

ASX:PCI

PERPETUAL CREDIT INCOME TRUST INVESTMENT INSIGHTS WEBINAR

September 2020

Perpetual


IMPORTANT NOTE

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YOUR PRESENTERS



KAREN DAVIS

Senior Manager, Listed Products & Projects

Investor Relations
Perpetual Credit Income Trust



JAMES HOLT

Senior Manager, Listed Investments Distribution

Perpetual Investments



MICHAEL KORBER

Managing Director, Credit & Fixed Income

Portfolio Manager
Perpetual Credit Income Trust



ANNE MOAL

Head of Corporate High Yield

Portfolio Manager
Perpetual Loan Fund

AGENDA

Perpetual Credit Income Trust Overview

Market Update

Portfolio Update

Questions

PERPETUAL CREDIT INCOME TRUST (ASX: PCI)

A ROBUST, ACTIVE AND RISK AWARE INVESTMENT PROCESS

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Investment objective & target return

- To provide investors with monthly income by investing in a diversified pool of credit and fixed income assets.
- To target a total return of RBA Cash Rate + 3.25% per annum (net of fees) through the economic cycle.¹



Investment guidelines

	Typically 50 – 100 assets
30% - 100%	Investment grade assets ² Maximum issuer limit 15%
0% - 70%	Unrated or sub-investment grade assets ³ Maximum issuer limit 10%
70% - 100%	Assets denominated in AUD
0% - 30%	Assets denominated in foreign currencies ⁴
0% - 70%	Perpetual Loan Fund



Investment process

- 1 Top down market screening
- 2 Risk appetite and matrix of preferences
- 3 Approved list of issuers
- 4 Fundamental research bottom up

FLEXIBLE INVESTMENT STRATEGY TO ADAPT TO CHANGING MARKET CONDITIONS

¹ This is a target only and may not be achieved.

² An investment grade asset has a long term rating of BBB-/Baa3 to AAA/Aaa.

³ A sub-investment grade asset has a rating below BBB-/Baa3 and includes unrated assets

⁴ Foreign currencies are typically hedged back to the Australia dollar. As at 31 August 2020, all foreign currency exposures were hedged to Australian dollar floating rate.

PERPETUAL'S SPECIALIST CREDIT & FIXED INCOME TEAM

OUR SENIOR PORTFOLIO MANAGEMENT TEAM HAVE BEEN INVESTING TOGETHER FOR OVER A DECADE

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Portfolio Managers

VIVEK PRABHU Head of Fixed Income

27 years experience, 15 years at Perpetual

GREG STOCK Head of Credit Research

27 years experience, 15 years at Perpetual

THOMAS CHOI Senior Portfolio Manager

17 years experience, 11 years at Perpetual

Analysts

JP BAE Senior Dealer / Associate Portfolio Manager

16 years experience, 9 years at Perpetual

CAROL YUAN Credit Analyst (Investment Grade & High Yield)

12 years experience, 2 years at Perpetual

MICHAEL MURPHY Credit Analyst (Private Debt & High Yield)

7 years experience, 1 year at Perpetual

JEFFREY WU Analyst

3 years experience, 2 years at Perpetual

ONE OF THE MOST EXPERIENCED, STABLE AND PROVEN TEAMS IN THE AUSTRALIAN MARKET

PERPETUAL CREDIT INCOME TRUST (ASX: PCI)

KEY FEATURES OF A LISTED INVESTMENT TRUST (LIT)

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Feature	Description
Closed-end structure	<ul style="list-style-type: none">Investment Manager has a fixed amount of capital to invest as the number of units issued to investors and capital is not subject to applications and redemptions.PCI is not a forced buyer or seller. For example, when markets are weak, PCI does not need to satisfy redemptions but rather has the ability to take advantage of investing opportunities it considers are good relative value.
Diverse investment strategy	<ul style="list-style-type: none">LIT structure enables PCI to have a broad investment strategy.This includes tradeable securities (e.g. bonds and floating rate notes) and alternative assets such as private debt (e.g. corporate loans).
Tax and distributions	<ul style="list-style-type: none">LITs generally pay distributions which are expected to match the income (net of fees and expenses) generated by the LIT.Distributions, inclusive of tax offsets, from LITs are generally taxed at the investor's marginal tax rate (subject to the classification of the distribution components¹).
Robust pricing and calculation of the net tangible asset value (NTA)	<ul style="list-style-type: none">Estimated NTA released daily on ASX (for PCI) which reflects the total market value of the underlying assets.Nature of the LIT structure also means that the ASX unit price for PCI may be impacted by investor sentiment and lead to the ASX unit price trading at a discount or premium to the NTA.

⁶ ¹Certain distribution components or deemed distributions (i.e. where income attributed is more than any amount distributed in cash and/or units) require tax cost base adjustments.

MARKET UPDATE

Presented by James Holt

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THE UNCERTAINTY OF DIVIDENDS MEANS THE SEARCH FOR ALTERNATE SOURCES OF INCOME

PCI HAS CONSISTENTLY DELIVERED MONTHLY INCOME SINCE INCEPTION

- **Traditional income under challenge:** For some time investors have seen interest rates on cash and term deposits decline which has led to investors searching for yield in asset classes such as property and equities to compensate. This has meant moving up the risk curve.
- **COVID-19 has added to disruption:** Investors who have relied on dividends from shareholdings or rent from investment property may suddenly find dividends and rent under pressure from economic disruption caused by COVID-19.
- **Credit and fixed income may be attractive in this environment:** A well constructed credit and fixed income portfolio may provide a consistent income stream and the opportunity to take risks in other parts of your diversified portfolio such as in equities.
- **Coupon payments and interest income:** PCI's income is primarily generated by coupon payments and interest income from investments in loans. Importantly, the receipt of these payments from borrowers is an obligation (unlike dividends which are declared at the discretion of the Board of companies). Therefore, predictability of coupon payments is typically high.
- **Monthly payments:** PCI's investment objective is to provide investors with monthly income by investing in a diversified pool of credit and fixed income assets.
- **What PCI has delivered:** The annual distribution return is 3.8%¹. This is in line with the target return of the RBA Cash Rate + 3.25% p.a. (net of fees) through the economic cycle².

Source: Perpetual Investment Management Limited, as at 31 August 2020.

