Perpetual Investment Funds

PERPETUAL
ESG CREDIT INCOME FUND - CLASS A

January 2024

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:	$66.2 million as at 31 December 2023
APIR:	PER1744AU
Mgmt cost:	0.59%pa*
Benchmark Yield:	4.33% as at 31 January 2024

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 January 2024

	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	0.89	3.23	4.58	7.94	4.71	3.82	3.49	-	3.30
Bloomberg AusBond Bank Bill Index	0.37	1.09	2.15	4.00	2.75	1.83	1.44	-	1.50

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

- Bond yields consolidate, domestic yield curve steepens;
- Domestic spreads rangebound; USD and EUR spreads tighten;
- Primary market unseasonably busy; demand robust;
- The outlook for credit improves to neutral.

PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	46.96%
Subordinated Debt	48.99%
Hybrid Debt	4.05%
Running Yield^	5.59%
Portfolio Weighted Average Life	3.27 yrs
No. Securities	82
Modified Duration	-0.13

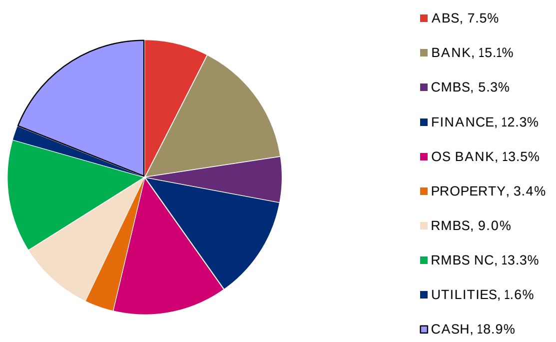
ESG APPROACH

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.

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

^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

Financial markets remained buoyant throughout January, consolidating on a strong finish to 2023 for credit, bonds and equities. The easing macroeconomic outlook, the substantial repricing of US monetary policy expectations and the subsequent fall in discount rate has fuelled the robust rally in risk assets. Equity markets continued to rally with the recent fall in bond yields contributing to strong outperformance for higher duration cyclical growth sectors.

Domestic credit spreads were placid following a strong rally in the fourth quarter of 2023. Corporate spreads outperformed 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 were subdued in January. The yield curve steepened slightly as 10-year yields rose marginally to be back above 4% by month end. Global long term yields also saw rises most notably the UK where 10-year yield lifted 36bps. Most global yield curves remain inverted despite the easing recession concerns.

Primary markets were active during January – counter to the typical seasonal trend – with a number of financial issuers taking advantage of robust demand. Westpac and ANZ raised $5.1B and $5B respectively, of senior paper. Tier-two issuance was also robust with ANZ ($2.285B) and NAB ($1.75B) coming to market with subordinated deals.

PORTFOLIO COMMENTARY

The Fund's income premium above bank bills remains a key source of outperformance. The portfolio's running yield was 5.6% at month end, with the spread (credit yield premium) measured at 1.6%.

Credit spread dynamics remain the most substantial contributing factor to outperformance over the month. Domestic credit spreads traded in range of recent levels, while offshore spreads – most notably EUR denominated – continued to rally. The Fund's exposure to domestic and offshore banks was the most significant contributing sector, led by USD and EUR denominated subordinated paper. Elsewhere, a small number of foreign denominated issues across utilities and railroad sectors also contributed. Note that all foreign currency exposures are hedged.

The Manager took the opportunity to rebalance, reducing the Fund's capital structure risk by taking profit on a number of strong performing hybrid positions. The Manager sees the upside in corporate hybrids as fully priced in and locked in recent gains. The Fund's weighted average life was also selectively shortened as the flattened credit curve is offering unsatisfactory reward for longer dated issues.

The Fund was active in primary and secondary markets during the month. The Manager added new issues from Credit Agricole and Banco Santander to the portfolio. Throughout the month, the Manager actively traded government and semi-government bond positions, taking advantage of low transaction costs and high liquidity to express tactical duration positions. These positions performed well over the month, contributing to out performance before liquidating by month end.

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.

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 remained unchanged in January before improving to neutral in the first week of February.

Valuation indicators remained marginally negative throughout January. 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. The Fed's Senior Loan Officer's survey showed improving financial conditions while the resilient US economy and better-than-expected inflation data eased the pressure on the outlook for spreads.

Market demand has improved providing a tailwind for the credit, increasing the supply and demand outlook to neutral. Above seasonal trend issuance volumes over recent months continue to weigh on the outlook although market demand is healthy reflected in oversubscribed primary market deals and robust secondary market liquidity.

Technical indicators remained positive in January with US credit, equity and equity volatility all positive. Cash levels among real money accounts and intermediary positioning are neutral.

MORE INFORMATION
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