ASX:PCI

PERPETUAL CREDIT INCOME TRUST

Perpetual

2021 YEAR IN REVIEW

This Year in Review reflects our second full year of activity following the commencement of trading of the Perpetual Credit Income Trust (the "Trust") on the ASX on 14 May 2019.

During the financial year to 30 June 2021 (FY21), the Trust has continued to deliver to its investment objective of providing investors with monthly income by investing in a diversified pool of credit and fixed income assets.

The Trust has paid monthly distributions since inception which are in line with the target total return of the RBA Cash Rate plus 3.25% p.a. (net of fees)[1] through the economic cycle. For FY21, 3.63 cents per unit[2] has been paid to investors, which equates to an annual distribution return of 3.5%[3].

INVESTMENT PHILOSOPHY AND PROCESS

At Perpetual, we believe the key to investing in credit and fixed income assets is constructing, and actively managing, a well-diversified portfolio of quality assets.

The Portfolio Managers for the Trust, Michael Korber, Managing Director, Credit and Fixed Income and Anne Moal, Head of Corporate High Yield and Portfolio Manager for the Perpetual Loan Fund together have over 60 years' experience. They have invested through many market cycles and are supported by the broader Perpetual Credit and Fixed Income team.

The team follow a robust, active and risk-aware approach to investing in credit and fixed income assets. This involves top-down market screening of the credit environment and extensive bottom-up fundamental research to develop a list of approved issuers.

This research seeks to screen out issuers with poor credit quality or susceptibility to downside shock.

The formal credit review process involves consideration of where the asset sits in the capital structure and in-depth financial analysis and modelling. We look for companies that we consider have a good balance sheet and predictable cash flows, who hold a competitive market position and have a quality management team. For unrated or sub-investment grade assets, we undertake a more extensive due diligence process which includes a number of meetings with arrangers and borrowers. We will not invest unless we have high conviction.

Our investment process aims to find the most attractive segments of the market and ensure adequate compensation is provided for investments. We actively manage risk via our thorough investment process and by diversifying the portfolio across industry sectors, maturities and credit rating bands.

1 This is a target only and may not be achieved.
2 Rounded to 2 decimal places.
3 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.

PORTFOLIO COMPOSITION

The Trust's investment strategy is to hold a diversified and actively managed portfolio of credit and fixed income assets. The strategy allows for a combination of domestic and global credit, floating and fixed income assets.

As at 30 June 2021, the Trust's portfolio had 119 holdings across 90 issuers[4]. Investments include corporate bonds, floating rate notes, securitised assets and private debt (for example, corporate loans).

While the investment universe for the Trust is relatively broad and includes the ability to invest in assets of foreign issuers, the focus is on Australian issuers. The Trust can hold a maximum of 30% of the portfolio in assets denominated in foreign currencies. As at 30 June 2021, 86.1% of assets were denominated in Australian dollars and 89.7% of assets were issued by entities incorporated in Australia (entities incorporated in Australia increased from 82.1% in prior financial year FY20). This includes Australian corporations, banks, property trusts, asset backed securities (ABS) and infrastructure groups. We believe our local presence and ability to meet borrowers and their management team provides an advantage in assessing opportunities and managing credit risk for the portfolio.

As at 30 June 2021, 48.5% of the portfolio was invested in investment grade assets, and 3.8% allocated to cash. Investment grade assets are those where the issuer is in the rating bands BBB-/Baa3 to AAA/Aaa, as rated by an independent ratings agency. The Trust can also invest up to 70% of the portfolio in unrated or sub–investment grade assets[5]. We believe that unrated or sub-investment grade assets provide a point of differentiation for the Trust's investment strategy as these assets typically pay higher coupons than investment grade assets. While inherently riskier, by undertaking in-depth and enhanced due diligence in this asset class, we are able to critically assess the strength of a borrower and their capacity for repayments, mitigating the potential downside while generating a valuable source of income.

As at 30 June 2021, 47.7% of the portfolio was invested in sub-investment grade or unrated assets. Investments in sub-investment grade and unrated corporate bonds and loans will generally be focused on senior positions in the capital structure which means they are given higher priority in the event an issuer or company is wound-up or liquidated. Approximately 24.5% of the portfolio comprised of secured loans (including via the Perpetual Loan Fund) at the end of FY21, increasing from 17% when compared to the prior financial year.

MARKET OVERVIEW

FY21 saw a sustained rally in credit spreads driven by promising economic and public health developments alongside an extraordinary level of fiscal and monetary support.

Over the second half of the year, the economic recovery from the COVID-19 pandemic gained strong momentum. Fuelling the remarkable growth story were the expansionary policy positions of governments and central banks, which kept markets awash with liquidity. Governments continued to pump fiscal stimulus into their economies to maintain personal income and spending capacity, while the extraordinary monetary policy supported valuations.

Global interest rates were at or near zero throughout the year. Central bank balance sheets have also increased at an unprecedented rate, led by the Federal Reserve's aggressive quantitative easing program. In Australia, the Reserve Bank of Australia (RBA) has pursued its own unconventional monetary policy agenda with quantitative easing, yield curve control and the Term Funding Facility providing more liquidity to markets.

Persistent low yields and rapid economic growth have reintroduced inflation risk. In February, long term yields rose dramatically on inflation fears; while PCI's portfolio is shielded through exposure to floating rate credit, this typically impacts fixed income portfolios, and can increase discount rates.

