decisions (decarbonisation), demographics and other factors

conspiring to push up the cost of living and doing business.

We are confident the portfolio has been set up well in the current environment as it includes:

- Beneficiaries of inflation and the trends mentioned above – this includes Energy and Green Metal stocks (such as nickel, cobalt and rare earths used to reduce carbon emissions and create cleaner energy sources and technology) despite their cyclicity.
- Companies experiencing structural growth that we have been able to acquire at reasonable valuations. We consider companies like Flutter and La Francaise Des Jeux to be of high quality and exhibit defensive characteristics as their earnings are not sensitive to the business cycle.
- Cyclical – companies trading at discounts to mid-cycle valuation despite being quality companies with solid fundamentals. For example, Insurance Australia Group Limited.

We think this combination of cyclical domestic value stocks and high-quality global names gives our investors the right balance of quality and value opportunities for the next challenging phase of the market cycle.

One example of an attractive stock in the portfolio is Santos<sup>2</sup>. Below we have outlined our thesis for holding this high quality Australian company.

## Santos Limited

Santos is an oil and gas producer with assets in Australia and Papua New Guinea (PNG) and a development project in Alaska, that was acquired when merging with Oil Search Limited in late-2021. A key part of our investment thesis is the leverage Santos has to domestic gas and export liquefied natural gas (LNG) markets. We believe these forms of energy are key to facilitating Australia and the world to transition to a lower carbon future. The company has a strong balance sheet with a gearing ratio of 26% as at 31 March 2022 and is expected to deliver significant synergies, valued at US \$90-\$115 million from the Oil Search merger. Santos is expected to significantly reduce its carbon footprint through the Moomba

carbon capture and storage facility that is expected to be replicated at Bayu-Udan and Darwin LNG facility in the future.

A key driver of Santos' share price is global energy markets have tightened of late with oil and gas prices rallying. This follows the recovery from the COVID-19 demand shock that saw oil demand edge back towards the previous level of approximately 100 million barrels per day (mbpd). This was combined with constrained investment in new capacity due to greater capital discipline from the industry, lack of new discoveries and Environmental, Social and Governance (ESG) pressures. The disruption to supply from Russia's invasion of Ukraine tightened oil markets even further as countries and companies sanctioned Russian supply which makes up approximately 10% of global supply. Europe is also looking to diversify its sources of gas to decrease their heavy reliance on Russia and can look to do this by increasing LNG imports which has the potential to benefit Santos.

Santos is looking at selling down its assets to minimise the risk of stretching the balance sheet through over committing to projects in this inflationary

environment. This includes its asset stakes in PNG LNG, Dorado in Australia and Pikka in Alaska. Successful execution of all these sell-downs would see the company significantly exceed its target of US\$2 – 3 billion in asset sales in 2022. Although we do expect the timeline to slip into 2023 given the complexities of negotiations with various stakeholders and counter parties. We would welcome these sales as it would significantly cut Santos' capital expenditure, improve its cashflow and potentially lead to a re-rating of the stock. As at 30 June 2022, Santos comprised 7.0% of the portfolio.

## Outlook<sup>3</sup>

Economic conditions will continue to evolve and uncertainty will continue to manifest in markets. The central banks aggressive attempt to rein in inflation expectations will cause unintended consequences in both economies and the markets. This is given the central banks have no influence on the supply of goods and materials, and they cannot influence the willingness of companies to invest to expand supply in response to higher prices which is mostly due to most companies seeing this as a

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2 This example is provided for illustrative purposes only and is not a recommendation. Past performance is not indicative of future performance.

3 Forward looking statements are subject to risk factors. PIC and Perpetual caution against relying on any of these statements, due to uncertainty and volatility in the market.

significant pull forward of demand from fiscal and monetary largesse. We see the only influence central banks can have is on demand and to achieve a reduction in demand, we will see a tightening in liquidity and financial conditions. This will force many companies to face up to this new reality with many early phase/profitless companies not surviving. We have long believed that markets are poised for further rotation to a more value-oriented investment environment as COVID-19 disruptions, waning stimulus and war combine to keep consumer price inflation at high levels. But we must also be willing to pivot the portfolio when the markets are pricing in overly aggressive rate expectations. With fear of a deep and long recession, this will be factored into markets and this will provide opportunities to redeploy capital.

Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct.

In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. In these conditions our focus on value style investing, buying quality companies with strong balance sheets trading at reasonable valuations should continue to do well and offer attractive opportunities for investors.

Through these times, we remain focused on investing for the long term, and preserving the capital of our shareholders, with our active investing approach well placed to take advantage of the opportunities ahead.

Thank you for your continued support and trust. I hope you will join us at the Investment Manager Update in October this year.



**Vince Pezzullo**  
Portfolio Manager

# INVESTMENT PORTFOLIO

## Investment Portfolio

	Market value \$'000
<b>List of investments held at 30 June 2022</b>	
<b>Australian listed securities</b>	
29Metals Limited	4,553
A2 Milk Company Limited	15,103
Baby Bunting Group Limited	7,996
Bapcor Limited	21,552
BHP Group Limited	16,433
Brambles Limited	24,597
Deterra Royalties Limited	9,402
Healius Limited	11,764
HT&E Limited	9,150
Iluka Resources Limited	26,329
Insurance Australia Group Limited	36,813
Jervois Global Limited	9,532
Judo Capital Holdings Limited	4,088
Mirvac Group	11,149
Newcrest Mining Limited	14,560
Nobleoak Life Limited	1,866
Orica Limited	18,252
PWR Holdings Limited	1,823
Qantas Airways Limited	18,312
Santos Limited	31,230
Select Harvests Limited	7,066
Suncorp Group Limited	19,037
Tabcorp Holdings Limited	5,378
Westpac Banking Corporation	21,648
<b>Total Australian listed securities</b>	<b>347,633</b>
<b>Global listed securities</b>	
De' Longhi SpA	10,700
Flutter Entertainment Plc	28,274
La Francaise des Jeux SA	26,914
Light & Wonder, Inc.	10,710
<b>Total global listed securities</b>	<b>76,598</b>
<b>Derivatives</b>	
Foreign currency forward contracts	(513)
<b>Total derivatives</b>	<b>(513)</b>
<b>Cash and deposit products</b>	
Cash at bank	22,311
<b>Total cash and deposit products</b>	<b>22,311</b>
<b>Total</b>	<b>446,029</b>

The total number of transactions entered during the year was 1,022.

The total brokerage paid during the year was \$1,642,143 (GST inclusive).

# DIRECTORS' REPORT

## Directors' report

The Directors present their report together with the annual financial report of Perpetual Equity Investment Company Limited (the Company) for the year ended 30 June 2022 and the auditor's report thereon.

### Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

#### **Nancy Fox, Chairman and Non-Executive Director** **BA, JD (Law), AM, FAICD**

Appointed Chairman and Director on 1 July 2017. Nancy Fox is a member of the Company's Nomination and Corporate Governance Committee and the Audit and Risk Committee from 16 October 2020.

Nancy Fox is currently a Non-Executive Director of Perpetual Limited, the Chairman of Perpetual People and Remuneration Committee and a member of Perpetual Audit, Risk and Compliance Committee. She is also a Non-Executive Director of Lawcover Pty Ltd, Mission Australia and Aspect Studios Pty Ltd.

Nancy Fox has over 30 years of experience in financial services, securitisation and risk management gained in Australia, the US and across Asia. A lawyer by training, she was Managing Director for Ambac Assurance Corporation from 2001 to 2011, Managing Director of ABN Amro Australia from 1997 to 2001 and Vice President of Citibank.

Listed company directorship held during the past three financial years:

- Perpetual Limited (from September 2015 to present)

#### **Virginia Malley, Non-Executive Director** **BA, MAppFin, Juris Doctor, GradDipEnvLaw, LLM, FAICD**

Appointed Director on 25 August 2014. Virginia Malley is the Chairman of the Audit and Risk Committee and a member of the Nomination and Corporate Governance Committee of the Company.

Virginia Malley is currently a Non-Executive Director of icare, Deputy Chair of the NSW Biodiversity Conservation Trust, Chair of the Review Panel of the Australian Carbon Industry Code Of Conduct, and Chair of Pinnacle Fund Services and Bell Asset Management Compliance Committees.