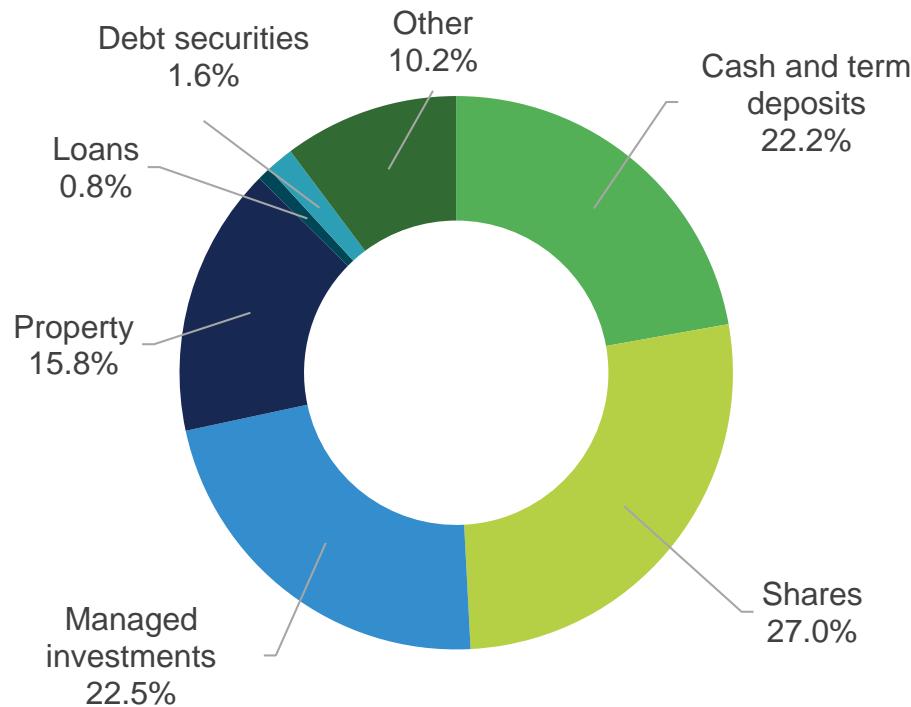
¹ Distributions are stated as cents per unit and have been rounded to two decimal places. Detailed distribution announcements are available on the PCI website and are stated in Australian dollars rather than cents per unit. Distribution return has been calculated based on the PCI investment portfolio return less the growth of NTA. Past performance is not indicative of future performance.

² This is a target only and may not be achieved.

DIVERSIFICATION IS MORE IMPORTANT THAN EVER

INVESTING IN CREDIT AND FIXED INCOME ASSETS HAS BECOME MORE
ACCESSIBLE FOR RETAIL INVESTORS VIA MANAGED INVESTMENTS AND LITs

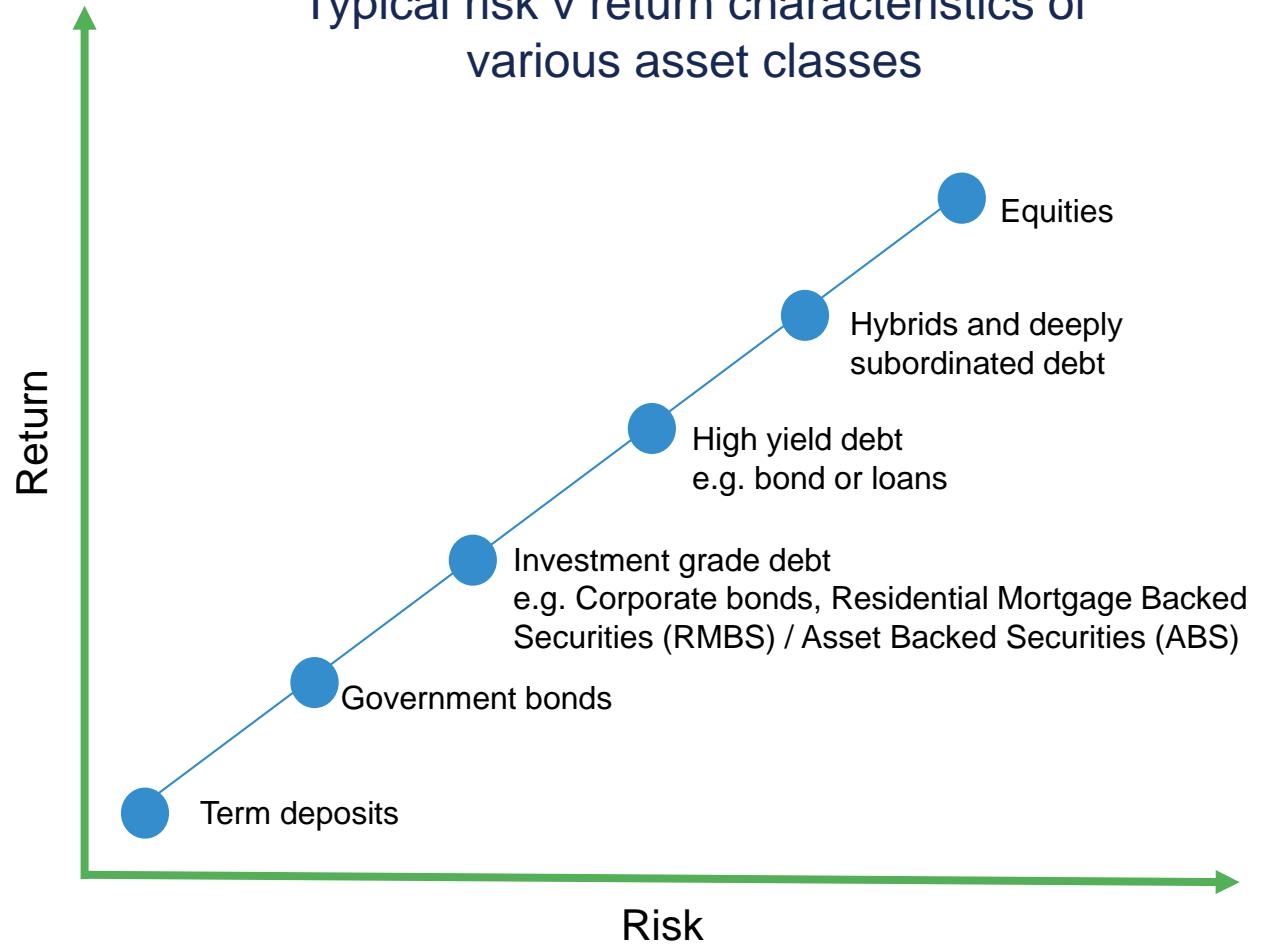
Total asset allocation in SMSFs[^] have traditionally been weighted towards cash, shares and property



