Perpetual Private

PERPETUAL INCOME OPPORTUNITIES FUND

Fund Update – 31 March 2024

FUND FACTS

Benchmark:	Bloomberg Ausbond Bank Bill Index +2% p.a.^
Inception Date[1]:	March 2008
Size of Fund:	$233 million
APIR:	PER0436AU
Management Fee*:	0.5% as at 30 June 2023
Buy/Sell spread:	0.00% / 0.00% as at 15 March 2023
Liquidity:	Quarterly withdrawals subject to restrictions, refer to PDS
Distribution Frequency:	Quarterly
Risk Level[2]:	5 – Medium to High

**Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.*

INVESTMENT OBJECTIVE

To provide consistent income through investment in a diversified portfolio of corporate strategies, asset backed strategies and other investments consistent with the fund's investment approach.

To outperform the Bloomberg Ausbond Bank Bill Index over rolling three-year periods by 2% per annum.

STRATEGY

Build a diversified portfolio that includes specialist credit and absolute return investments.

Subject our investment opportunities to detailed research, screening them for expected return, risk, downside protection properties and portfolio fit.

Select the highest ranked investment managers that have passed our Quality Filters.

MARKET OPPORTUNITY

Both Australian and global banks are currently under pressure to reduce their loan books. This is driving the opportunity for the Perpetual Income Opportunities Fund to invest in strategies that conduct institutional grade direct lending to high quality companies and real estate assets that require capital.

A common trait of the lending opportunity is that lending is senior in the capital structure and secured against assets. We have identified and built material investments in three key credit sectors, specifically infrastructure debt, senior bank loans and commercial mortgages.

NET PERFORMANCE

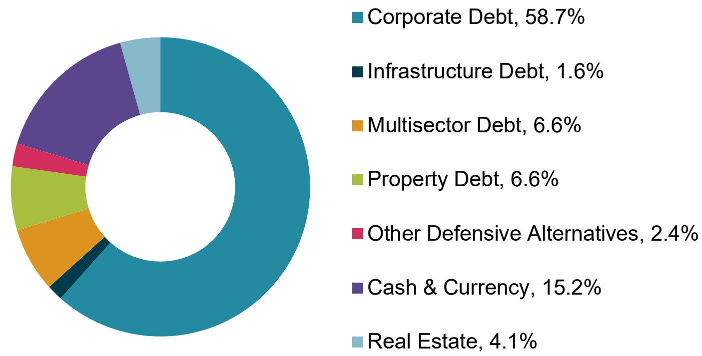
As at March 2024

NET RETURNS[3]	1M%	3M%	1Y%	3Y% (p.a.)	5Y% (p.a.)	INCEPTION % (p.a.)
Total return	-0.3%	1.1%	5.8%	5.0%	4.1%	4.4%
Growth return	-1.2%	0.1%	-0.4%	-0.6%	0.0%	-0.1%
Distribution return	0.9%	0.9%	6.2%	5.6%	4.1%	4.5%
Benchmark	0.5%	1.6%	6.1%	3.4%	2.7%	3.8%
Excess Returns	-0.8%	-0.5%	-0.3%	1.6%	1.4%	0.6%

Source: State Street. Past performance is not indicative of future performance.

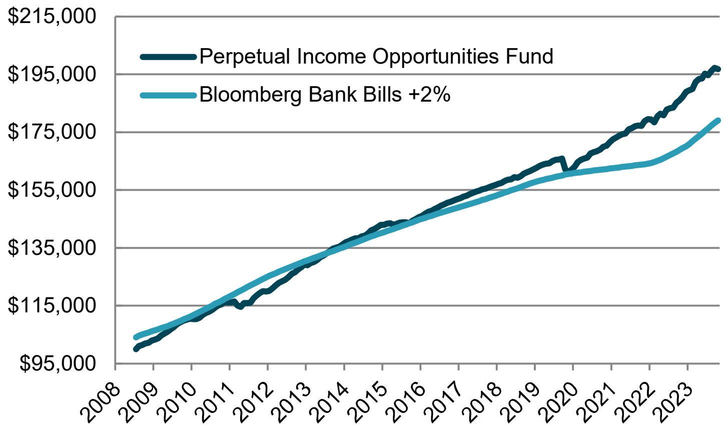
SECTOR ASSET ALLOCATION

As at March 2024



Source: State Street, PPIRT.

GROWTH OF $100,000 SINCE INCEPTION (NET OF FEES)[5]



Source: State Street. Past performance is not indicative of future performance

OBSERVATIONS

Positive sentiment experienced over Q4 2023 continued into Q1 2024. We saw a pick-up in mergers and acquisitions activity which is accretive to credit formation across debt markets. Divergence in asset quality was noted, particularly for deals minted in the pre vs. post rate-rise environment. For older private debt deals we have seen a variety of repayments, defaults, amend and extend activity. For deals completed in the post rate rise environment, we have seen increased discipline in underwriting standards; more reasonable collateral valuations and improved loan covenants. However, we have seen some erosion in standards more recently as investor capital comes flooding back into the market chasing the same deals.

On the public markets side, both US Leveraged Loans and US High Yield posted positive returns over the quarter, supported by the broad spread compression across other parts of credit. This is consistent with our underlying portfolio exposures which have contributed positively to performance. Interestingly we have seen the underlying asset quality of High Yield improve over the quarter and investors increasingly rewarded by cash-flow positive companies with resilient earnings. US Leveraged Loans saw an improvement in market activity in-line with the increased M&A activity.

