

Perpetual Investment Funds

PERPETUAL ESG CREDIT INCOME FUND - CLASS A

September 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: 4.16% as at 30 September 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 30 September 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	0.46	1.67	3.30	7.82	2.87	3.42	2.88	-	2.84
Bloomberg AusBond Bank Bill Index	0.34	1.08	1.99	3.56	2.03	1.36	1.28	-	1.33

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 surge higher; RBA remains on hold;
- Credit spreads widen over the second half;
- Semi and supra spreads outperform credit;
- Orderly primary market issuance.
- The outlook for credit is negative.

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

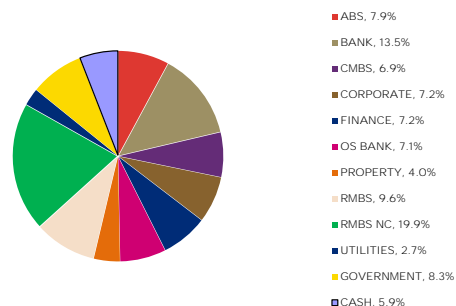
Additionally, issuers are scored (both positively and negatively) on a broad range of ESG factors such as the issuers environmental policy and strategy, how it considers ESG factors in its supply chain management and whether it has been involved in any corporate misconduct.

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	38.04%
Subordinated Debt	53.79%
Hybrid Debt	8.17%
Running Yield [^]	5.85%
Portfolio Weighted Average Life	3.56 yrs
No. Securities	102
Modified Duration	0.51

* 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

Bond yields surged during September, precipitating a selloff in global equities. Australian yields rose along the curve despite the RBA remaining on hold at their September meeting. The board retained its tightening bias, noting that more time is required to assess the impact of recent rate increases. US bond yields surged as US economic data showed resilience and investors prepared for a higher-for-longer interest rate paradigm. At the same time, the looming government shutdown and leadership dispute in congress alongside rising oil prices put further pressure on bond yields.

Credit spreads consolidated through the first two weeks for the month before selling off in the final days of September. This was in line with the global shift in risk sentiment with synthetic spreads rising as investors moved to purchase credit protection. Non-financial corporate spreads widened in late September, reflecting the pricing of higher-for-longer rates as well as an increase in monthly CPI indicators and corporate earnings growth concerns. Financial spreads were mixed with subordinated major bank spreads outperforming senior.

Primary market issuance was orderly through September following a very busy August. The flurry of senior unsecured financial deals continued with Macquarie pricing \$1.75B across fixed and floating tranches. Suncorp raised \$600M in the first Australian dollar tier 2 deal this quarter which was met with very strong demand. Financial deal flow continued to dominate while corporate issuance remained very light. A \$550M fixed rate bond from Westconnex was the exception, pricing in the last week of the month.

PORTFOLIO COMMENTARY

Income return was the most significant contributing factor to outperformance during the month. The portfolio's running yield was 5.9% at month end, with the spread measured at 2.0%.

Credit spread dynamics contributed to outperformance during the month. Spreads were subdued during September before widening towards the end of the month as rising bond yields and oil prices saw investors move to reduce risk. The Fund's security selection was rewarded, with exposure to subordinated bank spreads and foreign denominated credit contributing to credit spread return.

The Manager continues to actively manage liquidity tail risks by maintaining an elevated exposure to highly liquid government bonds and cash. Allocation to government bonds contribute to the fund's running income and allow the manager to inexpensively express duration positions. During the month the Fund's exposure to government bonds was increased. The Manager elected to lengthen the Portfolio's duration during September, adding exposure to the longer dated (7-8yrs) end of the curve via government bonds. The Manager chose to utilise the long end, recognising the possibility of persistent elevated inflation and uncertainty of the path of monetary policy tightening. During September, rising bond yields detracted from outperformance as a result of the Fund's 0.6 years of duration.

The Portfolio was very active in primary and secondary markets during September. Major banks and financial credit exposures were selectively lengthened and the Manager took the opportunity to rotate into fixed rate bonds, locking in attractive coupons as the peak of the monetary tightening cycle nears. Note the fund typically hedges the interest rate risks of fixed rate bonds in the portfolio. The Fund also invested in the floating rate tranche of the new \$2.4B senior unsecured deal from Westpac.

The outlook for credit is challenging and the Fund remains defensively positioned while retaining the capacity to take advantage of relative value opportunities as they arise.

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 deteriorated during September, turning negative by month end.

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. Tightening swap spreads are marginally negative for the outlook.

Macro indicators remain the most significant drag on the outlook for credit spreads. The surging oil price contributed to the negative growth picture. 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 are marginally negative. Heavy issuance both recently – as a result of elevated August volumes – and on a 12 month rolling basis weight on the outlook for spreads.

Technical indicators have moderated, remaining marginally positive. Accommodative intermediary positioning and robust demand are positive. US equity and equity volatility indicators have worsened as rising bond yields saw equities selloff and volatility spike.

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