[^] ATO estimates of the amount of assets held by SMSFs in Australia and overseas (excluding borrowings and other liabilities)

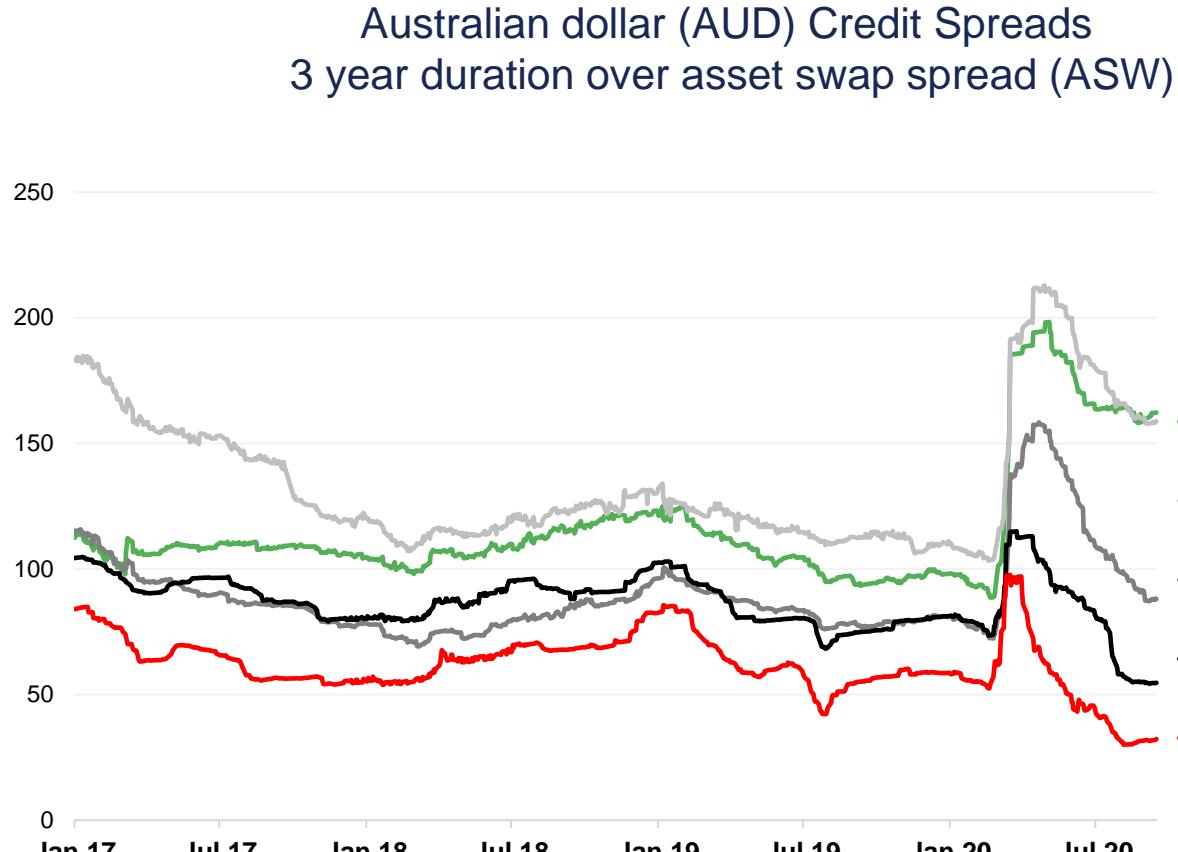
Source: ATO SMSF Quarterly Statistical Report - March 2020

