Perpetual Investments

PERPETUAL ETHICAL SRI CREDIT FUND

December 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:	$48.6 million as at 31 December 2021
APIR:	PER1744AU
Mgmt cost:	0.59%pa*
Benchmark Yield:	0.05% as at 31 December 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 31 December 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	0.21	0.00	0.37	2.49	2.32	2.90	-	-	2.62
Bloomberg AusBond Bank Bill Index	0.00	0.01	0.01	0.03	0.20	0.63	-	-	0.85

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

-AUD spreads rangebound; Financials outperform corporates
-Long term yields rise; Yield curve steepens.
-Primary issuance subdued
-The credit outlook is slightly 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 (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

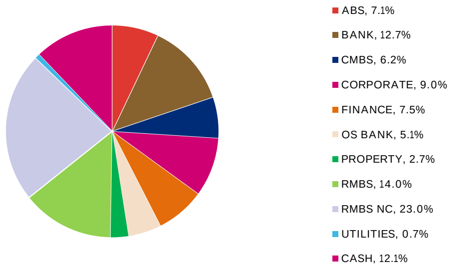
Issuers or counterparties remaining after the ethical exclusions are then subject to an SRI screening to evaluate how their business practices impact society and the environment. while other companies become allowable investments.

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	47.57%
Subordinated Debt	44.25%
Hybrid Debt	8.18%
Running Yield^	1.53%
Portfolio Weighted Average Life	3.07 yrs
No. Securities	123
Modified Duration	-0.08

* 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.

MARKET COMMENTARY

Financial markets saw mixed performance in December. Risk assets proved resistant to the impact of the Omicron variant and the acceleration of central bank tightening during December. Global equities continued to rise with the MSCI World Index ending the year at a new high watermark.

Credit and bonds were more mixed as a result of the acceleration of the Fed's tapering schedule and a more hawkish tone from central banks on tightening. The persistent high inflation print in the US – and to a lesser extent Europe and the UK – led central banks to abandon the 'transitory' prefix for inflation and moves to tighten were advanced, including a surprise rate hike from the Bank of England in mid-December.

Australian dollar long-term yields rose over the month, surging in mid-December on robust jobs data. The yield curve steepened as the long end of the curve sold off. The RBA remains at odds with futures markets over when rate rises are expected. Australia's central bank has continued to insist that increases in 2022 remain unlikely. In comments during the month, RBA Governor Philip Lowe praised the strength of recovery and noted the strong unemployment figures, while confirming that the cash rate would remain on hold until actual inflation is sustainably in the 2-3% range. Swap spreads tightened slightly over the month, regaining a portion of the widening observed through October and November.

Domestic credit spreads were mixed over the month overall, trading in range of recent averages. Financial spreads – led by major banks – outperformed corporates in December. The credit curve steepened as the short end outperformed longer-dated credit. RMBS spreads widened on aggregate. Demand in the sector has cooled over recent months and issuance volumes over the past year have been elevated.

Primary issuance was subdued in line with seasonal expectations. Overall, issuance volumes were lower in 2021 than recent years. This is partially attributable to the RBA's Term Funding Facility, which led to the absence of senior bank issuance throughout the first half of the year. The reduced volume has been constructive for spreads as reduced supply has met robust demand in both primary and secondary markets.

PORTFOLIO COMMENTARY

Income return was the key contributor to relative performance over the month. The portfolio collected running income in excess of the benchmark across all corporate and collateralised sectors. Contributions to income return were broad based, led by RMBS, non-financial corporate, domestic and offshore banks. The portfolio running yield at month end was 1.5% with the spread measured at 1.3%.

Credit spread dynamics were mixed for performance. Domestic credit spread performance was mixed by sector with financials out performing corporates and securitised sectors. Tightening major bank spreads contributed to performance. The Fund maintains a significant allocation to subordinated bank debt which performed well over the month. The fund's exposure to securitised spreads was the key detractor from credit spread return. RMBS spreads widened following an extended period of above-trend issuance volume.

Sector and risk allocations were maintained over the month. The manager remains selective in purchases made and the primary market was subdued in line with seasonal expectations. The Fund took part in the new issue from Pepper, maintaining the allocation to RMBS, offsetting the impact of amortisation on the fund's RMBS allocation. Elsewhere, the manager elected to selectively trim non-financial corporate exposures.

The outlook for credit remains constructive, however the manager remains selective. The fund remains near fully invested, albeit retaining a defensive posture given historically low credit premiums.

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 remains marginally positive.

Valuation indicators have improved while remaining marginally negative. Concerns surrounding the Omicron variant and a more hawkish stance from the Fed contributed to widening spreads across US investment grade, high yield and AU investment grade. The basis swap continues to make the AUD credit market more attractive for issuers and less attractive for offshore investors and this is expected to weigh on spreads.

The growth outlook remains strongly positive. PMIs remain resilient to supply chain disruption. Growth expectations have cooled slightly as a result of increasing COVID concerns. The accessibility of equity capital and increasing credit quality remain supportive for spreads.

Demand and supply indicators have cooled slightly while remaining marginally positive for the overall outlook. Market demand has been more selective than recent months, with a number of new deals trading wider than issue by month end. Spreads continue to be supported by reduced issuance volumes relative to recent years.

Technical indicators are marginally negative for the overall credit outlook. Investor and intermediary cash balances are very low relative to historical levels, weighing on the outlook for credit spreads. The team will continue to monitor technical and supply demand indicators to identify inflection points in investor risk sentiment.

The credit outlook has tempered recently as credit markets face risks in the form of central bank tapering and the Omicron variant. At the end of a long rally in spreads, the credit outlook remains supported by positive macroeconomic indicators while valuation, technical, and supply and demand indicators have moderated. The portfolios are well positioned to continue to deliver income and defend capital in these conditions.

MORE INFORMATION
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