

Perpetual Investment Funds

PERPETUAL ESG CREDIT INCOME FUND - CLASS A

August 2023

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: \$67.8 million as at 30 June 2023
APIR: PER1744AU
Mgmt cost: 0.59%pa*
Benchmark Yield: 4.22% as at 31 August 2023
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 August 2023

	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	0.52	1.81	3.08	6.92	2.69	3.24	2.85	-	2.79
Bloomberg AusBond Bank Bill Index	0.37	1.04	1.94	3.37	1.86	1.25	1.24	-	1.28

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

- RBA on hold: Yield curve flattens;
- Domestic credit spread tightens; Bank sub outperforms;
- Primary market issuance very light; secondary demand robust
- The outlook for credit has improved to neutral.

ESG AND VALUES-BASED CRITERIA

The Fund invests in quality issuers that meet Perpetual's ESG and values-based criteria as detailed below.

VALUES-BASED CRITERIA

The Fund will not invest in issuers 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 or supply of gambling products
- uranium and nuclear
- armaments (including weapons)***
- fossil fuels (exploration and extraction)
- genetic engineering
- pornography
- animal cruelty (cosmetic testing)

**Generally calculated using the total gross amount of income generated by the sale of good or services from normal business operations.

***For involvement in the production of tobacco, manufacture of nicotine alternatives and tobacco-based products and the development, production and maintenance of controversial weapons, a 0% revenue threshold is applied.

ESG CRITERIA

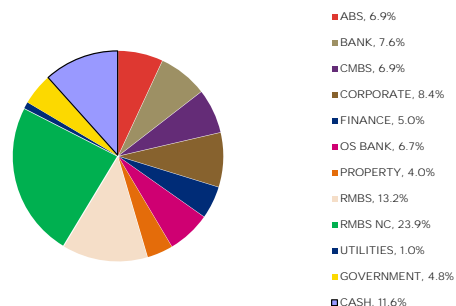
Additionally, issuers are scored (both positively and negatively) on a broad range of ESG factors such as the issuers environmental policy and strategy, how it considers ESG factors in its supply chain management and whether it has been involved in any corporate misconduct.

SOVEREIGN ISSUERS

Governments are 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 ESG and values-based criteria please refer to the PDS.

PORTFOLIO SECTORS



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	40.57%
Subordinated Debt	51.24%
Hybrid Debt	8.18%
Running Yield [^]	5.51%
Portfolio Weighted Average Life	2.75 yrs
No. Securities	108
Modified Duration	0.54

* 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

Global financial markets saw increased volatility in August as markets attempted to assess the impact of shifting economic growth prospects on the path of monetary policy tightening. Stronger-than-expected US data led to a sharp rise in bond yields which impacted global equity markets over the first half of the month before moderating.

Domestic long term bond yields remained relatively unchanged at month end after the RBA held the target cash rate at 4.10% during the August meeting. The domestic yield curve flattened with short end yields rallying over the month.

Domestic credit spreads extended their rally, supported by stronger than anticipated corporate earnings results. The RBA's pause has also contributed to the increased optimism in credit market. Tightening was broad based with Banks, real estate, diversified financial and corporate sectors all benefitting spread contraction. Following a slight expansion during July, swap spreads reverted during August, tightening over the first week of the month as swap rates fell.

Primary credit markets were very busy during August with ~\$25B in new credit supply. This represented a normalisation of volumes following a notably quiet July. The month was headlined by a pair of record setting senior unsecured deals from first CBA (\$5.0B) and in then ANZ (\$5.5B) in the last week of August. Notably, these deals had substantially larger bookbuilds, demonstrating resilient demand despite elevated volumes. Demand for senior unsecured major bank paper will continue to be tested as three-year TFF funding matures, requiring refinancing in public markets. Non-financial sectors were somewhat more subdued. NBN Co issued \$850M of senior unsecured green bonds. Securitisation issuance volumes picked up over the second half of the month, headlined by deals from Heritage and People's Choice, ING Bank Australia and Firstmac.

PORTFOLIO COMMENTARY

Income return was the most substantial contributor to outperformance during the month, led by RMBS, banks and non-financial corporates. The income generated by the Fund's exposure to floating rate notes and allocation to cash have benefitted from the aggressive increase in base rates over the past 16 months. The portfolio's running yield was 5.5% at month end, with the spread measured at 2.0%.

Credit spread contraction contributed to outperformance during August as domestic spreads continued to grind tighter. The Fund's exposure to securitised sectors was the most significant contributor to credit spread return. This was partially offset by widening spreads among a number of Euro denominated bonds across diversified financials, real estate and non-financial corporate sectors.

In recognition of tightening financial conditions, the Fund continues to maintain a highly liquid sleeve (~15-18%) of cash and government securities which protects against liquidity tail risks. The Fund maintains a small (0.4 years) duration exposure as a result of the government bond allocation which the Manager elected to shorten during the month. The Fund's duration exposure was rewarded during the month as yields ended the month slightly lower, contributing to return.

Issuance volumes were resurgent during August and the Fund was active in primary and secondary markets. The Manager elected to add exposure to domestic and offshore banks. The Fund took part in the \$5.0B senior unsecured deal from CBA before monetising the new issue concession, taking profit shortly after issue. The Manager elected to take part in the new 10-year \$750M fixed rate deal from Lloyds Banking Group which performed well over the remainder of the month, contributing to outperformance.

The outlook for credit remains delicately poised, the Manager remains conscious of the implications of slowing growth and tightening financial conditions for credit valuations and liquidity. The Fund remains defensively positioned while retaining the capacity to take advantage of relative value opportunities presented as the outlook improves.

The Fund invests in quality issuers that meet Perpetual's ESG and Values based criteria relating to what the company is in the business of and the way business operations are conducted respectively. Upon application of the ESG and Values based criteria, several bond issuers have been screened out. These include, 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 neutral.

Valuation indicators are balanced with no decisive signals across a range of indicators. Spreads across domestic investment grade as well as US investment grade and high yield are in range of historical levels.

Macro indicators remain the most significant drag on the outlook for credit spreads. Challenging economic growth expectations and tightening financial conditions as described in the Fed's Senior Loan Officer survey continue to weigh on the outlook.

Supply and demand indicators moderated during August and are neutral at month end. Issuance volumes rose during August, meeting robust demand. While the light upcoming maturity schedule is supportive, the year to date and trailing 12-month pace of issuance remains elevated, weighing on the outlook.

Technical indicators remain supportive, continuing to provide a strong positive signal. Accommodative intermediary positioning and robust demand are positive for the outlook. US credit, equity and equity volatility indicators all remain supportive.

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MORE INFORMATION

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