Virginia Malley has over 30 years of experience in financial services and environmental markets, corporate governance, risk management and regulatory compliance.

Virginia has previously served on the boards of Macquarie Investment Management Ltd, Perpetual Superannuation Limited, the Clean Energy Regulator, Morpnic Ethical Equities Fund Ltd and the Nature Conservation Trust of NSW. In her executive career, she was the Chief Risk Officer at Macquarie Funds Management Group, overseeing risk management of portfolios worth more than \$85 billion and invested in clean technologies, publicly traded debt securities, listed equities, derivatives, currencies and private equity.

Listed company directorship held during the past three financial years:

- Morpnic Ethical Equities Limited (from March 2017 to 2020)



## Directors' report (continued)

### **John Edstein, Non-Executive Director** **BEC, LLB, LLM (Hons), MAICD**

Appointed Director on 26 September 2014. John Edstein is the Chairman of the Nomination and Corporate Governance Committee and a member of the Audit and Risk Committee of the Company.

John Edstein is currently a Director of Macquarie Investment Management Limited (MIML) (appointed 1 July 2013) and the Chairman of that board (appointed 16 November 2017). MIML is the trustee of Macquarie's publicly offered superannuation fund and operator of Macquarie's investment platform business. John is a Director and shareholder of, and Special Counsel for, Walsh Bay Partners Pty Ltd (a boutique financial advisory business for high net worth individuals, families and foundations).

John Edstein has over 40 years of experience as a legal practitioner. His primary practice areas have been superannuation, life insurance and trusts and the tax aspects of those areas. That experience has included extensive consideration of corporate law, corporate governance and the legal aspects of investment structures. John was a Director of Retail Employees Superannuation Pty Ltd (Trustee of the Retail Employees Superannuation Trust (REST)) from 2013 to 2020. He was a partner in the Tax and Superannuation Group of King & Wood Mallesons (formerly Mallesons Stephen Jaques) from 1990 to 2012 and was National Practice Team Leader of that group from 2006 to 2011. He was a member of the Law Council of Australia Superannuation Committee from 1988 to 2008 and is now an Emeritus Member and is a member of the Tax Institute of Australia and is a Chartered Tax Adviser.

### **Amanda Gillespie (Apted), Executive Director** **BEco/Econ (Hons), GAICD**

Appointed Director on 13 May 2021.

Amanda Gillespie (Apted) is a Director of Perpetual Investment Management Limited (the Manager). Amanda is also the Group Executive of Perpetual Asset Management Australia. She is responsible for leading the Australian division of Perpetual Asset Management, which includes the Australian Equities, Credit & Fixed Income, Global Innovation Share and Multi Asset investment management teams. Amanda joined Perpetual in February 2018 and has held the prior roles of General Manager Client Solutions & Strategy and more recently, General Manager Perpetual Investments.

Amanda Gillespie (Apted) has more than 21 years of experience in asset management and investment research. Prior to joining Perpetual, Amanda was Chief Executive Officer of Lonsec where she played a key role in building out Lonsec's investment and superannuation research and consulting capabilities.

## **Company Secretary**

### **Sylvie Dimarco** **LLB, GradDipAppCorpGov, FGIA, FCIS, GAICD**

Appointed Company Secretary on 25 August 2014.

Sylvie Dimarco joined Perpetual Limited in 2014 and is currently Head of Company Secretariat and Governance. She is also Company Secretary of Perpetual Limited and all of Perpetual's subsidiary boards.

Sylvie Dimarco has over 15 years of experience in company secretariat practice and administration for listed and unlisted companies. Before Perpetual, she practiced as a commercial lawyer in Sydney and Canberra for 11 years, working in predominantly mid-sized law firms.

## Directors' report (continued)

### Directors' meetings

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2022:

	Board		Audit and Risk Committee		Nomination and Corporate Governance Committee	
	Held	Attended	Held	Attended	Held	Attended
<b>Directors</b>						
Nancy Fox	5	5	5	5	3	3
Virginia Malley	5	5	5	5	3	3
John Edstein	5	5	5	5	3	3
Amanda Gillespie (Apted)	5	5	5	5	3	3

### Corporate Governance Statement

The Company's Corporate Governance Statement, which meets the requirements of Australian Securities Exchange Listing Rule 4.10.3, is provided on the Company's website at [www.perpetualequity.com.au](http://www.perpetualequity.com.au).

### Principal activities

The Company is a listed investment company established to invest in a concentrated and actively managed portfolio of Australian listed securities with typically a mid-cap focus and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. The investment objective of the Company is to provide investors with an 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.

### Review of operations

	30 June 2022 \$'000	30 June 2021 \$'000
Profit/(loss) before income tax	(32,367)	152,912
Income tax benefit/(expense)	<u>14,461</u>	<u>(44,556)</u>
Profit/(loss) for the year attributable to shareholders	<u>(17,906)</u>	<u>108,356</u>

As at 30 June 2022, the Company's Net Tangible Assets (NTA) after tax were \$1.191 per share. This represents a decrease of -8.3% compared to NTA after tax of \$1.299 per share as at 30 June 2021.

The decrease in NTA was predominantly attributable to elevated market volatility in global and local markets in the second half of the year. Additionally, the Company paid two fully franked dividends totalling 5.6 cents per share during the year.

The Manager has remained disciplined in following its investment philosophy and process which focuses on quality and value. The Manager's investment process aims to identify quality businesses with recurring earnings, conservative debt and sound management that are trading at attractive valuations. This is underpinned by the Manager's thorough research and analysis on securities held in the portfolio. The Manager incorporates Environmental, Social and Governance (ESG) matters into its investment analysis and decision-making practices.

Further information on the operating and financial review of the Company and its future operation is contained in the Chairman's Report and Portfolio Manager's Report.

## Directors' report (continued)

### Dividends

Dividends paid or provided by the Company to shareholders were:

	Cents per share	Total amount \$'000	Franking	Payment date
<b>Declared and paid during the financial year 2022</b>				
Final 2021 dividend	2.8	10,459	100%	20 October 2021
Interim 2022 dividend	2.8	10,509	100%	29 April 2022

### Declared after the end of financial year 2022

On 24 August 2022, the Directors declared:

Final 2022 dividend	3.3	12,408	100%	19 October 2022
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The final 2022 dividend is comprised of an ordinary dividend of 2.8 cents per share and a special dividend of 0.5 cents per share. Both ordinary and special dividends are fully franked at a tax rate of 30%. The total dividend amount is estimated based on the number of shares on issue as at 30 June 2022. The number of shares entitled for a dividend on record date may increase from the exercise of options.

The financial effect of dividends declared after year end is not reflected in the financial statements for the year ended 30 June 2022 and will be recognised in the subsequent financial statements.

### State of affairs

The Company transitioned its administration and custody services from RBC Investor Services Trust to State Street Australia Limited on and from 27 September 2021.

There were no other significant changes in the state of affairs of the Company during the financial year other than the matters disclosed under the review of operations.

### Events subsequent to reporting date

The Directors are not aware of any event or circumstance since the end of the financial year not otherwise dealt with in this report that has or may significantly affect the operations of the Company, the results of these operations or the state of affairs of the Company in the subsequent financial years.

### Likely developments

The Company will continue to be managed in accordance with its investment objectives and guidelines (as amended) and in accordance with the provisions of the Company's Constitution.

### Environmental regulation

The operations of the Company are not subject to any particular or significant environmental regulations under a law of the Commonwealth, or of a State or Territory.

## Directors' report (continued)

### Remuneration report: Audited

This report sets out the remuneration arrangements for all Key Management Personnel, being the Non-Executive Directors and the Executive Director of Perpetual Equity Investment Company Limited for the year ended 30 June 2022. The information in this Remuneration report has been audited by the Company's auditor, KPMG, as required by section 308(3C) of the *Corporations Act 2001*.