Typical risk v return characteristics of various asset classes



Source: Perpetual Investment Management Limited

CORPORATE CREDIT CONTINUES TO PROVIDE COMPELLING OPPORTUNITIES TO GENERATE ATTRACTIVE RETURNS

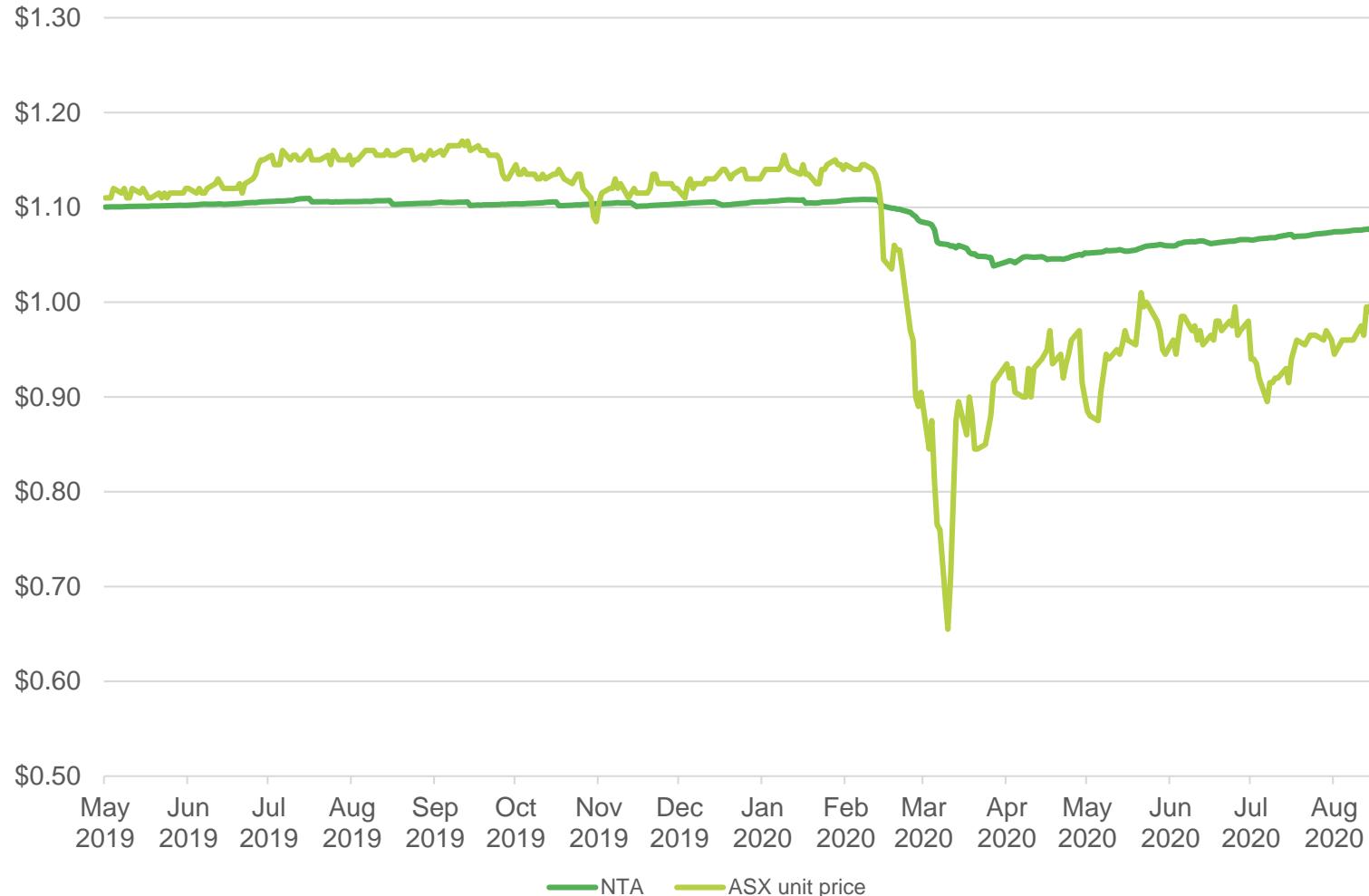


Source: NAB Credit Research

- Credit spreads represent the risk premium added to a base interest rate (i.e. bank bills) when pricing corporate securities.
- Major bank senior credit spreads have returned to their pre COVID-19 levels as a result of central bank support and fiscal stimulus.
- Credit spreads have tightened since March and we have taken profits in the domestic bank and financial sectors.
- Credit spreads for assets issued by property and non-financial corporates remain wide. Therefore we are attracted by their yield and believe there is an opportunity to invest at good relative value.

PCI UNIT PRICE TO NET TANGIBLE ASSETS

WE BELIEVE THE PORTFOLIO EXHIBITED DEFENSIVE CHARACTERISTICS
DURING THE MARKET SELL-OFF IN MARCH



- Market conditions have tested the PCI portfolio which we believe has proven to be resilient.
- The full value of the portfolio's assets are reflected in the estimated NTA published daily to the ASX.
- We believe the current ASX unit price represents an attractive opportunity to buy at a discount to NTA.

PORFOLIO UPDATE

Presented by Michael Korber and Anne Moal

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PCI'S TARGET PORTFOLIO CONSTRUCTION

A ROBUST, ACTIVE AND RISK AWARE INVESTMENT PROCESS

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- Our top down investment process allows us to invest opportunistically in the broad credit universe:
 - Along the entire credit spectrum, in different companies, sectors and structures
 - In assets denominated in foreign currencies (up to 30% of NAV)
 - Therefore, we seek to diversify credit risks and liquidity pools
- We can also determine the most attractive credit investment opportunities on a risk-adjusted basis at any point in time.
- PCI is an Australian dollar (AUD) credit fund - we seek to minimise currency and interest rate risks given we:
 - Invest in floating rate notes – this means interest payments we receive will typically move up or down as market interest rates move up or down.
 - Invest in fixed rate corporate bonds: hedging the duration exposure to a floating rate
 - Invest in foreign denominated assets: hedging back to AUD

As a result, we are less sensitive to the risk of a change in value of an asset due to a change in interest or foreign exchange (FX) rates.

GLOBAL INVESTMENT UNIVERSE WITH A FOCUS ON AUSTRALIAN ISSUERS

STRONG IN-DEPTH, BOTTOM UP RESEARCH

- We have a flexible investment strategy that allows investment in credit and fixed income assets diversified by asset type, credit quality, issuers and countries.
- However, our preference is to focus on Australian issuers which can be ASX-listed or unlisted.
- The assets in the PCI portfolio are predominantly issued by Australian issuers in AUD or foreign currencies. Assets can also be issued by offshore issuers in AUD or foreign currencies.
- We believe our local presence and ability to meet borrowers and their management team provides us with an advantage in assessing opportunities and managing credit risk for the portfolio.



DYNAMIC INVESTMENT STRATEGY

DIVERSIFICATION ACROSS ASSET TYPE, CREDIT QUALITY, MATURITIES,
COUNTRIES AND ISSUERS

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Asset type	Credit quality	Country/Issuer
<ul style="list-style-type: none">Corporate bondsPrivate loansAsset backed securities (ABS)Hybrid securitiesConvertibles	<ul style="list-style-type: none">Investment grade coreHigh conviction allocation to<ul style="list-style-type: none">High yield securities, andPrivate loans	<ul style="list-style-type: none">Australian focused exposure:<ul style="list-style-type: none">Australian domiciled, andIssuers in the Australian marketForeign currency exposure hedged back to AUD
Diversified across credit and fixed income asset types	Diversified across ratings and the capital structure	Diversified across issuers and countries
Derivatives may be used to take market opportunities and to hedge interest rate risk, currency risk and credit risk.		

