

# PERPETUAL ESG CREDIT INCOME FUND - CLASS A

May 2025

FUND FACTS

**Investment objective:** To provide investors with regular income and consistent returns above the Bloomberg AusBond Bank Bill Index (before fees and taxes) over rolling three-year periods by investing in a diverse range of income generating assets that meet Perpetual's ESG and values-based criteria.

**Benchmark:** Bloomberg AusBond Bank Bill Index  
**Inception date:** June 2018  
**Size of fund:** \$54.2 million as at 31 March 2025  
**APIR:** PER1744AU  
**Mgmt Fee:** 0.59% pa\*  
**Benchmark Yield:** 3.756% as at 31 May 2025  
**Suggested minimum investment period:** Three years or longer

FUND BENEFITS

Provides investors access to an actively managed credit and fixed income fund and the opportunity to align their investments with their personal values and ESG preferences.

FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

TOTAL RETURNS % (AFTER FEES) AS AT 31 May 2025

	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual ESG Credit Income Fund – Class A	1.22	0.88	2.75	6.37	7.80	6.83	5.17	4.03	4.03
Bloomberg AusBond Bank Bill Index	0.34	1.05	2.16	4.42	4.37	3.79	2.28	1.95	2.05

Please note: Performance for Perpetual's complete list of investment funds is available on [www.perpetual.com.au](http://www.perpetual.com.au). Past performance is not indicative of future performance.

POINTS OF INTEREST

- Financial markets continue to recover from ‘Liberation Day’ volatility;
- Domestic credit spreads rally;
- Long term yields rise, curve steepens.
- RBA cuts cash rate 26 bps, considered 50bps cut;
- Primary market resurgent among corporates and banks;
- The credit outlook remains negative.

ESG APPROACH

Before being considered for investment, companies or issuers must pass a series of exclusionary screens. The screening processes is designed to limit the investible universe to only those companies or issuers that meet minimum values-based and ESG standards. The Perpetual ESG Credit Income Fund first applies a values-based and ESG exclusionary screen. Sovereign issuers are subject to a separate exclusionary screen. Please refer to the Perpetual Investment Funds PDS for further information.

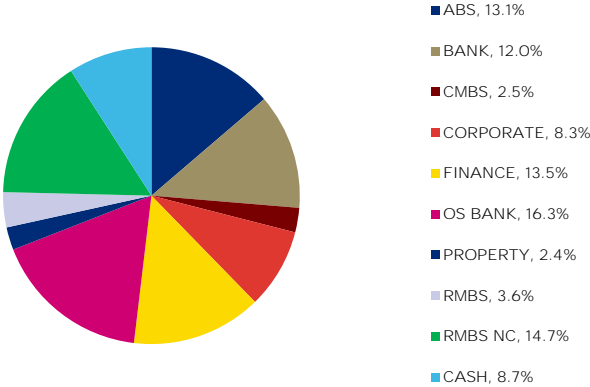
PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	22.99%
Subordinated Debt	57.78%
Hybrid Debt	19.24%
Running Yield <sup>^</sup>	5.49%
Portfolio Weighted Average Life (yrs)	3.69 yrs
No. Securities	80
Modified Duration	-0.15

\* Information on Management Costs (including estimated indirect costs) is set out in the Fund’s PDS.

<sup>^</sup>The methodology used to calculate Running Yield is derived from FactSet, and calculated as follows: The coupon rate of the security / the capital price of the security. Note that the exception is discounted securities, where a Yield to Maturity calculation is used.

PORTFOLIO SECTORS



## MARKET COMMENTARY

Risk assets continued to recover from April volatility with equities and credit rallying as concerns around US trade policy eased. Tailwinds included the US and China's agreement to pause reciprocal tariffs for 90 days, robust first quarter earnings and the Trump administration's expansionary budget bill passing the House of Representatives. While equities and credit stabilised, sovereign bond yields rose reflecting fiscal concerns in the US.

