Perpetual Investment Funds

# PERPETUAL CREDIT INCOME FUND

February 2024

## FUND FACTS

**Investment objective:** Aims to provide investors with regular income by investing in a diversified range of income generating assets, and outperform the Bloomberg AusBond Bank Bill Index** over rolling three-year periods before fees and taxes.

| | |
|---|---|
| **Benchmark:** | Bloomberg AusBond Bank Bill Index** |
| **Inception date:** | November 2004 |
| **Size of fund:** | $147.4 million as at 31 December 2023 |
| **APIR:** | PER0263AU |
| **Mgmt Fee:** | Please contact us for a copy of the disclosure document. |
| **Benchmark Yield:** | 4.320% as at 29 February 2024 |
| **Suggested minimum investment period:** | Three years or longer |

## FUND BENEFITS

Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed and liquid investment.

## 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 29 February 2024

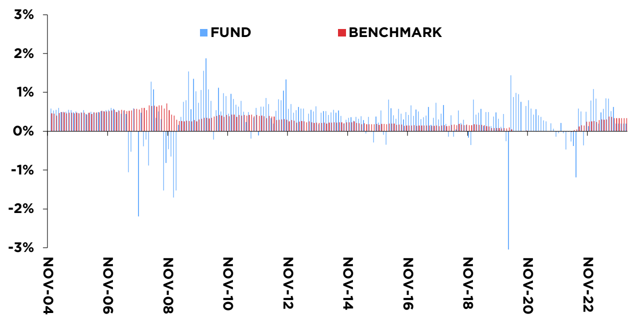
| | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 2 YRS PA | 3 YRS PA | 5 YRS PA | 7 YRS PA | INCEPT PA |
|---|---|---|---|---|---|---|---|---|---|
| Perpetual Credit Income Fund | 0.76 | 2.71 | 5.10 | 8.78 | 5.45 | 3.97 | 3.90 | 3.82 | 4.60 |
| Bloomberg AusBond Bank Bill Index** | 0.34 | 1.09 | 2.12 | 4.10 | 2.92 | 1.95 | 1.47 | 1.58 | 3.36 |

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

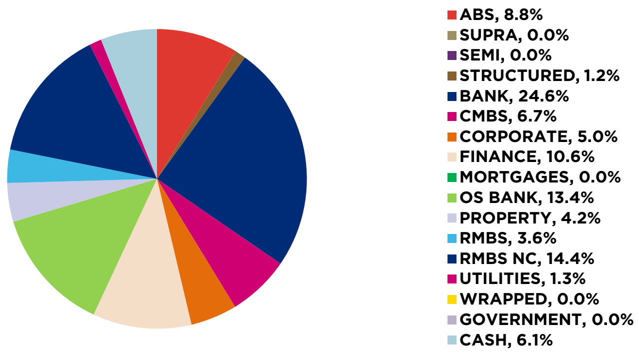
## POINTS OF INTEREST

•US PCE stubborn; bond yields push higher;
•Domestic spreads rally; alongside their global counterparts;
•Primary markets back in full swing; demand robust;
•The outlook for credit remains to neutral.

## MONTHLY PERFORMANCE SINCE INCEPTION




## PORTFOLIO SECTORS




## PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---|---|
| Senior Debt | 38.87% |
| Subordinated Debt | 58.31% |
| Hybrid Debt | 2.82% |
| Modified Duration | 0.02 |
| Running Yield# | 6.33% |
| Portfolio Weighted Average Life | 3.56 yrs |
| No. Securities | 92 |

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

## MARKET COMMENTARY

February saw a typical 'risk-on' month with fixed rate bonds down and stocks up. Bonds were in the red on the back of pushed out & reduced rate cut expectations while stocks paid little attention. Stronger than expected US economic and inflation data pulled back expectations around the timing and scale of rate cuts resulting in rising bond yields over the month. US reported earnings, particularly from NVDA, helped keep the AI theme running propping up the overall equity market.

Domestic credit spreads participated in the global rally and tightened slightly in February, as the short end outperformed. Corporate spreads kept pace with Financials, bucking the recent trend which has seen sustained outperformance of Financial spreads, led by domestic and offshore banks. Offshore spreads continued to rally with Euro denominated credit performing notably well.

Domestic bond yields rose in February, in line with most global bond markets. Australian 10-year Government bond yields rose 12bps up to 4.14% while US 10-Year Treasury yields rose 30bps, back above 4% to close at 4.24%. UK and German government bonds were the global underperformers. Domestically, semi-government bonds underperformed Commonwealth government bonds.

Primary markets were active in February with issuers & arrangers back in full swing for the year. Kicking off the month, NAB came to market with dual-tranche tier-two $1.75bn deal met with strong demand. Corporates also saw a healthy bid as Melbourne Airport raised €650m in a 10-year deal and Telstra raised $1.2bn AUD in a dual-tranche transaction with strong investor demand, particularly in the 10 year tranche.

## PORTFOLIO COMMENTARY

The Fund's income premium above bank bills remains a strong contributor to outperformance. The portfolio's running yield was 6.3% at month end, with the spread (credit yield premium) measured at 1.7%.

Credit spread dynamics remain the most substantial contributing factor to outperformance as domestic spreads extended their rally. The Fund's exposure to securitised assets was the most significant contributing sector, led by RMBS. New primary deals coming to an – until recently –subdued market was a catalyst for repricing the secondary RMBS curve tighter. This was most prevalent among subordinated tranches where the Fund's exposure is centred. Domestic and offshore banks also contributed significantly, driven exposure to subordinated paper. Marginally detracting from credit spread outperformance was the Fund's small short position on the iTraxx crossover CDS index which offers downside protection against credit tail risks.

Sector allocations were actively managed throughout February. The Manager took profits on USD subordinated debt as it began to look fair value while continuing to hold cheap EUR subordinated debt. Capital was redeployed into AUD denominated – predominantly subordinated – major bank debt. We initially added to these USD denominated bonds in September last year given their relative attractiveness and were highly rewarded for doing so. The Manager also took part in a number of new deals in the securitisation space making up for the ongoing amortisation of securitised assets which reduces their weight in the portfolio over time.

The Fund is positioned for what looks like an inflexion point in markets. The outlook for credit is improving but remains delicately balanced. The Manager continues to look for attractively priced issues and relative value opportunities while carefully managing credit and liquidity risks.

## OUTLOOK

The credit outlook improved to neutral in the first week of February before it was unchanged for the remainder of the month.

Valuation indicators remained marginally negative throughout February. US High Yield spreads are tight relative to recent levels, detracting from the outlook. Domestic swap spreads have widened from their recent lows and are now neutral.

Robust economic print and improving lending conditions have reduced the negative impact of macro indicators. Secondary market equity raises show the markets are open, with equity raises executed with limited discounts. The Fed's Senior Loan Officer's survey released in February showed improving financial conditions while the resilient US economy eased the pressure on the outlook for spreads.

Market demand has improved providing a tailwind for credit, increasing the supply and demand outlook to neutral. High issuance volumes over recent months were met with robust market demand reflected in oversubscribed primary market deals and robust secondary market liquidity. However, while demand appears strong, the market is beginning to become a bit saturated with investors increasingly funding primary market purchases out of secondary market sales.

Technical indicators remained positive in February with US credit and equity both positive, however, our equity volatility signal flipped from positive to neutral. Cash levels among real money accounts and intermediary positioning are neutral.



## MORE INFORMATION

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