#### (a) Key management personnel

Below are the Company's Key Management Personnel for the year ended 30 June 2022:

Name	Position	Term
Nancy Fox	Chairman and Non-Executive Director	Full year
Virginia Malley	Non-Executive Director	Full year
John Edstein	Non-Executive Director	Full year
Amanda Gillespie (Apted)	Executive Director	Full year

#### (b) Remuneration of directors

##### *Remuneration policy*

The Board, with the recommendation of the Nomination and Corporate Governance Committee, determines the size and composition of the Board and its Committees. The Company has not established a remuneration committee as the Board has determined it is not necessary to establish a separate remuneration committee given there are no paid employees.

The Board reviews and approves the remuneration of individual Board members. Remuneration paid to the Non-Executive Directors aims to ensure the Company can attract and retain suitably skilled, experienced and committed individuals.

Non-Executive Directors do not receive performance-related remuneration.

The Executive Director, Amanda Gillespie (Apted) is not entitled to Directors' fees or any other form of remuneration from the Company for her services. She is a Director of Perpetual Investment Management Limited (the Manager) and the Group Executive of Perpetual Asset Management Australia. Her remuneration is governed by the remuneration policy of Perpetual Limited, the parent company of the Manager.

##### *Fee framework*

Non-Executive Directors receive a base fee. They do not receive additional fees for participating in Board Committees. Total remuneration available to the Directors is a maximum of \$250,000 as set out in the Company's Constitution (excluding the Executive Director). Any increase in the aggregate amount of Directors' fees over \$250,000 must be approved by a resolution of the shareholders as required by the Company's Constitution.

	30 June 2022	30 June 2021
	\$	\$
<b>Non-Executive Directors' fees</b>		
Chairman	65,000	55,000
Directors	55,000	44,000
Audit and Risk Committee	-	-
Nomination and Corporate Governance Committee	-	-

The fees above are inclusive of superannuation contributions, capped at the maximum prescribed under Superannuation Guarantee legislation. Non-Executive Directors may also salary-sacrifice superannuation contributions out of their base fees if they so wish.

## Directors' report (continued)

### Remuneration report: Audited (continued)

#### (b) Remuneration of directors (continued)

##### Remuneration of directors

The following table sets out the Directors' remuneration for the years ended 30 June 2022 and 30 June 2021.

Name	Directors' fees \$	Superannuation \$	Total \$
<b>Directors</b>			
Nancy Fox			
<b>2022</b>	<b>63,523</b>	<b>1,477</b>	<b>65,000</b>
2021	50,171	4,829	55,000
Virginia Malley			
<b>2022</b>	<b>49,943</b>	<b>5,057</b>	<b>55,000</b>
2021	42,091	1,909	44,000
John Edstein			
<b>2022</b>	<b>49,943</b>	<b>5,057</b>	<b>55,000</b>
2021	40,137	3,863	44,000
Amanda Gillespie (Apted)			
<b>2022</b>	-	-	-
2021	-	-	-
<b>Former Director</b>			
Christine Feldmanis*			
2021	11,697	1,111	12,808
<b>Total 2022</b>	<b>163,409</b>	<b>11,591</b>	<b>175,000</b>
Total 2021	144,096	11,712	155,808

\*Retired on 15 October 2020.

Non-Executive Directors do not receive any non-cash benefits as part of their remuneration.

Amanda Gillespie (Apted) is not entitled to Directors' fees or any other form of remuneration from the Company for her services. She is remunerated by Perpetual Limited, the parent company of the Manager.

##### Link between the Directors' remuneration and the Company's performance

	2022	2021	2020	2019	2018
Profit/(loss) after tax (\$'000)	(17,906)	108,356	(434)	15,219	24,827
Dividends paid (cents per share)	5.6	5.6	6.6	6.4	5.5
NTA after tax (\$ per share)	1.191	1.299	1.046	1.117	1.139
Directors' remuneration (\$)	175,000	155,808	187,000	187,000	170,000
Shareholder's equity (\$'000)	449,551	484,486	363,822	385,225	289,987
Closing share price (\$)	1.160	1.300	0.905	1.040	1.170
Closing option price (\$)	0.001	0.011	-	-	-

The Directors are considered the Key Management Personnel of the Company. The Company does not have any paid employees.

The Directors' remuneration is fixed.



## Directors' report (continued)

### Remuneration report: Audited (continued)

#### (c) Retirement policy

Directors who have been in office for three years since their last election must retire and may seek re-election at the Company's next Annual General Meeting of shareholders.

The Company's Board Tenure and Performance Policy provides that in order to revitalise the Board, Directors should not seek re-election after three elected terms of three years unless the Board (through the Nomination and Corporate Governance Committee) requests them to do so.

#### (d) Key Management Personnel shareholdings and optionholdings held directly or indirectly

The number of ordinary shares and options of the Company that each Director held at the reporting date were:

Name	Instrument	Balance at 1 July 2021	Quantity acquired	Quantity disposed	Balance at 30 June 2022
<b>Directors</b>					
Nancy Fox	Shares	317,970	7,011	-	324,981
	Options	317,970	-	-	317,970
Virginia Malley	Shares	149,567	6,515	-	156,082
	Options	149,567	-	-	149,567
John Edstein	Shares	130,648	-	-	130,648
	Options	130,648	-	-	130,648
Amanda Gillespie (Apted)	Shares	-	-	-	-
	Options	-	-	-	-

Options held by the Directors are under the same terms and conditions as disclosed in note 12(b) of the financial statements.

*End of Remuneration Report: Audited*

#### Indemnification of directors and officers

The Company indemnifies, to the extent permitted by law, each Director in respect of certain liabilities which the Director may incur as a result of being or acting as an officer of the Company, including legal expenses. The auditor of the Company is in no way indemnified out of the assets of the Company.

#### Insurance

In accordance with the provisions of the *Corporations Act 2001*, the Company has a directors and officers' liability policy of insurance which covers all Directors and officers of the Company. The insurance policy covers the Directors for the period that they are officers and for seven years after they cease to act as officers. The terms of the policy specifically prohibit disclosure of details of the amount of the insurance cover and the premium paid.

#### Non-audit services

There were no fees paid to KPMG for non-audit services for the year ended 30 June 2022 and 30 June 2021.

#### Lead auditor's independence declaration

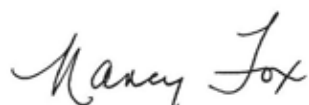
A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

## Directors' report (continued)

### Rounding of amounts to the nearest thousand dollars

The Company is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in the Directors' report and annual financial report have been rounded to the nearest thousand dollars in accordance with the Legislative Instrument, unless otherwise indicated.

Signed on behalf and in accordance with a resolution of the Directors:



Chairman

Sydney  
24 August 2022



Director



## LEAD AUDITOR'S INDEPENDENT DECLARATION

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Perpetual Equity Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Perpetual Equity Investment Company Limited for the financial year ended 30 June 2022 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

K Hopkins

Karen Hopkins

*Partner*

Sydney

24 August 2022

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# STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

## Statement of profit or loss and other comprehensive income

	Notes	30 June 2022 \$'000	30 June 2021 \$'000
<b>Investment income</b>			
Dividend income		20,691	7,924
Interest income		12	11
Net gains/(losses) on financial instruments at fair value through profit or loss	5(c)	(44,471)	151,419
Net foreign exchange gains/(losses)		(117)	40
Other income		-	71
<b>Total net investment income/(loss)</b>		<u>(23,885)</u>	<u>159,465</u>
<b>Expenses</b>			
Management fees	6(a)	5,340	4,390
Other expenses	6(b)	3,142	2,163
<b>Total expenses</b>		<u>8,482</u>	<u>6,553</u>
<b>Profit/(loss) before income tax</b>		<u>(32,367)</u>	<u>152,912</u>
Income tax benefit/(expense)	7(a)	14,461	(44,556)
<b>Profit/(loss) after income tax</b>		<u>(17,906)</u>	<u>108,356</u>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>(17,906)</u>	<u>108,356</u>
<b>Earnings per share</b>			
Basic earnings per share (cents per share)	4	<u>(4.78)</u>	<u>31.00</u>
Diluted earnings per share (cents per share)	4	<u>(4.78)</u>	<u>31.00</u>