SAMPLE ISSUERS

INVESTMENT GRADE



NON-INVESTMENT GRADE



INVESTMENTS IN HIGH YIELD AND LOANS

DESIGNED TO PROVIDE ATTRACTIVE RETURNS WITH WELL MANAGED RISKS

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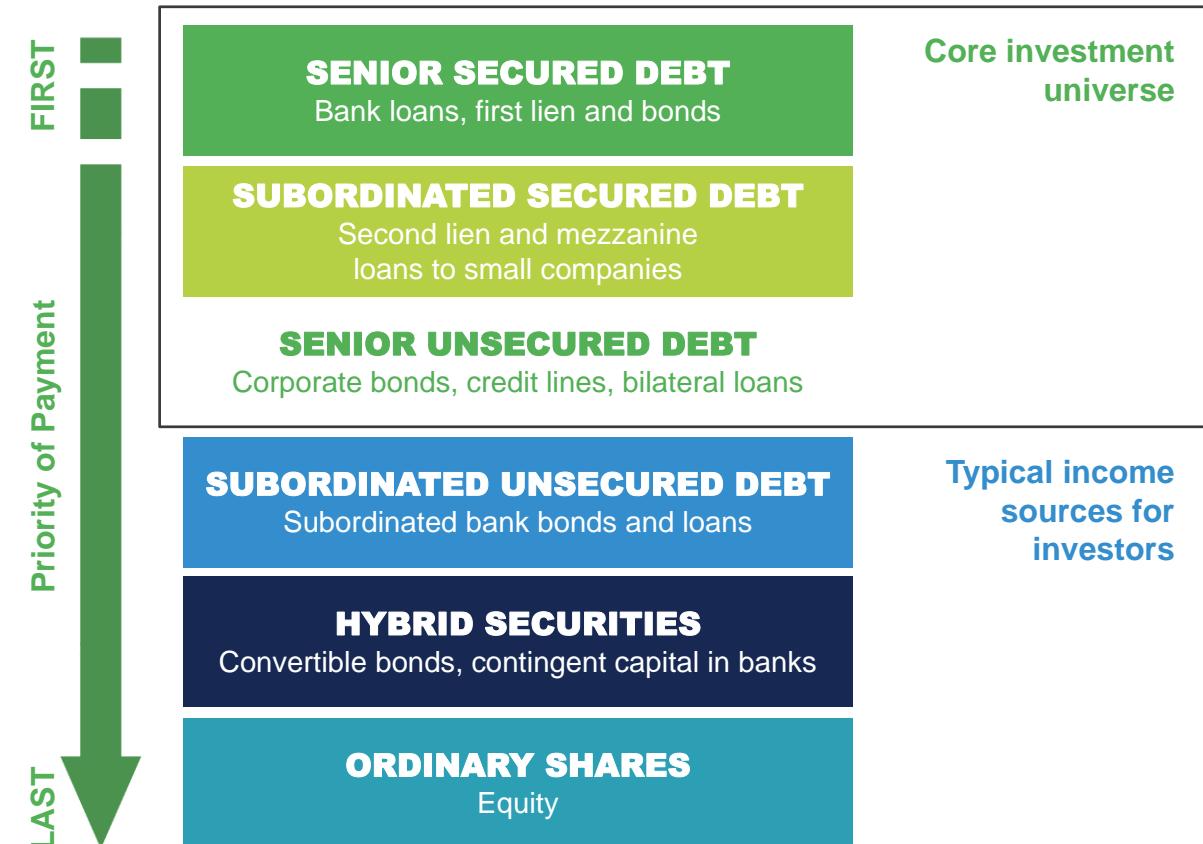
We are looking for assets that aim to provide

- High coupons
- Capital preservation
- Attractive breakeven – adequate compensation (e.g. coupon payments) is provided against the credit spread

The structure of High Yield debt instruments is important to achieve the above objectives

- We focus at the top of the capital structure
- These assets have typically only been available to institutional investors
- We believe investing at the right point in the capital structure supports the delivery of income

Typical capital structure of a company



Source: Perpetual Investment Management Limited

INVESTMENTS IN HIGH YIELD AND LOANS

FOCUS ON RESEARCH AND CAPITAL STRUCTURE

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- Many Australian companies (listed or unlisted) choose to be unrated, but that does not necessarily mean they are not quality companies.
- In addition to focusing at the top of the capital structure, in-depth research is required to develop high conviction and select approved issuers:
 - This involves researching borrowers and their sector independently
 - We spend time with management of borrowers
 - We screen out issuers which we consider have poor credit quality or susceptibility to downside shocks.
- During the COVID-19 led volatility, we did not experience, nor expect any default from borrowers in the portfolio.
- We actively monitor the portfolio and regularly engage with borrowers.
 - For example, we receive monthly or quarterly information for private loans.

INVESTMENTS IN HIGH YIELD AND LOANS

UNDERTAKING AN EXTENSIVE DUE DILIGENCE PROCESS TO SCREEN ISSUERS AND IDENTIFY THE MOST ATTRACTIVE ASSETS

Legal documentation review

Loan documentation is not standard. It is key to understand Lenders' rights and enforceability to make sure the risk is properly understood and priced

Board and management review

Ensuring quality, capable management and governance structure. Establishing an ongoing dialogue with management.

Valuation of business (including distressed valuation)

Looking for companies that we believe have resilient asset values to cover the amount of the debt we propose to hold.



Capital structure review

For example, senior secured or unsecured debt or subordinated secured or unsecured debt

In-depth financial analysis and modelling

Analysing the strength of the company's balance sheet, valuable assets and predictable cash flows

Understanding of market position and sector trends

Identifying companies who we consider hold a competitive market position and have low susceptibility to the potential impact of regulatory changes, political risk, litigation risk and other types of event risk

OUR IN-DEPTH CREDIT RESEARCH PROCESS SEEKS TO IDENTIFY QUALITY ISSUERS

HIGH YIELD DEBT EXAMPLES

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Issuers:	Australian Technology Innovators Pty Limited, the parent holding company of InfoTrack and Leap Legal Software <ul style="list-style-type: none">• Both are leading technology innovators in legal management software• Both unlisted
Sector:	Corporate – software & services
Type:	Loan (floating rate)
Credit quality	Sub-investment grade Rated B1 by Moody's
Seniority	Senior secured
Country:	Issuer incorporated in Australia Asset denominated in AUD