4 Number of holdings and number of issuers reported on a full look through basis (excluding derivatives).

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

Credit spreads remained tight, having dropped below their pre-COVID lows during the year. In a low-yield environment, we believe the premium paid for prudently taking on credit risk is essential to building a portfolio that can generate a competitive yield. Despite full valuations, the outlook for corporate credit is positive. Market demand for Australian dollar issuance remains strong and alongside the strong economic outlook, is expected to support spreads. Credit risks have also subsided somewhat with a raft of ratings upgrades and robust earnings results over the past year. In the context of low interest rates and tight credit spreads, we believe active portfolio management is essential to defending capital and generating yield.

TRUST PERFORMANCE

Over the 12 months to 30 June 2021, the Trust's portfolio returned 8.3%[6], while over the same period total unitholder return was 12.8%[7]. Unitholder return was attributable to income generated and distributed by the Trust's portfolio, capital appreciation of the Trust's assets and the contraction of the discount to Net Tangible Assets (NTA).

The Trust continued to provide monthly income throughout FY21. The total distributions for the year were 3.63 cents per unit[8] and the 30 June 2021 annual distribution return was 3.5%[9], which is in line with the Trust's target total return of the RBA cash rate plus 3.25% (net of fees)[10] through the economic cycle. We believe that in the current environment of extremely low and negative yielding interest rates, this represents a healthy yield for investors. The Trust remains near fully invested and we believe the portfolio is well positioned to continue to offer investors a reliable monthly income stream.

The Trust's ability to maintain its monthly distributions is attributable to the running income of its investments. The Trust's income was primarily generated by coupon payments and interest income from investments in loans. The Trust predominately collected income return from non-financial corporates, prime Residential Mortgage Backed Securities (RMBS), property, domestic banks, and non-bank financials.

The most significant factor for Trust performance was capital appreciation as a result of tightening credit spreads. Credit spreads continued to recover from the COVID-19 related selloff in February 2020 through the year. Following the development of vaccines in November, and the accompanying improvement in economic expectations - credit spreads extended their rally, with spreads in many markets ending FY21 tighter than pre-pandemic levels.

The Trust's allocation to non-financial corporates, property, domestic banks and non-bank financials were the most significant contributors to credit spread return. Throughout the first five months of the year, the allocation to non-financial corporates was increased at attractive prices as the recovery in corporate spreads lagged financial spreads. This tactical positioning benefited the Trust as corporate spreads outperformed following the advent of COVID vaccines and the start of global reopening.

We believe that the outlook for credit remains strong and that the portfolio is well positioned to capitalise. As at 30 June 2021, the Trust was near fully invested across multiple sectors with exposure to the breadth of the capital structure and credit rating spectrum. The Trust remains weighted towards corporate credit in the BBB, high yield, and non-rated spaces where we believe there are quality issuers offering healthy yields. In a persistent low-yield environment with credit spreads at very tight levels, active management based on rigorous research and due diligence is, in our view, essential.

We would like to take this opportunity to thank you for your continued support and we look forward to providing you with further updates on the progress of the Trust's investments over the coming year via regular ASX announcements.

Perpetual Investment Management Limited (the Manager)

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6 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. Past performance is not indicative of future performance.

7 Total unitholder return – ASX unit price performance with reinvestment of distributions has been calculated on the growth of the ASX unit price and assumes reinvestment of distributions on the ex-date. Past performance is not indicative of future performance.

8 Rounded to 2 decimal places.

9 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.

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

INVESTMENT OBJECTIVE

To provide investors with monthly income by investing in a diversified pool of credit and fixed income assets.

TARGET RETURN

Total return of RBA Cash Rate plus 3.25% per annum (net of fees)^ through the economic cycle.

INVESTMENT STRATEGY

The Perpetual Credit Income Trust (ASX: PCI) (the "Trust") will hold a diversified and actively managed portfolio of credit and fixed income assets.

The Trust will typically hold 50 to 100 assets.

30% - 100%	Investment grade assets[11] Maximum issuer limit of 15%
0% - 70%	Unrated or sub-investment grade assets[12] Maximum issuer limit of 10%
70% - 100%	Assets denominated in AUD
0% - 30%	Assets denominated in foreign currencies AUD[13]
0% - 70%	Perpetual Loan Fund

The Trust will diversify exposure and has maximum exposure limits to issuers.

Typical investments will include corporate bonds, floating rate notes, securitised assets and private debt (for example, corporate loans). Exposure to corporate loans may be gained indirectly through the Perpetual Loan Fund.

ABOUT THE MANAGER

The Trust is managed by Perpetual Investment Management Limited. The Manager has one of the most experienced, proven and stable credit and fixed income teams in the Australian fixed income market. The Manager and the Responsible Entity are wholly owned subsidiaries of Perpetual Limited.

PORTFOLIO MANAGERS

MICHAEL KORBER

Managing Director, Credit & Fixed Income

Portfolio Manager:
Perpetual Credit Income Trust
Perpetual Pure Credit Alpha

Michael has over 38 years' experience, having been involved in credit markets since their development in Australia during the 1990's. Unlike many other fixed income portfolio managers in this market, Michael has a background in lending and banking, understanding credit risk in a fundamental way.

ANNE MOAL

Head of Corporate High Yield

Portfolio Manager:
Perpetual Loan Fund

Anne is an experienced credit markets specialist, having worked for 23 years in credit and fixed income markets in research, origination and trading roles. Anne joined the Credit and Fixed Income Team at Perpetual Investments in 2014. Anne is the portfolio manager of the Perpetual Loan Fund with a focus on higher yielding income opportunities.

CONTACT

If you have any questions, please contact Karen Davis, Investor Relations for PCI.

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

11 Investment grade assets are those where the issuer is in the rating bands BBB-/Baa3 to AAA/Aaa, as rated by an independent ratings agency.

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

13 As at 30 June 2021, all foreign currency exposures were hedged to Australian dollar floating rate.

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