

Perpetual Investment Funds

PERPETUAL ESG CREDIT INCOME FUND - CLASS A

March 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 March 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 March 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	2.48	5.19	8.67	5.97	4.04	3.66	-	3.49
Bloomberg AusBond Bank Bill Index	0.37	1.09	2.15	4.19	3.11	2.08	1.51	-	1.58

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 rally, RBA on hold;
- Credit spreads extend rally; Corporate spreads keep up with financials;
- Primary demand remains strong; issuance orderly.
- The outlook has improved to marginally positive

PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	35.92%
Subordinated Debt	60.69%
Hybrid Debt	3.39%
Running Yield [^]	5.93%
Portfolio Weighted Average Life	3.32 yrs
No. Securities	87
Modified Duration	-0.05

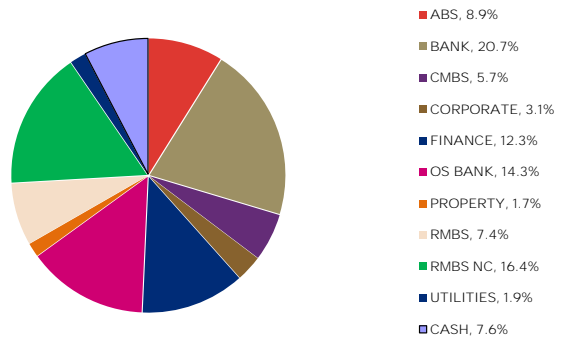
ESG APPROACH

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

March saw both government & credit securities rally as global economic data continues to surprise on the upside, raising hopes that a soft economic landing is still on the horizon. Despite nominal growth surprising to the upside, the US Federal Reserve left rates unchanged in March but, importantly, the “dot plots” of expected future rates continued to indicate three cuts before the year’s end.

Domestic credit spreads participated in the global rally and tightened in March, as the short end outperformed. Corporate spreads kept pace with Financials, while Utilities also performed strongly. March saw Moody’s upgrade of the Australian banks following their Advanced Loss Given Failure analysis and coinciding methodology change. Offshore spreads continued their strong performance with Australian domiciled, Euro denominated credit performing notably well.

Domestic bond yields rallied in March ahead of most global bond markets. Australian 10-year Government bond yields rallied 17bps breaking the 4% mark settling at 3.97% to end the month. US 10-Year Treasury yields meanwhile rallied 4bps to 4.20%. Domestically, semi-government bonds underperformed Commonwealth government bonds.

Primary markets were active during March. The Tier 2 market saw a high-volume month boosted by a \$1.5bn AUD 10NC5 deal from HSBC that generated a \$5.8bn orderbook, one of the largest subordinated debt orderbooks in the Australian market’s history. We also saw new deals from Infrastructure names (such as Transurban), Telecommunications (such as National Broadband Network) and Utilities issuers (Ausgrid).

PORTFOLIO COMMENTARY

The Fund’s income premium above bank bills was a strong contributor to outperformance. The portfolio’s running yield was 5.9% at month end, with the spread (credit yield premium) measured at 1.7%.

Credit spread dynamics were the major contributor to outperformance as domestic & offshore spreads extended their rally. Domestic and offshore banks were the most significant contributing sector, driven by exposure to subordinated paper. The Fund continued its rotation out of USD denominated positions, and adding allocation to AUD denominated domestic bank paper. With AUD denominated sub-debt typically issued at shorter maturities compared to foreign denominated sub-debt, the domestic rotation represented a shortening of the portfolio’s credit spread duration, allowing the manager to close out the small short position on the iTraxx crossover CDS index which offered downside protection against credit tail risks. The portfolio’s hybrids exposure also added value as the Banco Santander hybrid rallied significantly. The Fund’s exposure to securitised assets also added a significant contribution to performance, led by smaller subordinated 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.

Sector allocations were actively managed throughout March. De-risking the portfolio, the manager began rotating out of the lower end of the credit quality spectrum. The “Plus” segment of the portfolio was reduced via high yield and unrated bond sales in addition to the manager taking profits on BBB Corporates such as Incitec Pivot. As mentioned above, the manager also took profits on USD subordinated 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 remains 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 from neutral to positive in the first week of April following upgrades to some of our indicators.

Valuation indicators were upgraded to neutral coming into April. US High Yield spreads widened relative to recent levels, improving the valuation outlook. Meanwhile, Australian & US investment grade indicators remain neutral.

Robust economic growth prints turned our macro-outlook marginally positive. Manufacturing PMIs are showing signs of improvement in the US, UK & China with all 3 PMIs now in expansionary territory, while leading growth indicators in the US also improved.

Meanwhile, we saw no change to our market supply and demand indicators. 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 March with US credit and equity both positive, however, our equity volatility signal flipped from neutral to negative. Intermediary positioning appears balanced with brokers showing modest inventories.

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Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