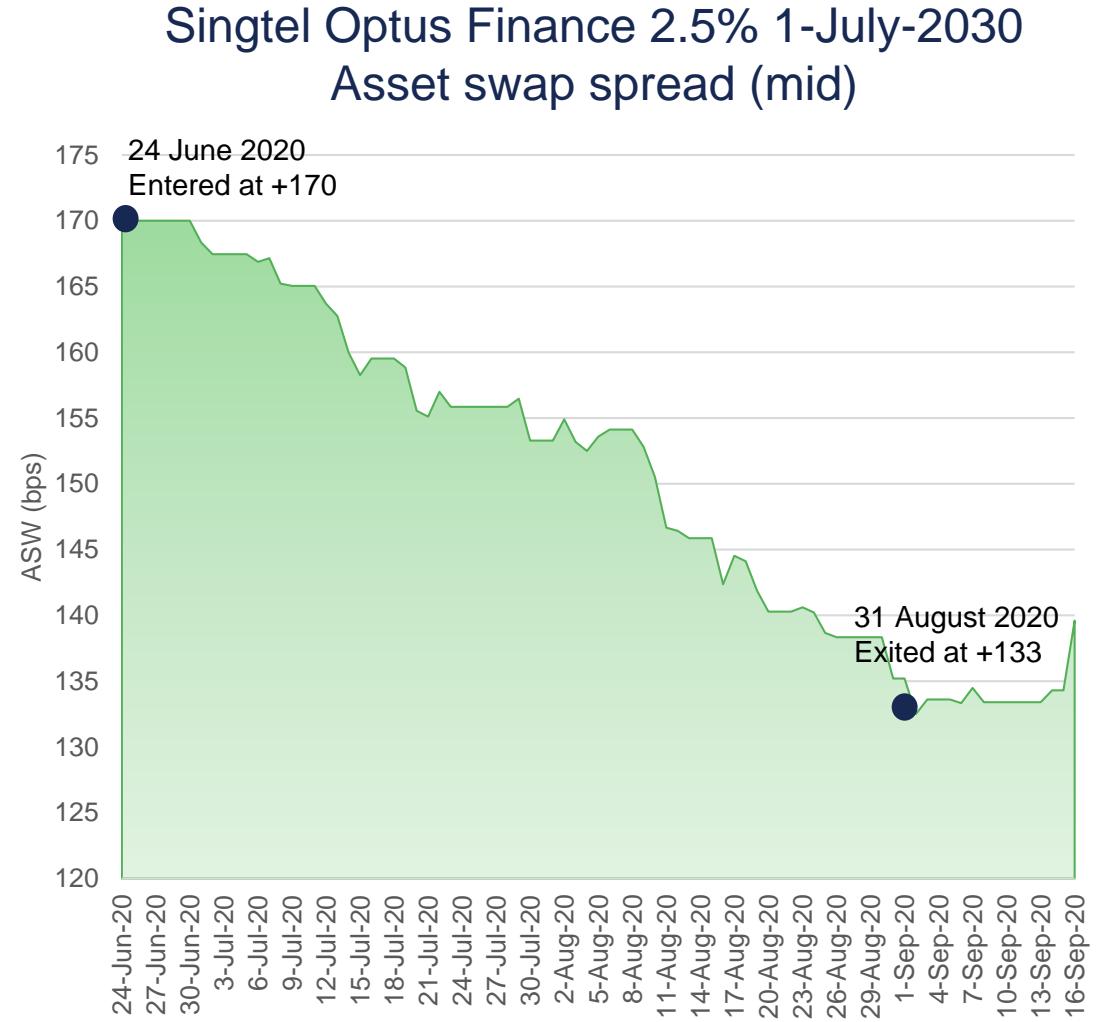
Issuers:	Mineral Resources Limited <ul style="list-style-type: none">• Leading diversified mining services company• Listed ASX: MIN
Sector:	Corporate – metals and mining
Type:	Fixed bond
Credit quality	Sub-investment grade Rated Ba3 by Moody's and B+ by S&P
Seniority	Senior unsecured
Country:	Issuer incorporated in Australia Asset denominated in USD

OUR IN-DEPTH CREDIT RESEARCH PROCESS SEEKS TO IDENTIFY QUALITY ISSUERS

INVESTMENT GRADE DEBT EXAMPLE

- In late June 2020, we participated in the issuance of the Singtel Optus 10-year note at 2.5675% s.a. (Semi-Quarterly ASW + 170bps).
- At that time, we considered credit spreads were still elevated and in our view, provided the opportunity to generate returns at an attractive price.
- Based on our rigorous relative value assessment, we considered:
 - The telecommunications sector exhibited defensive characteristics during the market sell-off in March
 - Optus has a competitive position in the mobile business
 - The credit spread of the new Optus deal was attractive when compared with the existing cash bond curves of other telecommunications issuers
 - This issuance represented a tactical trading opportunity over the short term for PCI given the long tenor of the asset with relatively low yield.
- Strong investor demand for the issuance was received both domestically and offshore with the final orderbook reaching over A\$1.3 billion, more than 2.6x the initial size of A\$500 million.
- Following the issuance, the credit spread tightened by 37bps which increased the value of the asset. Subsequently we took this profit for the PCI portfolio by exiting the position on 31 August 2020.

