

PERPETUAL ETHICAL SRI CREDIT FUND

December 2020



FUND FACTS

Investment objective: To provide investors with regular income and consistency of return by investing in a diversified range of income generating, ethical and socially responsible assets. To outperform the stated benchmark over rolling three year periods before fees and taxes.

Benchmark: Bloomberg AusBond Bank Bill Index
Inception date: June 2018
Size of fund: \$46.3 million as at 31 December 2020
APIR: PER1744AU
Mgmt cost: 0.59%pa
Benchmark Yield: 0.03% as at 31 December 2020
Suggested minimum investment period: Three years or longer

FUND BENEFITS

Provides investors access to an actively managed fund that more closely matches their personal social and ethical beliefs or preferences, without compromising investment returns over the long term.

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 December 2020

	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Ethical SRI Credit Fund	0.56	2.01	3.56	2.15	3.10	-	-	-	2.67
Bloomberg AusBond Bank Bill Index	0.00	0.02	0.05	0.37	0.93	-	-	-	1.16

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

- Domestic credit spreads tighten; November rally slows.
- Corporate spreads outperform financials
- Yield curve stable; Steepens slightly.
- Primary market active early; Credit demand remains robust.
- Credit outlook improving; Remains positive.

ETHICAL EXCLUSIONS AND SRI SCREENING

There are two main steps to the process, namely ethical exclusions and socially responsible investments (SRI) screening.

ETHICAL EXCLUSIONS

We don't invest in issuers or counterparties that derive a material proportion of their revenue from:

- the manufacture or sale of alcohol or tobacco
- the operation of gambling facilities or the manufacture of gambling equipment
- fossil fuels (upstream)
- uranium and nuclear
- animal cruelty (cosmetic testing)
- genetic engineering
- pornography
- armaments (including weapons).

SRI SCREENING

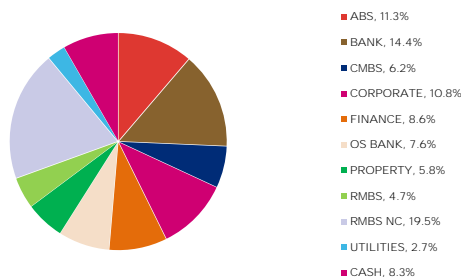
Issuers or counterparties remaining after the ethical exclusions are then subject to an SRI screening to evaluate how their business practices impact society and the environment. While other companies become allowable investments.

SOVEREIGN ISSUERS

Governments will be analysed on ESG factors, based on a scoring system utilising research from external specialists. This may include, but is not limited to, considering any unethical practices such as corruption, rule of law and political instability of the

For further details on the Ethical Exclusions or SRI screening please refer to the PDS.

PORTFOLIO SECTORS



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	59.25%
Subordinated Debt	33.27%
Hybrid Debt	7.48%
Running Yield	1.86%
Portfolio Weighted Average Life	3.20 yrs
No. Securities	77
Modified Duration	-0.14

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

MARKET COMMENTARY

Financial markets continued to rally through December. Credit spreads and equity valuations continued to benefit from positive COVID-19 vaccine news and the positive reception to the resolution of the US presidential election in November. Equities and credit were further buoyed by the improving macroeconomic outlook for 2021. While markets reacted strongly to positive vaccine developments the continued surge of new coronavirus cases and mutations across the Europe and the US were largely ignored.

Domestic credit spreads tightened on aggregate. While financial spreads vacillated around recent averages, corporate spreads outperformed, continuing their November rally. Spreads in a number of industries that were severely impacted by COVID-19 restrictions including retail real estate, and universities performed well in spite of increased fears around COVID-19 spread in NSW towards the end of the month. Spreads in the energy sector also performed well as the oil price continued its recovery.

Interest rate dynamics were subdued as the RBA continued its 3-year yield curve control activity and held the overnight cash rate firm at the effective lower bound. The yield curve steepened slightly as risk appetites increased in recognition of the improving macroeconomic outlook.

The primary issuance market was active through the first week of December before tapering in line with seasonal expectations. The busy fortnight of issuance was led by a \$1.45B 5-year senior unsecured deal from Macquarie Bank which priced tighter than initial guidance. Improved conditions brought two universities to the market in early December with the University of Wollongong (\$200M) and the University of Western Sydney (\$200M) issuing notes. NBN Co followed up its November inaugural issuance with a \$400M 10-year deal which was met with slightly less demand. Goodman Australia Industrial Partnership issued an eight year, \$400M fixed rate note. In the securitisation market, automotive ABS deals from Metro Finance (\$300M) and Pepper (\$615.9M) were priced in the second week of December. Overall, the domestic credit market ended the year in striking distance of annual issuance records despite significant interruptions earlier in the year.

PORTFOLIO COMMENTARY

Income return was a significant contributor to outperformance during December. The portfolio continued to collect running income in excess of the benchmark. The contribution from positive carry was broad based, coming from non-financial corporates, RMBS and property sectors, alongside Domestic and offshore banks. The portfolio running yield at month end was 1.86% with the spread measured at 1.80% above the benchmark.

Credit Spread tightening was the key contributing factor in outperformance. Credit spreads continued to tighten although less dramatically than during the November rally. Credit spreads benefitted from improving macro expectations and investor confidence following the US presidential election and COVID vaccine news. Domestic spreads were resilient in late December as travel restrictions were reintroduced to combat the spread of COVID-19 in New South Wales. On aggregate, corporate credit outperformed financial spreads. Portfolio allocations to non-financial corporates and property alongside domestic and offshore banks were the main contributors to outperformance.

Portfolio risk was actively managed throughout the month. Portfolio positioning was consolidated following the strong November rally. The manager took the opportunity to de-risk the portfolio in a number of ways. Allocation to AAA credit and cash was increased. The manager moved up the capital structure, increasing allocation to senior debt. Portfolio weighted average life was also selectively shortened.

Primary issuance was subdued in line with seasonal expectations. The manager took part in a new automotive ABS deal from Metro Finance and industrial property trust issuance from Goodman Australian Industrial Fund. Sector allocation was actively managed with exposure to ABS, Utilities and Non-bank Financials increased while Domestic Banks and non-financial corporate exposures were trimmed. The portfolio remains well positioned with strong defensive attributes while maintaining the capacity to take advantage of relative value opportunities in 2021.

OUTLOOK

The credit outlook has continued to improve and remains positive.

Valuation indicators are slightly positive. Domestic and international spreads remain in range of medium-term averages. Cross currency swap levels are positive for the valuation outlook.

Macro indicators are marginally negative. The macro outlook has improved significantly over the last months of 2020. Expectations for economic growth have risen on the back positive vaccine news and the US election result. Conditions remain supportive for equity capital raising which has a slightly positive impact on the macro outlook. Credit downgrades remain the main impediment to the macro outlook.

Supply and demand factors remain supportive for spreads. Credit supply is being impacted by seasonal factors and domestic banks' access to the RBA's Term Funding Facility. Market positioning and technical indicators remain marginally positive. Increasing US credit and equity valuations alongside equity volatility are also supportive for spreads.

The outlook for credit spreads is positive. The macroeconomic outlook has improved while central bank support and improved trading conditions continue to support valuations. The team remains well positioned to exploit relative value opportunities while defending capital.

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