*The Statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

# STATEMENT OF FINANCIAL POSITION

## Statement of financial position

	Notes	30 June 2022 \$'000	30 June 2021 \$'000
<b>Assets</b>			
Cash and cash equivalents	11(c)	22,311	39,109
Financial assets at fair value through profit or loss	8	424,231	490,609
Receivables	9	1,273	810
Deferred tax asset	7(c)	10,082	-
<b>Total assets</b>		<u>457,897</u>	<u>530,528</u>
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	8	513	-
Payables	10	954	4,444
Current tax payable		6,879	9,635
Deferred tax liability	7(c)	-	31,963
<b>Total liabilities</b>		<u>8,346</u>	<u>46,042</u>
<b>Net assets</b>		<u>449,551</u>	<u>484,486</u>
<b>Equity</b>			
Contributed equity	12(a)	389,575	385,637
Retained earnings		(37,936)	1,970
Profit reserve		97,912	96,879
<b>Total equity</b>		<u>449,551</u>	<u>484,486</u>

*The Statement of financial position should be read in conjunction with the accompanying notes.*

# STATEMENT OF CHANGES IN EQUITY

## Statement of changes in equity

	Notes	Contributed Equity \$'000	Retained Earnings \$'000	Profit Reserve \$'000	Total \$'000
<b>Balance at 1 July 2021</b>		<b>385,637</b>	<b>1,970</b>	<b>96,879</b>	<b>484,486</b>
Total comprehensive income for the year		-	(17,906)	-	(17,906)
Transfers to profit reserve		-	(22,000)	22,000	-
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	12(a)	1,849	-	-	1,849
Shares issued from exercise of options	12(a)	2,089	-	-	2,089
Dividends paid	3(a)	-	-	(20,967)	(20,967)
<b>Balance at 30 June 2022</b>		<b>389,575</b>	<b>(37,936)</b>	<b>97,912</b>	<b>449,551</b>

	Notes	Contributed Equity \$'000	Retained Earnings \$'000	Profit Reserve \$'000	Total \$'000
Balance at 1 July 2020		353,827	(3,386)	13,381	363,822
Total comprehensive income for the year		-	108,356	-	108,356
Transfers to profit reserve		-	(103,000)	103,000	-
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	12(a)	1,703	-	-	1,703
Shares issued from share purchase plan	12(a)	30,278	-	-	30,278
Transaction costs (net of tax)	12(a)	(171)	-	-	(171)
Dividends paid	3(a)	-	-	(19,502)	(19,502)
Balance at 30 June 2021		385,637	1,970	96,879	484,486

*The Statement of changes in equity should be read in conjunction with the accompanying notes.*

# STATEMENT OF CASH FLOWS

## Statement of cash flows

	30 June 2022	30 June 2021
Notes	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Dividends received	20,274	7,492
Interest received	-	11
Other income received	452	429
Management fees paid	(5,757)	(4,617)
Income tax paid	(30,340)	(2,003)
Other expenses paid	(3,382)	(2,045)
<b>Net cash inflow/(outflow) from operating activities</b>	<u>11(a) (18,753)</u>	<u>(733)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	573,945	387,207
Payments for purchase of investments	(554,705)	(380,155)
<b>Net cash inflow/(outflow) from investing activities</b>	<u>19,240</u>	<u>7,052</u>
<b>Cash flows from financing activities</b>		
Proceeds from share purchase plan	12(a) -	30,278
Proceeds from exercise of options	12(a) 2,089	-
Payments for transaction costs	(256)	(6)
Dividends paid - net of dividend reinvestment plan	(19,118)	(17,799)
<b>Net cash inflow/(outflow) from financing activities</b>	<u>(17,285)</u>	<u>12,473</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(16,798)</b>	<b>18,792</b>
Cash and cash equivalents at the beginning of the year	<u>39,109</u>	<u>20,317</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>11(c) 22,311</u>	<u>39,109</u>

The above Statement of cash flows should be read in conjunction with the accompanying notes.



# NOTES TO THE FINANCIAL STATEMENTS

## 1 Reporting entity

Perpetual Equity Investment Company Limited (the Company) is domiciled in Australia. The Company was incorporated on 25 August 2014. The address of the Company's registered office is at Level 18, 123 Pitt Street, Sydney NSW 2000.

The Company is a listed investment company established to invest in a concentrated and actively managed portfolio of Australian listed securities with typically a mid-cap focus and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. The investment objective of the Company is to provide investors with an 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. The investment activities of the Company are managed by Perpetual Investment Management Limited (the Manager).

The annual financial report for the year ended 30 June 2022 was authorised for issue by the Directors on 24 August 2022.

## 2 Basis of preparation

The annual financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the annual financial report.

The annual financial report has been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

### *Compliance with International Financial Reporting Standards*

The annual financial report also complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

### *Use of estimates*

Management makes estimates and assumptions that affect the reported amounts in the financial statements. Estimates and associated assumptions are reviewed regularly and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. Where applicable to the fair value measurement, the changing market conditions impacted by the coronavirus (COVID-19) pandemic is assessed and estimated. Actual results may differ from these estimates.

For the majority of the Company's financial instruments, quoted market prices are readily available. However, when certain financial instruments are fair valued using valuation techniques (for example, pricing models), observable data is used to the extent practicable. The use of estimates and critical judgements in fair value measurement is described in notes 8 and 13(d).

### *Functional and presentation currency*

The annual financial report is presented in Australian dollars, which is the Company's functional currency.

### *New accounting standards and interpretations*

There are no new accounting standards, amendments and interpretations effective for the first time for the financial year beginning 1 July 2021 that have a material impact on the Company.

### 3 Dividends

The Company currently intends to pay a dividend twice a year. The amount of the dividend will be at the discretion of the Board and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors that the Board deems relevant. It is the Board's intention that all dividends paid will be franked to 100% or to the maximum extent possible.

#### (a) Dividends paid

30 June 2022	Cents per share	Total amount \$'000	Franking	Payment date
Final 2021 ordinary	2.8	10,459	100%	20 October 2021
Interim 2022 ordinary	2.8	10,508	100%	29 April 2022
<b>Total</b>	<b>5.6</b>	<b>20,967</b>		

30 June 2021	Cents per share	Total amount \$'000	Franking	Payment date
Final 2020 ordinary	2.8	9,739	100%	23 October 2020
Interim 2021 ordinary	2.8	9,763	100%	26 April 2021
<b>Total</b>	<b>5.6</b>	<b>19,502</b>		

All dividends paid were fully franked at a tax rate of 30% and paid out of the profit reserve.

#### (b) Subsequent events

On 24 August 2022, the Directors declared the following dividend.

	Cents per share	Total amount \$'000	Franking	Payment date
Final 2022 ordinary and special	3.3	12,408	100%	19 October 2022

The final 2022 dividend is comprised of an ordinary dividend of 2.8 cents per share and a special dividend of 0.5 cents per share. Both ordinary and special dividends are fully franked based on a tax rate of 30%. The total dividend amount is estimated based on the number of shares on issue as at 30 June 2022. The number of shares entitled for a dividend on the record date may increase from the exercise of options.

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2022 and will be recognised in the subsequent financial statements.

#### *Dividend reinvestment plan*

The Company has established a dividend reinvestment plan under which eligible shareholders may elect to have all or part of their dividend entitlements satisfied by the issue of ordinary shares rather than by being paid in cash.

### 3 Dividends (continued)

#### (c) Franking account

	<b>30 June 2022</b>	<b>30 June 2021</b>
	<b>\$'000</b>	<b>\$'000</b>
The available balance in the franking account at the reporting date	<u>33,899</u>	<u>8,613</u>
Impact on franking account of the final dividend declared after the reporting date but not recognised as a liability at the reporting date	<u>5,318</u>	<u>4,476</u>
The available balance in the franking account after the adjustment for the final dividend declared after the reporting date	<u>28,581</u>	<u>4,137</u>

The available balance in the franking account includes the adjustments for franking credits that will arise from the payment of current tax liabilities and from the receipt of dividends recognised as receivables at the reporting date.

### 4 Earnings per share

	<b>30 June 2022</b>	<b>30 June 2021</b>
Basic earnings per share (cents per share)	<u>(4.78)</u>	<u>31.00</u>
Diluted earnings per share (cents per share)	<u>(4.78)</u>	<u>31.00</u>
Profit/(loss) after income tax attributable to shareholders (\$'000)	<u>(17,906)</u>	<u>108,356</u>
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	<u>374,386,549</u>	<u>349,570,566</u>

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue and ordinary shares that the Company expects to issue through the exercise of outstanding options for the reporting period. In the calculation of diluted earnings per share, options are not considered to have a dilutive effect, as the average market price of ordinary shares of the Company during the period did not exceed the exercise price of the options.