Source: Bloomberg

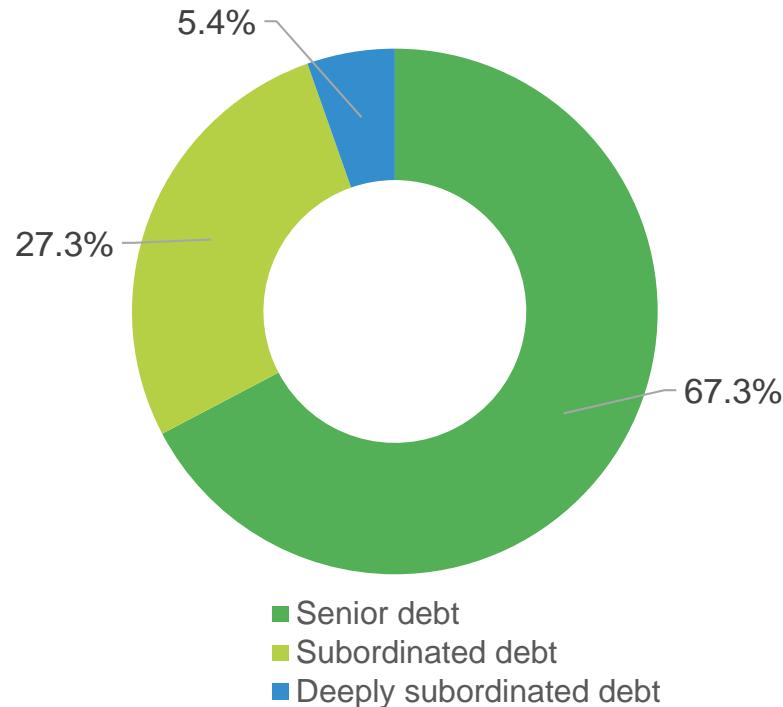


PORTFOLIO COMPOSITION

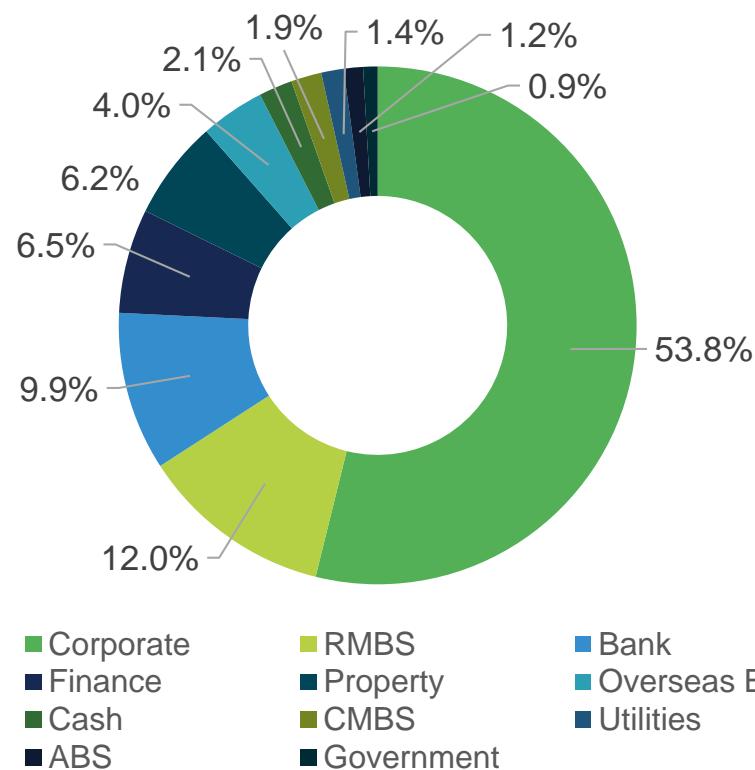
INVESTING IN A DIVERSIFIED POOL OF ASSETS

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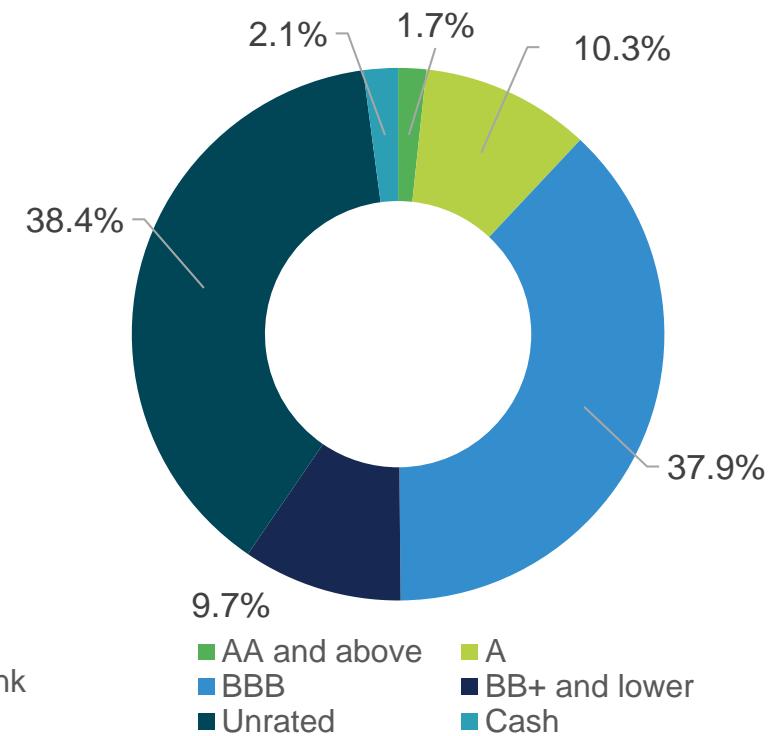
Seniority of assets



Sector allocation



Credit rating of assets



Source: Perpetual Investment Management Limited. Data is as at 31 August 2020. All figures are unaudited and approximate. Figures may not sum due to rounding.

¹An investment grade asset has a long term rating of BBB-/Baa3 to AAA/Aaa.

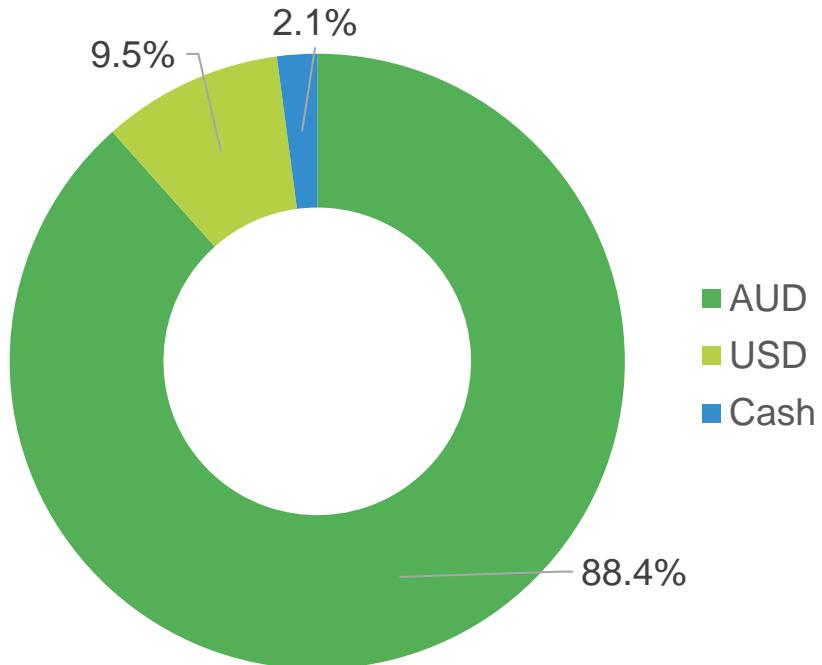
² A sub-investment grade asset has a rating below BBB-/Baa3 and includes unrated assets

