

PERPETUAL ETHICAL SRI CREDIT FUND

April 2021



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: \$52.6 million as at 31 March 2021
APIR: PER1744AU
Mgmt cost: 0.59%pa*
Benchmark Yield: 0.03% as at 30 April 2021
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 30 April 2021

	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	0.30	1.25	3.13	7.16	3.03	-	-	-	2.93
Bloomberg AusBond Bank Bill Index	0.00	0.00	0.02	0.07	0.59	-	-	-	1.03

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 spreads tighten; Corporates outperform financials;
- Economic growth indicators improving;
- Rates fall slightly; RBA maintains easing policy;
- The credit outlook remains supportive;

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 (5% or more) 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)[^]

[^]For involvement in the production of tobacco, tobacco based products and the development and production of controversial weapons, a 0% revenue threshold is applied.

SRI SCREENING

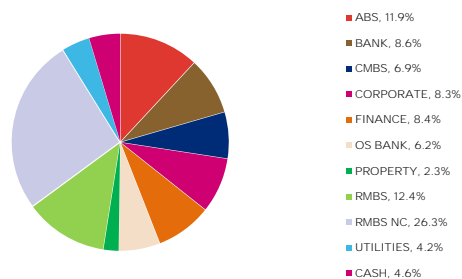
Issuers or counterparties remaining after the ethical exclusions are then subject to an SRI screening to evaluate how their business practices impact society and the environment, while other companies become allowable investments.

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 sovereign.

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

PORTFOLIO SECTORS



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	49.29%
Subordinated Debt	44.48%
Hybrid Debt	6.23%
Running Yield	1.62%
Portfolio Weighted Average Life	2.96 yrs
No. Securities	96
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 their sustained rally through April, supported by strong macroeconomic indicators and robust US corporate earnings. Strong first quarter GDP print and a raft of promising global PMIs were supportive for risk assets. US first quarter earnings were constructive, headlined by strong beats by tech conglomerates including Apple, Facebook and Alphabet. The positive macroeconomic and corporate earnings results saw developed market shares rise, led by US equities. The continued optimism was offset somewhat by the surge in COVID-19 cases in India and its expected impact on global vaccine availability.

Domestic spreads remained in range of recent averages, ending the month tighter on aggregate. Spreads tightened through the first three weeks of the month before selling off marginally towards month end. Non-financial corporates outperformed financial spreads in spite of a busy month of corporate primary issuance. Spreads in commercial and residential real estate sub-sectors were particularly strong performers. Major bank spreads remained in range of recent averages and the recent rally in subordinated bank debt slowed in April. RMBS spreads tightened over the month, supported by the promising outlook and the continued hunt for yield.

Interest rate volatility continued to subside and long-term yields remained in range of recent levels. Domestic yields fell slightly, clawing back a small portion of the February selloff at the long end of the curve. The market continues to price some form of monetary tightening ahead of the RBA's guidance. This is despite subdued inflationary pressure with first quarter CPI returning below consensus expectations. The RBA left policy settings unchanged and reiterated guidance that the current cash rate and 3-year yield targets would remain in place until employment and inflation targets are met.

Primary credit market activity was mixed with subdued financial issuance offset by a busy month for corporates. Transurban Queensland Finance came to market for \$200M via a senior secured fixed rate note. Network Finance Company (the financing arm of Endeavour Energy) priced \$350M of 7-year senior secured paper which was met with strong demand and tightened on issue. The utilities sector was active with deals from Australian Gas Networks (\$450M) and Victoria Power Networks (\$700M). The securitisation market was also very busy for a second month running. Domestic major bank issuance remains impacted by the availability of the RBA's Term Funding Facility. As the TFF is yet to be fully drawn and remains accessible until June 30, major bank senior issuance is not expected until the second half of 2021. Bank of Queensland took the opportunity to issue \$650M of senior and \$500M of subordinated debt across multiple deals during the month.

PORTFOLIO COMMENTARY

The portfolio collected running income in excess of the benchmark across all corporate and collateralised sectors. The key contributing sectors to income return were non-financial corporates and RMBS. The portfolio running yield at month end was 1.6% with the spread measured at 1.5% above the benchmark.

Credit spread tightening was the key contributing factor to outperformance over the month. Credit spreads tightened on aggregate, reflecting strengthening global growth expectations and robust corporate earnings results. Contribution to credit spread return was broad based, headlined by non-financial corporates, offshore banks, non-bank financials and property. The recently entered position in Westconnex's inaugural debt raising was the top performing position in the fund over the month. The bonds were purchased outright (unhedged) to establish a long duration position and were sold for a profit as bond yields trended lower during April.

Sector allocation was actively managed over the month. The manager elected to increase allocation to RMBS and offshore banks while trimming exposure to non-financial corporates. The Fund increased exposure to the utilities sector, taking part in the new deals from Australian Gas Networks and NSW Electrical Network Finance (the financing arm of Transgrid). Elsewhere, the Fund also took part in new deals from Transurban Queensland and Bank of Queensland. Portfolio risk was actively managed throughout the month. Capital structure risk allocations were maintained, while the Fund's BBB credit rating exposure was selectively reduced following a period of strong performance.

The fund applies both ethical and socially responsible investment (SRI) screens relating to what the company is in the business of and the way business operations are conducted respectively. Upon application of the ethical and SRI screens, several bond issuers have been screened out - including 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 is positive.

Valuation indicators are neutral to the overall credit outlook. Investment grade credit spreads have tightened significantly over the last year with spreads below their pre-COVID levels on aggregate. Domestic spreads are broadly in line with offshore peers.

The growth outlook remains very constructive for credit spreads. Leading economic indicators have continued to surge with the ISM US manufacturing PMI reaching its highest activity level since 1983. First quarter GDP growth figures were strong although coming from a lower base as the economic recovery from the COVID pandemic continues. The volume of equity market capital raising also positively contributes to the macroeconomic outlook. Strong US first quarter earnings results saw an increase in the ratio of upgrades to downgrades as ratings agencies continued to roll back post COVID downgrades as earnings rebound.

Demand and supply indicators have further improved, continuing to support the overall credit outlook. A busy upcoming maturity scheduled paired with expectations of corporate issuance taking a breather in the near term is expected to be supportive for spreads. While non-financial issuance has been elevated recently, overall aggregate credit issuance is in line with expectations. Demand for primary issuance remains robust with multiple deals meeting strong demand and, pricing tighter than guidance and tightening in secondary.

Technical indicators remain positive for the overall credit outlook. Tightening US credit spreads alongside robust equity valuations and volatility are all supportive for domestic credit.

The sustained rally in credit spreads continues to be supported by positive leading and trailing macroeconomic indicators, supply and demand conditions and technical factors. The team remains well positioned to benefit from further spread contraction offered by the current conditions.

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