## 5 Investment income

### (a) Dividend income

Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss when the Company's right to receive payment is established.

### (b) Interest income

Interest income includes interest from cash and cash equivalents and is recognised using the effective interest rate method.

### (c) Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) arising from changes in the fair value measurement comprise:

	30 June 2022 \$'000	30 June 2021 \$'000
Net unrealised gains/(losses) on financial instruments at fair value through profit or loss	(137,255)	115,270
Net realised gains/(losses) on financial instruments at fair value through profit or loss	<u>92,784</u>	<u>36,149</u>
<b>Net gains/(losses) on financial instruments at fair value through profit or loss</b>	<b><u>(44,471)</u></b>	<b><u>151,419</u></b>

### (d) Other income

Other income is brought to account on an accruals basis.

### (e) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as net foreign exchange gains/(losses).

Translation differences on financial assets and liabilities carried at fair value are reported as part of their fair value gain or loss.

## 6 Expenses

All expenses are recognised, net of the amount of Goods and Services Tax (GST) recoverable from the taxation authority, in profit or loss on an accruals basis.

### (a) Management fees

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. In accordance with the Replacement Prospectus dated 14 October 2014, the Portfolio Net Asset Value means the market value of the assets of the Portfolio, reduced by any accrued but unpaid expenses of the Company, but not provisions for tax payable or unpaid dividends of the Company, and after subtracting any borrowings drawn down. The management fees are calculated and accrued daily and paid monthly in arrears.

## 6 Expenses (continued)

### (a) Management fees (continued)

	30 June 2022 \$'000	30 June 2021 \$'000
Management fees	5,340	4,390

The Manager was appointed in 2014 for an initial term of five years. The Management Agreement was extended in 2019 for a further five-year term (extended term) unless terminated earlier in accordance with its terms.

If the Management Agreement is terminated during the extended term, then in certain circumstances the Manager will be entitled to a termination payment equal to 5.0%, reduced by one sixtieth (1/60) for each whole calendar month elapsed between the commencement of the extended term and the termination date, of the net tangible assets backing of each share in each class of shares in the Company as calculated under the ASX Listing Rules multiplied by the number of shares on issue in that class of shares as at the termination date.

The Manager paid for the costs incurred in raising capital under and in accordance with the Prospectus dated 20 August 2018. If the Management Agreement is terminated during the extended term, then in certain circumstances the Manager will be entitled to be reimbursed for these costs, multiplied by the number of days in the period from the date of termination to the last day of the extended term and divided by the number of days in the period from the date of issue of the new shares to the last day of the extended term.

### (b) Other expenses

	30 June 2022 \$'000	30 June 2021 \$'000
Directors' remuneration	175	156
Auditors' remuneration	96	83
ASX fees	102	288
Registry services	151	121
Custody administration fees	106	74
Brokerage	1,575	863
Other operating expenses	937	578
<b>Total other expenses</b>	<b>3,142</b>	<b>2,163</b>

### (c) Auditor's remuneration

	30 June 2022 \$	30 June 2021 \$
Amount received or due and receivable by KPMG:		
Audit and review of financial statements	84,556	83,389
Other regulatory assurance services	11,385	-

## 7 Income tax

In accordance with the *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017*, the Company is subject to 30% tax on its earnings and any tax payments for the year ended 30 June 2022 (2021: 30%).

### (a) Income tax benefit/(expense)

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Current tax</b>		
Current income tax expense	(27,524)	(10,175)
Adjustment for prior years	(60)	-
<b>Deferred tax</b>		
Temporary differences	42,045	(34,308)
Transaction costs recognised in equity	-	(73)
<b>Total income tax benefit/(expense)</b>	<u>14,461</u>	<u>(44,556)</u>

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and, where applicable, any adjustment to tax payable in respect of previous periods. Current tax assets and liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is explained in note 7(c).

### (b) Reconciliation of income tax benefit/(expense) to prima facie tax payable

	30 June 2022 \$'000	30 June 2021 \$'000
Profit/(loss) before income tax	(32,367)	152,912
Prima facie income tax calculated at Company's tax rate of 30%	9,710	(45,874)
<i>(Increase)/decrease tax payable</i>		
Franking credits	4,689	1,209
Foreign income tax offsets	198	102
Non-assessable income	(76)	7
Adjustment for prior years	(60)	-
<b>Income tax benefit/(expense)</b>	<u>14,461</u>	<u>(44,556)</u>

## 7 Income tax (continued)

### (c) Deferred tax asset/(liability)

The balance comprises temporary differences attributable to:

	30 June 2022	30 June 2021
	\$'000	\$'000
Net unrealised (gains)/losses	10,004	(32,067)
Transaction costs available for future tax deductions	78	104
<b>Total deferred tax asset/(liability)</b>	<b>10,082</b>	<b>(31,963)</b>

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax liability is recognised when the carrying amount of an asset exceeds its tax base.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax balances relate to the same taxation authority.

## 8 Financial assets and liabilities at fair value through profit or loss

	30 June 2022	30 June 2021
	\$'000	\$'000
Derivatives		
Foreign currency forward contracts	-	424
Equity securities	424,231	490,185
<b>Total financial assets at fair value through profit or loss</b>	<b>424,231</b>	<b>490,609</b>
Derivatives		
Foreign currency forward contracts	513	-
<b>Total financial liabilities at fair value through profit or loss</b>	<b>513</b>	<b>-</b>

### Classification

The Company classifies its investments based on its business model for managing those financial instruments and their contractual cash flow characteristics. The Company's investment portfolio is managed and its performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company evaluates the information about its investments on a fair value basis together with other related financial information.

Equity securities and derivatives are classified as financial assets at fair value through profit or loss. Derivative contracts that have negative values are presented as financial liabilities at fair value through profit or loss.



## 8 Financial assets and liabilities at fair value through profit or loss (continued)

### *Recognition/derecognition*

The Company recognises financial assets and liabilities on the date it becomes party to the purchase contractual agreement (trade date). Financial assets and liabilities are derecognised on the date the Company becomes party to the sale contractual agreement (trade date).

### *Fair value measurement*

At initial recognition, the Company measures the financial assets and liabilities at fair value. Transaction costs are expensed in profit or loss as incurred. Subsequently, all financial assets and liabilities are measured at fair value without any deduction for estimated future selling costs. Gains and losses arising from changes in the fair value measurement are recognised in profit or loss in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### (i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the end of the reporting date without any deductions for the estimated future selling cost. Equity securities and exchange traded derivatives are valued at the last traded price.

#### (ii) Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. Foreign currency forward contracts are valued at the prevailing bid price at the end of the reporting period.

### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## 9 Receivables

	30 June 2022 \$'000	30 June 2021 \$'000
Dividends receivable	976	559
Interest receivables	12	-
GST receivable	164	169
Withholding tax receivable	115	82
Receivables from securities sold	6	-
<b>Total receivables</b>	<u>1,273</u>	<u>810</u>

Receivables are recognised when a right to receive payment is established.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Company shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Receivables are stated inclusive of the amount of GST.

## 10 Payables

	30 June 2022 \$'000	30 June 2021 \$'000
Payables for securities purchased	425	3,482
Accrued expenses comprising:		
Management fees	426	452
Directors' remuneration	44	36
Capital raising costs	-	461
Other payables	59	13
<b>Total payables</b>	<u>954</u>	<u>4,444</u>

Payables are recognised when the Company becomes a party to the contractual provisions of the agreement.

Payables are stated inclusive of the amount of GST.