Despite the traditional differences, today there is a blurring of lines between private and public markets transactions. Asset class demand for private debt has been so large that companies which have historically financed through public market have increasingly gone private. We attribute this to 2 key factors 1) the bilateral/club style negotiation of private debt deals reduces the execution risks faced by companies looking to refinance and 2) demand for private debt is so prolific against a limited pipeline of supply means cost-of-debt metrics may sometimes be better in private markets vs public. Point 2 is contentious as participation is these types of deals effectively mean we get paid less for the risks we take; but we would caution that this is a general observation, and details may vary on a deal-by-deal basis.

Within private debt, we split our universe into corporate debt strategies and asset backed strategies. Our corporate debt exposure across portfolios today are primarily 1st lien senior secured loans diversified across Europe, North America, and Australia. So far, default experience has been limited and we expect this to continue so long as interest rates remain elevated. Within the asset backed exposure, which we favour, we have recently seeded an active domestic warehouse finance strategy targeting a return of Cash+6%. The strategy delivers monthly income returns and are thus accretive to the income objectives of the strategy. Acknowledging the risk characteristics of the exposure we will still seek to limit position sizing.

Going forward, our research efforts are currently focused on liquid income alternatives. The objectives we are looking to solve here a three-fold. Firstly, we are seeking a counter-cyclical liquidity exposure which is ideally uncorrelated with credit risks. Secondly, the position needs to be distributing in support of our income objectives. Thirdly, it needs to still meet our return objectives. We are currently actively reviewing strategies within the scope of trade, invoice and insurance premium financing which may potentially meet these requirements. Liquid investments provide some optionality for reinvesting back into private assets, such as private debt or insurance linked strategies. The Fund continues to hold a higher level of cash to support hedging losses, redemptions and to a lesser extent capital calls.

HOLDING INFORMATION

As at March 2024

TOP 10 EXPOSURES[4]	ASSET CLASS	SUB-ASSET CLASS	WEIGHT
CVC Global Yield	Corporate Strategies	Corporate Debt	18.6%
Perpetual Credit Income Fund	Corporate Strategies	Multisector Debt	6.6%
Kapstream Private Investment Fund	Corporate Strategies	Diversified Credit	4.7%
Invesco Credit Partners Fund II	Corporate Strategies	Corporate Debt	4.5%
Pemberton European Strategic Credit Opportunities Fund II	Asset-Backed Strategies	Corporate Debt	4.3%
Blackstone Corporate Funding EUR Fund	Corporate Strategies	Corporate Debt	4.3%
Nuveen Asia Pacific Cities Fund	Corporate Strategies	Real Estate	4.1%
Pemberton European Strategic Credit Opportunities Fund	Corporate Strategies	Corporate Debt	3.3%
New Mountain Guardian Partners III	Corporate Strategies	Corporate Debt	2.7%
ICG Senior Debt Partners Fund III	Asset-Backed Strategies	Corporate Debt	2.6%
Total Top 10 Holdings			**55.7%**

CASH LEVEL & LEVERAGE	WEIGHT
Cash (AUD)[5]	14.37%
Leverage Ratio[6]	1.23
Maturity Profile: As at 31 March 2024 the Fund has no direct gearing liabilities. Liabilities are generally paid within 30 days of the invoice date.	

Source: State Street, PPIRT

INVESTMENT CHARACTERISTICS

As at March 2024

SECTOR	GEOGRAPHIC LOCATION		MARKET TYPE[7]		
	ONSHORE	OFFSHORE	LISTED	TRADED	PRIVATE
Asset-Backed Strategies	28%	72%	0%	0%	100%
Corporate Strategies	11%	89%	0%	17%	83%
Other Defensive Alternatives	0%	100%	0%	0%	100%
Total	14%	86%	0%	13%	87%
FX Hedge Level	95%				

Source: State Street, PPIRT

1) Fund commenced in March 2008 with performance reporting from 30 June 2008 once the fund had made an investment. The fund was opened to external investors in June 2009. 2) Negative annual returns expected in 4 to less than 6 years over any 20 year period. 3) Total returns have been calculated using exit prices after taking into account Perpetual's ongoing fees and assuming reinvestment of distributions (where applicable). No allowance has been made for contribution fees, withdrawal fees or taxation. 4) Top 10 externally managed exposures. 5) The difference between 'Cash (AUD)' and 'Cash & Currency' (as per the sector asset allocation pie chart) represents offshore currencies held for transactional purposes. 6) The leverage ratio is provided as required by ASIC Regulatory Guide 240. Please note that this is look-through leverage of the Fund based on the leverage of the underlying absolute return managers. The Fund itself will not borrow or apply gearing in the ordinary course of business. 7) Market type data is estimation only, provided by the Perpetual Private research team. 8) Specialist Credit in this instance signifies the exclusion of Absolute Return and Cash investments.

^ The fund's benchmark from inception to 31/05/2023 was the Bloomberg Australian Bank Bill Index + 1% pa. Effective from 01/06/2023, the benchmark has been changed to the Bloomberg Australian Bank Bill Index + 2% pa. Historical performance captures the prior benchmark until the effective date of the new benchmark being implemented.

MORE INFORMATION

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