The RBA reduced the target cash rate 25bps to 3.85% in mid-May, the second of this easing cycle. Commentary was increasingly doveish with discussion of a 50bps cut was well received by financial markets, contributing the rally in longer duration sectors including technology. Governor Bullock confirmed that "The Board considered a severe downside scenario and noted that monetary policy is well placed to respond decisively to international developments." 10-year yields on Australian government bonds rose 16 bps to 4.27% over the month, mirroring global trends while also reflecting expectations of fiscal expansion in the wake of Labour victory in the Federal Election. US long term government bond yields sold off, as concerns around the fiscal deficit intensified and Moody's lowered the US government's long term issuer rating.

Domestic credit spreads rallied strongly in May, following widening in March and April. The iTraxx Australia 5-year CDS spread rallied 16bps to 76bps and physical spreads also ended the month tighter. Banks – led by regional and offshore names – performed well with higher beta subordinated and hybrid issues rallying back strongly.

Following a very quiet April, impacted by financial market volatility and holiday shortened weeks, primary market issuance resumed with a busy start to the month. Corporate deals from Worley (\$400M) and Aurizon (\$500M) priced after being put on hold in April as volatility spiked. Aurizon's hybrid deal met robust demand, building a book more than four times deal volume and tightened on the break. Major banks were active following reporting season with NAB (\$2.5B) and ANZ (\$1.4B) issuing senior bonds. A number of subordinated deals also priced including Westpac (\$1.5B), Macquarie (\$1.25B) and QBE Insurance Group (\$600M).

## PORTFOLIO COMMENTARY

Credit spread dynamics were the most substantial contributing factor to performance over the month. Credit spreads rallied strongly, normalising after widening sharply during April. The Fund's allocation to domestic and offshore banks was the most substantial contributing factor. The Fund's allocation to US dollar denominated credit performed very well as US spreads retraced. The Fund's preference for subordinated financial paper also performed well as subordinated spreads rallied sharply.

Income return contributed to performance with the Fund's yield advantage led by allocation to securitised assets and subordinated financials. The portfolio's running yield was 5.5% at month end, with the spread (credit yield premium) measured at 1.9%.

The Manager was active in primary and secondary markets, deploying capital as the outlook improved. Allocation to non-financial corporates was increased with the fund taking part in a new fixed rate senior bond from Worley Financial services which priced after being delayed in April and performed well in secondary, contributing to outperformance. The Fund also added exposure to domestic bank subordinated paper. The Manager actively traded government bonds during the month with opportunistic duration positioning contributing to return. The Manager elected to add government bonds in mid-May, increasing the Fund's duration as yields peaked, before taking profit following a rally over the second half of the month.

While conditions improved over the month, the outlook remains challenging and the Fund continues to maintain a defensive posture. While its cash allocation was reduced by month end, the Fund retains a conservative liquidity profile to mitigate liquidity risks while providing ample dry powder to take advantage of relative value opportunities presented by recent market volatility. The Manager continues to look for attractively priced issues and relative value opportunities while carefully managing credit and liquidity risks.

The Fund invests in quality issuers that meet Perpetual's ESG and Values based criteria relating to what the company is in the business of and the way business operations are conducted respectively. Upon application of the ESG and Values based criteria, several bond issuers have been screened out. These include, for example, companies involved in the extraction of fossil fuels or companies whose revenues are significantly associated with socially questionable products or services.

## OUTLOOK

The credit outlook improved slightly during May while remaining in negative territory.

Valuation indicators worsened marginally over the month as domestic investment grade spreads rallied into neutral territory while an increase in opportunistic issuers weighted on the valuation outlook. Negative swap to bond spreads continue to detract from the outlook.

Growth indicators remain in negative territory. The results of the Senior Loan Officer survey showed weakening credit demand and tightening lending standards. Macroeconomic indicators remain negative despite easing international trade concerns and improving employment print both domestically and in the US.

Supply and demand indicators are finely balanced with robust primary market demand meeting elevated issuance volumes and a relatively light upcoming maturity schedule following a busy April.

Technical indicators improved to neutral reflecting elevated cash levels among domestic real money accounts and improvements to US equity and volatility leading indicators. The US credit spread indicator continues to weigh on the outlook.

While the outlook has improved – primarily reflecting normalising technical indicators – the overall score is negative and the team remains cognisant of downside risks to credit markets.

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The product disclosure statement (PDS) for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

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## MORE INFORMATION

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