## 11 Notes to the statement of cash flows

### (a) Reconciliation of profit/(loss) after income tax to net cash flows from operating activities

	30 June 2022 \$'000	30 June 2021 \$'000
Profit/(loss) after income tax	(17,906)	108,356
(Increase)/decrease in dividends receivable	(417)	(432)
(Increase)/decrease in interest receivable	(12)	-
(Increase)/decrease in other receivables	(28)	(58)
(Increase)/decrease in deferred tax asset	(10,082)	2,345
Increase/(decrease) in payables	(177)	307
Increase/(decrease) in current tax payable	(2,756)	8,172
Increase/(decrease) in deferred tax liability	(31,963)	31,963
Net (gains)/losses on financial instruments at fair value through profit or loss	44,471	(151,419)
Net foreign exchange gains/(losses)	117	(40)
Tax on transaction costs recognised in equity	-	73
<b>Net cash flows from operating activities</b>	<b>(18,753)</b>	<b>(733)</b>

Cash flows are presented on a gross basis. The GST components of cash flows arising from operating and investing activities, which are recovered from the taxation authority, are recognised separately as other income received in the operating cash flows.

### (b) Non-cash financing activities

	30 June 2022 \$'000	30 June 2021 \$'000
During the year, the following dividend payments were satisfied by the issue of shares under the dividend reinvestment plan	1,849	1,703

### (c) Components of cash and cash equivalents

	30 June 2022 \$'000	30 June 2021 \$'000
Cash at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash at bank	22,311	39,083
Margin accounts	-	26
<b>Total cash and cash equivalents</b>	<b>22,311</b>	<b>39,109</b>

Cash and cash equivalents include cash at bank, deposits held at call and other short term deposits with a maturity period of three months or less from the date of acquisition, which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

## 12 Equity

### (a) Share capital

	30 June 2022	30 June 2022	30 June 2021	30 June 2021
	Number of shares	\$'000	Number of shares	\$'000
Opening balance	373,036,670	385,637	347,830,810	353,827
Shares issued from dividend reinvestment plan	1,423,917	1,849	1,550,245	1,703
Shares issued from share purchase plan	-	-	23,655,615	30,278
Shares issued from exercise of options	1,547,180	2,089	-	-
Less transaction costs (net of tax)	-	-	-	(171)
<b>Shares on issue</b>	<b>376,007,767</b>	<b>389,575</b>	<b>373,036,670</b>	<b>385,637</b>

#### Ordinary shares

Ordinary shares entitle the holders to receive dividends as declared and one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after creditors and are fully entitled to any surplus capital.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### (b) Options

	30 June 2022	30 June 2021
	Number of options	Number of options
Opening balance	372,881,738	-
Options issued	-	372,881,738
Options exercised	(1,547,180)	-
Options on issue	<b>371,334,558</b>	<b>372,881,738</b>

Options are measured at the fair value of the options at the date of issue within equity. An adjustment will be made, with a corresponding adjustment to share capital, upon exercise of the options.

Each option provides its holders the right but not obligation to purchase one fully paid ordinary share in the Company at \$1.35 per share (the Exercise Price) at any time up until 2 September 2022 (Option Expiry Date). The options can be exercised in full or in part.

Options do not carry voting rights or dividend entitlement until they are exercised. Shares issued from the exercise of options rank equally with other ordinary shares of the Company from the issue date.

## 12 Equity (continued)

### (c) Profit reserve

The profit reserve represents profit available for distribution as a dividend. The Board must pass a resolution to transfer profit amount from retained earnings to the profit reserve. Dividends declared subsequent to the reporting date will be paid out of the profit reserve and any outstanding balance is available for future dividend payments.

### (d) Capital risk management

The Company's objective in managing capital is to provide shareholders with an income stream and long-term capital growth, by investing in a portfolio of typically 20 to 40 quality securities, underpinned by the Manager's fundamental, in-depth, bottom-up research. The Company considers its capital to comprise ordinary share capital, profit reserve and accumulated retained earnings. Borrowing does not form part of the investment strategy of the Manager, however, the Company retains the right to leverage up to 10% of the investment portfolio at the Board's discretion.

## 13 Financial risk management

This note presents information about the Company's objectives, policies and processes for measuring and managing risks.

The Company's activities expose it to a variety of financial risks. These risks include market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Manager has been given the discretionary authority to manage and undertake investments in line with the Company's investment objective, investment strategy and guidelines (as amended).

The Manager is required to act in accordance with the Management Agreement and to report to the Board quarterly on the portfolio's performance, material actions of the Manager during the quarter and an explanation of the Manager's material proposed actions for the upcoming quarter. The Manager is also responsible for designing and implementing day to day risk management and internal control systems which identify material risks for the Company.

The oversight and management of the Company's risk management program have been conferred upon the Audit and Risk Committee. The Committee is responsible for reviewing that the Company maintains effective risk management and internal control systems and processes and providing regular reports to the Board. The Board reviews the effectiveness of the Company's risk management and internal control system annually.

### (a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices such as equity prices, foreign exchange rates, interest rates and credit spreads.

The Company is predominantly exposed to market risk from its investment activities. The Company seeks to reduce the risk by a policy of diversification of investments across industries and companies operating in various sectors of the market. The Company's market risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place.

The Company may use derivative instruments to manage its exposure to market risk. Derivatives are not permitted to be used for gearing purposes.

## 13 Financial risk management (continued)

### (a) Market risk (continued)

#### (i) Price risk

Market prices fluctuate due to a range of factors specific to the individual investment or factors affecting the market in general. Price risk exposure arises from the Company's investment portfolio which comprises predominantly Australian listed securities with some opportunistic allocation to global listed securities.

The Company aims to manage price risk via its stock selection and investment processes, and by diversification of holdings. The Manager's securities selection process is fundamental to the management of price risk. The Manager undertakes fundamental, in-depth, bottom-up research to identify high quality and attractively valued securities using a disciplined investment process. The investment process first assesses companies on four key quality filters: sound management, conservative debt, quality business and recurring earnings. The companies are then valued according to the differing natures of their business and ranked on a scale of one (strong overweight) to five (sell). Price risk is also managed on the basis that the Company is limited to a maximum holding in any individual security to 15% of the portfolio's net asset value. The Company's investment strategy allows the flexibility to invest up to 25% of its investment portfolio in cash and deposit products to provide downward protection and to take investment opportunities when they arise.

The Company is also permitted to use derivatives for hedging purposes.

#### **Price risk sensitivity analysis**

An increase of 10% in market prices applicable at the reporting date would have increased the Company's profit and net assets by \$42,423,071 (2021: \$49,018,437). A decrease of 10% in market prices would have an equal but opposite effect. This analysis assumes that all other variables remain constant.

The sensitivity of the Company's profit and net asset to price risk is estimated based on the historical levels of movements of the Company's benchmark (S&P/ASX 300 Accumulation Index) with the consideration of the future outlook of the economy, markets and securities that the Company invests in. The analysis assumes that the prices of Company's investments in equity securities move in correlation with the index. The actual movement in security prices may vary significantly to the movement in the index.

#### (ii) Currency risk

The Company is exposed to the movements in exchange rates that may have an adverse effect on the fair value or future cash flows of the Company's financial assets or financial liabilities denominated in currencies other than Australian dollars. This exposure arises from its investments in global listed securities and any transactions that are denominated in foreign currency. The Company's investment strategy allows up to 35% of its investment portfolio in global listed securities.

The Manager considers currency valuations at the entity level when analysing securities, however the Company's investment portfolio is typically unhedged. Currency exposure may be hedged defensively where the Manager sees a significant risk of currency weakness.

The Company held foreign currency forward contracts to manage its exposure to currency risk at the reporting date.

## 13 Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Currency risk (continued)

The following table summarises the Company's exposure to currency risk arising from its financial assets and financial liabilities, monetary and non-monetary, at the reporting date:

	30 June 2022 \$'000	30 June 2021 \$'000
British Pound	2,948	5,548
Euro	1,194	31,655
New Zealand Dollar	-	5,191
United States Dollar	602	-
<b>Total foreign currency exposure</b>	<b>4,744</b>	<b>42,394</b>

#### Currency risk sensitivity analysis

The following table analyses the impact on the Company's profit and net assets from possible movements in exchange rates. The analysis is based on the assumption that the Australian dollar is strengthened or weakened by the sensitivity rates against the other currencies. The sensitivity rates represent the Manager's estimate of a reasonably possible movement in foreign currency exchange rates given the current exchange rates and the historic volatility.