PORTFOLIO COMPOSITION

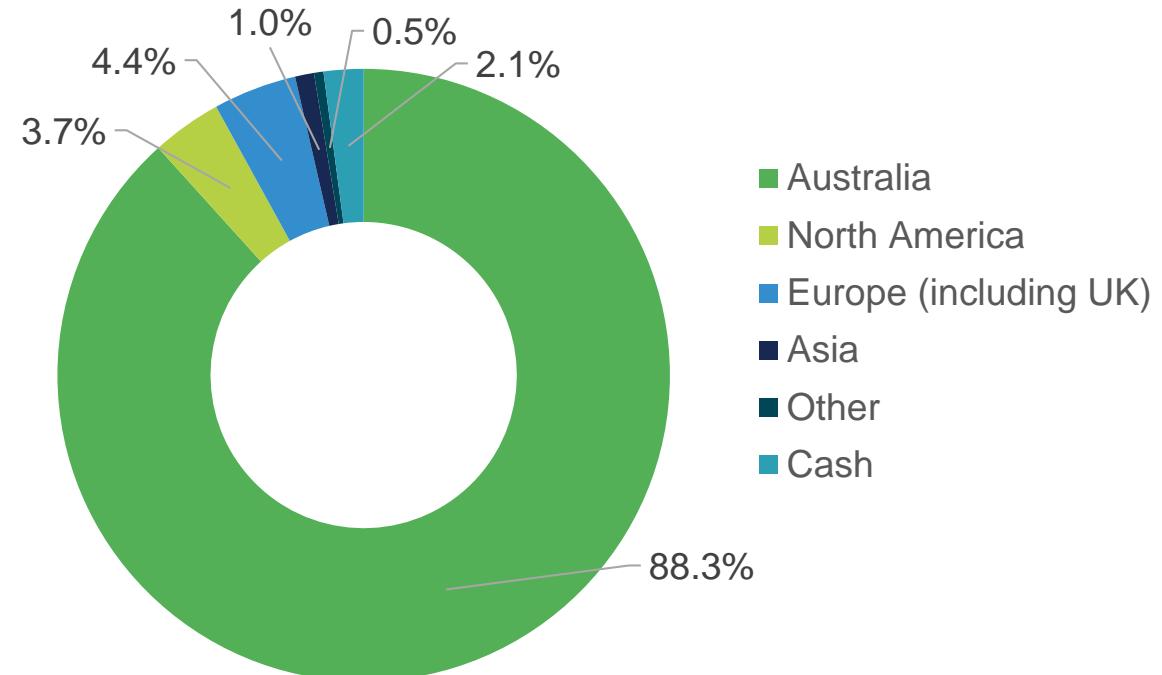
AUSTRALIAN-CENTRIC PORTFOLIO

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Currency breakdown



Domicile of Issuer



As at 31 August 2020, foreign currency exposures were hedged to Australian dollar floating rate.

INVESTMENT PORTFOLIO PERFORMANCE

AS AT 31 AUGUST 2020

	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PCI Investment Portfolio ¹ Returns net of operating expenses	0.8%	2.9%	-0.7%	1.2%	-	-	1.7%
RBA Cash Rate	0.0%	0.0%	0.1%	0.5%	-	-	0.7%
Excess Returns	0.8%	2.9%	-0.8%	0.7%	-	-	1.0%
Distribution Return	0.3%	0.9%	1.7%	3.8%	-	-	3.5%

Investment returns, net of management costs have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management costs) and assuming reinvestment of distributions on the ex-date. Distribution return has been calculated based on the PCI investment portfolio return less the growth of NTA. Past performance is not indicative of future performance. Since inception return is from allotment on 8 May 2019. Investment return and index return may not sum to excess return due to rounding.

ACTIVE MANAGEMENT TO FIND RELATIVE VALUE OPPORTUNITIES

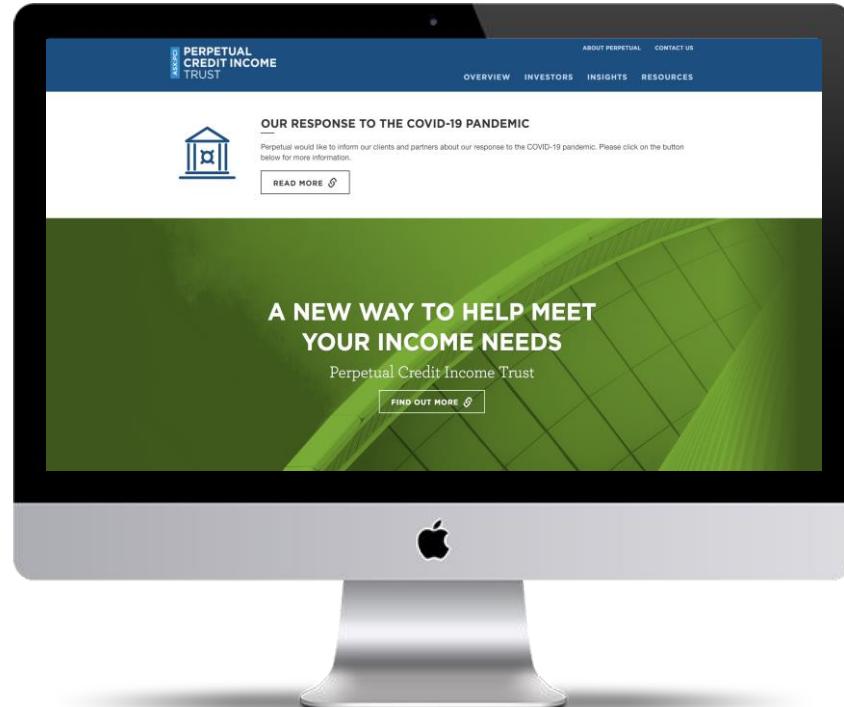
FOCUS ON IDENTIFYING QUALITY ISSUERS AND STRONG RUNNING YIELD

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- We do not anticipate a fast recovery in markets and expect the shakeout of company balance sheets and profitability to continue, particularly as central bank intervention and fiscal stimulus eases. However, with volatility also comes potential investment opportunities.
- Domestic credit spreads have continued their rally with a number of sectors reaching pre-COVID-19 levels.
- We find there is still a lag with the corporate sector. Based on our assessment, we continue to find relative value opportunities in the corporate sector. That is, as credit spreads remain wider for corporates, the compensation received from investing is more attractive.
- Strong running yield of 4.1% has more than offset the decline in our portfolios.
- We have been active in primary markets, participating in deals.

- PCI's investment objective is to provide monthly income and we have been delivering on this objective since inception.
- PCI's investment strategy provides flexibility and a breadth of opportunity as we can invest across the full spectrum of credit and fixed income assets including those not typically available directly to retail investors.
- The Australian centric portfolio provides advantages as we meet borrowers and their management team when assessing opportunities and managing credit risk for the portfolio
- The full value of the portfolio's assets is reflected in the estimated NTA published daily to the ASX and our website.
- We believe the PCI portfolio exhibits defensive characteristics with robust and resilient underlying assets. Therefore, our view is that the current ASX unit price represents an attractive opportunity to buy at a discount to NTA.

CONTINUING TO KEEP INVESTORS INFORMED AVAILABLE ON THE COMPANY WEBSITE



www.perpetual.com.au/income



Monthly Investment Reports



Latest insights from the Manager



View daily NTA announcements



Resources and educational information

QUESTIONS