	AUD strengthened/ (weakened) %	30 June 2022 \$'000	30 June 2021 \$'000
British Pound	+10	(295)	(555)
	-10	295	555
Euro	+8	(96)	(2,532)
	-8	96	2,532
New Zealand Dollar	+10	-	(519)
	-10	-	519
United States Dollar	+10	(60)	-
	-10	60	-



## 13 Financial risk management (continued)

### (a) Market risk (continued)

#### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company can hold up to 25% of its investment portfolio in cash, deposit products and senior debts with less than one year to maturity (including any exposure to such investments gained by investing into cash management trusts).

Consequently, the Company is exposed to the changes in market interest rates that may have a negative impact, either directly or indirectly, on the investment return.

The following table summarises the Company's exposure to interest rate risk at the reporting date:

	30 June 2022 \$'000	30 June 2021 \$'000
Cash at bank	<b>22,311</b>	39,083

#### **Interest rate risk sensitivity analysis**

An increase of 1% in interest rates applicable at the reporting date would have increased the Company's profit and net assets by \$223,110 (2021: an increase of 0.10% in interest rates applicable at the reporting date would have increased the Company's profit and net assets by \$39,083). A decrease in interest rates would have an equal but opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

### (b) Credit risk

Credit risk is the risk of a counterparty failing to meet its financial obligations or contractual commitments resulting in a financial loss to the Company.

The maximum exposure to credit risk for derivatives is any unrealised profit and margins paid on the positions that the Company held at the reporting date. The credit risk exposure for cash, deposit holdings and debt securities is the carrying amount at the reporting date.

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a high grade credit rating. The Manager regularly monitors the credit rating of counterparties.

Transactions in listed securities are entered with approved brokers. The risk of default is considered low because payment is only made once a broker has received the securities and delivery of securities sold only occurs once the broker receives the payment.

The Company determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers relevant historical analysis and forward looking information in determining any expected credit loss. As cash and cash equivalents are callable on demand and all receivables are due within 30 days, the probability of default is considered low. No loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Company.

### 13 Financial risk management (continued)

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The following tables summarise the contractual maturity of the Company's financial liabilities:

30 June 2022	Carrying amount \$'000	At call \$'000	Contractual cash flows		
			less than 6 months \$'000	6-12 months \$'000	more than 12 months \$'000
<b>Non-derivative financial liabilities</b>					
Payables	954	-	954	-	-
Current tax payable	6,879	-	6,879	-	-
<b>Total</b>	<b>7,833</b>	<b>-</b>	<b>7,833</b>	<b>-</b>	<b>-</b>
<b>Derivative financial liabilities</b>					
Foreign currency forward contracts	513	-	-	-	-
Outflow	-	-	71,970	-	-
Inflow	-	-	(71,457)	-	-
<b>Total</b>	<b>513</b>	<b>-</b>	<b>513</b>	<b>-</b>	<b>-</b>

30 June 2021	Carrying amount \$'000	At call \$'000	Contractual cash flows		
			less than 6 months \$'000	6-12 months \$'000	more than 12 months \$'000
<b>Non-derivative financial liabilities</b>					
Payables	4,444	-	4,444	-	-
Current tax payable	9,635	-	9,635	-	-
<b>Total</b>	<b>14,079</b>	<b>-</b>	<b>14,079</b>	<b>-</b>	<b>-</b>

The Company has sufficient liquidity to meet these liabilities as the majority of its investment portfolio is considered readily realisable.

## 13 Financial risk management (continued)

### (d) Fair value measurement

The Company classifies fair value measurement of its financial assets and liabilities using a fair value hierarchy model that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy model, the Company's financial assets and liabilities measured at fair value at the reporting date:

30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Equity securities	424,231	-	-	424,231
<b>Total</b>	<b>424,231</b>	<b>-</b>	<b>-</b>	<b>424,231</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivatives				
Foreign currency forward contracts	-	513	-	513
<b>Total</b>	<b>-</b>	<b>513</b>	<b>-</b>	<b>513</b>
30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Derivatives				
Foreign currency forward contracts	-	424	-	424
Equity securities	490,185	-	-	490,185
<b>Total</b>	<b>490,185</b>	<b>424</b>	<b>-</b>	<b>490,609</b>

#### *Rationale for classification of financial assets as level 1*

The majority of equity securities held by the Company are valued using unadjusted quoted prices in active markets and are classified as level 1 in the fair value hierarchy model.

#### *Rationale for classification of financial assets as level 2*

Foreign currency forward contracts are valued at the prevailing bid price of the relevant forward currencies at the end of the reporting period.

#### *Transfers between levels*

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

There were no transfers between levels for the years ended 30 June 2022 and 30 June 2021.

## 14 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the table below:

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts \$'000	Gross amounts set off in the balance sheet \$'000	Net amounts presented in the balance sheet \$'000	Amounts subject to master netting arrangements \$'000	Net amounts \$'000
<b>30 June 2022</b>					
<b>Financial liabilities</b>					
Derivative financial instruments	(513)	-	(513)	-	(513)
<b>Total</b>	<b>(513)</b>	<b>-</b>	<b>(513)</b>	<b>-</b>	<b>(513)</b>
	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts \$'000	Gross amounts set off in the balance sheet \$'000	Net amounts presented in the balance sheet \$'000	Amounts subject to master netting arrangements \$'000	Net amounts \$'000
<b>30 June 2021</b>					
<b>Financial assets</b>					
Margin accounts	26	-	26	-	26
Derivative financial instruments	424	-	424	-	424
<b>Total</b>	<b>450</b>	<b>-</b>	<b>450</b>	<b>-</b>	<b>450</b>

### Master netting arrangement

Agreements with derivative counterparties are based on the ISDA Master Agreements. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Company does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in this note.

## 15 Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions.

(a) Total Directors' remuneration paid and payable (including superannuation) for the year ended 30 June 2022 was \$175,000 (2021: \$155,808). Details of remuneration are disclosed in the Directors' report.

(b) Directors' interests in the Company held directly or indirectly are disclosed in the Directors' report.

(c) Nancy Fox (Chairman and Non-Executive Director) and Amanda Gillespie (Apted) (Executive Director) are not independent in accordance with the requirements for independence set out in Principle (2) of the ASX Corporate Governance Principles. Nancy Fox is a Non-Executive Director of Perpetual Limited, the parent company of the Manager. Amanda Gillespie (Apted) is a Director of Perpetual Investment Management Limited (the Manager) and the Group Executive of Perpetual Asset Management Australia.

## 16 Segment information

The Company is organised into one main operating segment with only one key function, being the investment of funds predominantly in Australia together with opportunistic investments globally.

## 17 Commitments and contingencies

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2022 and 30 June 2021.

## 18 Events occurring after the reporting period

Since the end of the financial year, the Directors have declared a fully franked final dividend of 3.3 cents per share, payable on 19 October 2022 (refer to note 3).

No other significant events have occurred since the reporting date which would have an impact on the financial position of the Company disclosed in the balance sheet as at 30 June 2022 or on the results and cash flows of the Company for the year ended on that date.

# DIRECTORS' DECLARATION

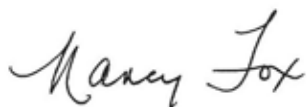
## Directors' declaration

1. In the opinion of the Directors of Perpetual Equity Investment Company Limited (the Company):

- (a) the financial statements and notes, set out on page 24 to 46, and the Remuneration Report within the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as discussed in note 2.
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the persons performing the functions of the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2022.

Signed in accordance with a resolution of the Directors.



Chairman

Sydney  
24 August 2022



Director



# INDEPENDENT AUDITOR'S REPORT

## Independent Auditor's Report

To the shareholders of Perpetual Equity Investment Company Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of Perpetual Equity Investment Company Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2022;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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## Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of financial assets (\$424.23m) and financial liabilities (\$0.51m) held as fair value through profit or loss	
Refer to Note 8 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>Financial assets and liabilities at fair value through profit or loss (FVTPL) are comprised of investments in listed equities and derivatives (foreign exchange forward contracts).</p> <p>The Company outsources certain processes and controls relevant to its financial reporting over the valuation and existence of these assets and liabilities to external service organisations, including the custodian, the fund administrator and the investment manager.</p> <p>Valuation and existence of investments is a key audit matter due to:</p> <ul style="list-style-type: none"> <li>the size of the Company's portfolio of listed equities and derivatives. These represent 92.65% of the Company's total assets at year end; and</li> <li>the importance of the performance of these assets in driving the Company's investment income and capital performance, as reported in the Financial Report.</li> </ul> <p>As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>We obtained and read the Company's custodians' and fund administrators' GS007 (<i>Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services</i>) and SOC 1 (<i>System and Organisation Controls 1</i>) assurance reports to assess the custodians' and fund administrators' processes and controls to record and value the Company's investments.</li> <li>We obtained and read the Company's investment manager's GS007 assurance report to assess the investment manager's processes and controls to record and provide transactional information to the Company's custodian.</li> <li>We assessed the reputation, professional competence and independence of the auditors of the GS007 and SOC1 assurance reports.</li> <li>We checked the valuation of the investments, as recorded in the general ledger, to independently sourced prices from relevant stock exchanges, and currency markets.</li> <li>We checked the ownership and quantity of the investments held to external custody reports as at 30 June 2022.</li> </ul>



## Other Information

Other Information is financial and non-financial information in Perpetual Equity Investment Company Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar2\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf). This description forms part of our Auditor's Report.



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Perpetual Equity Investment Company Limited for the year ended 30 June 2022, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in pages 19 to 21 of the Directors' report for the year ended 30 June 2022.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Karen Hopkins

*Partner*

Sydney

24 August 2022

# SHAREHOLDER INFORMATION

## Shareholder information

The 2022 Annual General Meeting of the Company will be held online and in-person on 20 October 2022 commencing at 2:00 pm (Sydney time).

The ordinary shares and options of Perpetual Equity Investment Company Limited are listed on the Australian Securities Exchange under the ASX code PIC and PICOA with Sydney being the home exchange.

## Twenty largest shareholders

The names of the twenty largest holders of ordinary shares as at 31 July 2022 are listed below:

	Number of ordinary shares	%
Navigator Australia Ltd (MLC Investment Sett A/C)	10,759,532	2.86
Netwealth Investments Limited (Wrap Services A/C)	10,142,827	2.70
Nulis Nominees (Australia) Limited (Navigator Mast Plan Sett A/C)	8,665,703	2.30
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd (DRP A/C)	4,098,807	1.09
HSBC Custody Nominees (Australia) Limited	3,703,277	0.98
Netwealth Investments Limited (Super Services A/C)	3,528,285	0.94
National Nominees Limited	3,463,497	0.92
Mr John Charles Plummer	3,125,000	0.83
D E C Investments Pty Limited	1,974,052	0.52
Walmsley Developments Pty Ltd	1,859,545	0.49
Boksborg Nominees Pty Ltd (The Meggitt Super Fund A/C)	1,580,467	0.42
Megfam Investment Company Pty Ltd	1,125,000	0.30
Lawvan Pty Ltd (Vanlaws Super Fund A/C)	1,023,438	0.27
Bugle Range Farm Pty Ltd (Nikanko A/C)	823,438	0.22
Dance Investment Portfolio Pty Ltd (Dance Investment A/C)	770,866	0.21
Black Nile Investments Pty Ltd (Mark Fahim Superfund A/C)	764,653	0.20
Merck Investment Corporation Pty Ltd (Merck Superfund A/C)	750,000	0.20
Yalambie Pty Ltd (Pizzey Super Fund A/C)	723,438	0.19
Fergfam Nominees Pty Ltd	695,574	0.18
Iain Livingstone Investments Pty Ltd (Iain Livingstone S/F A/C)	692,438	0.18

## Shareholder information (continued)

### Twenty largest optionholders

The names of the twenty largest holders of options at 31 July 2022 are listed below:

	Number of options	%
Netwealth Investments Limited (Wrap Services A/C)	9,201,334	2.48
HSBC Custody Nominees (Australia) Limited	7,336,481	1.98
Navigator Australia Ltd (MLC Investment Sett A/C)	6,259,316	1.69
Nulis Nominees (Australia) Limited (Navigator Mast Plan Sett A/C)	6,145,310	1.65
BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP)	5,703,559	1.54
Mr Michael Vining Hobbs	5,289,460	1.42
National Nominees Limited	3,465,459	0.93
Allcare Equine Centre Pty Ltd (Delta SF A/C)	3,230,834	0.87
Mr John Charles Plummer	3,125,000	0.84
Netwealth Investments Limited (Super Services A/C)	2,982,438	0.80
Carmody Family Pty Ltd (Carmody Family A/C)	2,685,874	0.72
Perpetual Corporate Trust Ltd (AIF)	2,500,000	0.67
Perpetual Corporate Trust Ltd (Affluence LIC Fund)	2,500,000	0.67
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd (DRP A/C)	2,490,529	0.67
Bond Street Custodians Limited (Gollan - C03081 A/C)	2,216,438	0.60
Course Pty Ltd (The Hayward Super Fund A/C)	2,000,000	0.54
Mr Ellis Zilka + Mrs Diana Zilka + Ms Miriam Zilka (Zilka Family Super Fund A/C)	2,000,000	0.54
D E C Investments Pty Limited	1,983,052	0.53
Boksborg Nominees Pty Ltd (The Meggitt Super Fund A/C)	1,872,967	0.50
Washington H Soul Pattinson and Company Limited	1,727,076	0.47

### Substantial shareholders

No substantial shareholder appeared in the Company's Register of Substantial Shareholders maintained in accordance with section 671B of the *Corporations Act 2001* as at 31 July 2022.

## Shareholder information (continued)

### Distribution of securities

Schedule of holdings - shares As at 31 July 2022	Number of shareholders	Number of ordinary shares
1 - 1,000 shares	304	120,752
1,001 - 5,000 shares	944	3,186,223
5,001 - 10,000 shares	1,164	9,382,659
10,001 - 100,000 shares	5,563	197,028,257
100,001 shares and over	<u>601</u>	<u>166,298,804</u>
<b>Total</b>	<u><b>8,576</b></u>	<u><b>376,016,695</b></u>

The number of shareholders holding less than a marketable parcel is 155 and they hold 11,047 shares.

Schedule of holdings - options As at 31 July 2022	Number of optionholders	Number of options
1 - 1,000 options	189	91,007
1,001 - 5,000 options	844	2,841,706
5,001 - 10,000 options	1,018	8,193,259
10,001 - 100,000 options	4,757	170,812,892
100,001 and over options	<u>551</u>	<u>189,386,766</u>
<b>Total</b>	<u><b>7,359</b></u>	<u><b>371,325,630</b></u>

The number of optionholders holding less than a marketable parcel is 7,305 and they hold 272,251,840 options.

### Other information

Perpetual Equity Investment Company Limited, incorporated and domiciled in Australia, is a publicly listed investment company limited by shares.

### Voting rights

Each share will confer on its holder the right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on shares (at present there are none).

### On-market buy back

There is no current on-market buy back.

### Final dividend

The final dividend of 3.3 cents per share, comprising of an ordinary dividend of 2.8 cents per share and a special dividend of 0.5 cents per share, will be paid on 19 October 2022 to shareholders entitled to receive dividends and registered on 28 September 2022 being the record date.

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# DIRECTORY

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## COMPANY

Perpetual Equity Investment Company Limited  
ACN 601 406 419

## DIRECTORS

Nancy Fox - Chairman  
Virginia Malley  
John Edstein  
Amanda Gillespie (Apted)

## COMPANY SECRETARY

Sylvie Dimarco

## INVESTMENT MANAGER

Perpetual Investment Management Limited  
Level 18, 123 Pitt Street  
Sydney NSW 2000  
(AFSL 234426)

## REGISTERED OFFICE

Level 18, 123 Pitt Street  
Sydney NSW 2000  
Phone 1800 022 033

## AUDITOR

KPMG  
International Towers Sydney 3  
300 Barangaroo Avenue  
Sydney NSW 2000

## AUSTRALIAN SECURITIES EXCHANGE CODE

Shares: PIC  
Options: PICOA

## REGISTRY

Link Market Services Limited  
1A Homebush Bay Drive  
Rhodes NSW 2138  
Phone: 1800 421 712

## WEBSITE

[www.perpetualequity.com.au](http://www.perpetualequity.com.au)

Perpetual 