Perpetual Investment Funds

PERPETUAL
ESG CREDIT INCOME FUND - CLASS A

November 2022

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:	$61.8 million as at 30 September 2022
APIR:	PER1744AU
Mgmt cost:	0.59%pa*
Benchmark Yield:	2.79% as at 30 November 2022

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 November 2022

	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	0.63	0.93	0.84	-0.35	1.24	1.40	-	-	1.95
Bloomberg AusBond Bank Bill Index	0.25	0.64	0.97	1.01	0.51	0.49	-	-	0.90

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 mixed; Financials outperform corporates.
-APRA disrupts subordinated financial sector.
-Bond yields rally; Swap spreads tighten.
-Banks headline primary issuance market.
-The outlook for credit has improved to neutral.

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

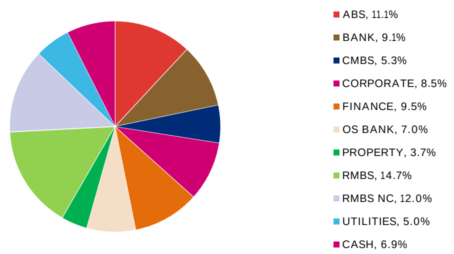
Issuers or counterparties remaining after the ethical exclusions are then subject to an SRI screening to evaluate how their business practices impact society and the environment. while other companies become allowable investments.

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	43.86%
Subordinated Debt	45.52%
Hybrid Debt	10.63%
Running Yield^	4.86%
Portfolio Weighted Average Life	3.55 yrs
No. Securities	115
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 continued their recent rally as investors priced in a slower pace of monetary policy tightening and lower terminal rates.

Bond yields broadly moved lower over the month, supported by slowing growth indicators, below expectation CPI results and hawkish commentary from central banks including the Fed. Domestic yields performed well, falling throughout the month following a 25bps rate increase from the RBA which was in line with market expectations. Long term yields outperformed as the curve flattened. Swap spreads tightened over the month retracing their recent expansion.

Domestic credit spreads ended the month in range of recent levels. Spread dynamics were mixed by sector with financial spreads outperformed corporates on aggregate. There was increased volatility among subordinated financials as APRA published guidance on the expectations for callable instruments. The increased scrutiny spooked markets and subordinated bank and insurance paper widened sharply and saw dramatically reduced liquidity. By month end, subordinated spreads had normalised ending the month lower.

Primary market issuance continues to be dominated by the return of Major bank senior issuance. NAB came to market for $4.75B, matching the recently set domestic market record. Elsewhere, ING raised $1.25B via a covered bond issuance. Securitisation deal flow remains robust while non-financial corporate issuance continues to be very light.

PORTFOLIO COMMENTARY

Income return was the most significant contributor during the month. Financials and securitised sectors were the most substantial drivers of income return with utilities and corporate exposures also contributing. As interest rates continue to rise and credit premia widen, the Fund's running yield continues to increase, mitigating the impact of ongoing credit spread volatility. The portfolio's running yield was 4.9% at month end, with the spread measured at 2.3%.

Credit spread dynamics were constructive for performance during the month. Credit spreads tightened on aggregate while performance was mixed by sector. The Fund's allocation to offshore financials performed well, most notably a number of Euro denominated hybrid exposures. Domestic bank subordinated spreads were impacted during the month as APRA issued a statement reiterating prudential requirements for callable instruments.

Over recent months, in recognition of tightening financial conditions, reduced liquidity and the challenging outlook for credit, the Fund has held approximately 20%-25% in cash and highly liquid government bonds. During November, this defensive allocation was reduced in line with the improving outlook to 10-15%. The Manager elected to invest in semi-government securities which offer a slight premium to government bonds while remaining highly liquid and relatively low risk. The Fund's semi-government exposure's duration was hedged via short government bond futures which gave the fund exposure to swap spread tightening. During the month, the small semi-government allocation performed well, contributing to outperformance.

Sector allocation was actively managed during the month. Exposure to securitised sectors was selectively increased over the month. The Manager believes that securitised assets currently offer relative value following recent tightening of the spread between the 1-and-3 month swap rates, with most securitised bond coupons benchmarked against 1 month bank bill swap rates. Elsewhere, the Manager elected to take part in new deals from NAB and ING bank, both of which priced at attractive levels and performed well in secondary.

The Fund's defensive positioning continues to mitigate the impact of tightening financial conditions and disruptions to credit market liquidity. As the outlook for credit spreads improves, the Fund retains capacity to take advantage of relative value opportunities.

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. 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

Conditions have improved over the month and the outlook for credit has returned to neutral for the first time since the first quarter of 2022.

Valuation indicators remain neutral to the overall credit outlook. Recent swap spread expansion continues to contribute to the outlook. The USD AUD basis swap remains elevated relative to long term averages, detracting from the credit outlook.

Growth indicators continue to detract from the overall credit outlook. Recession risks remain prominent and financial conditions are notably tighter. The ratio of upgrades to downgrades has reached an inflection point and is no longer providing support for the growth outlook. Moderation in the oil price during the month was constructive.

Supply and demand continue to marginally detract from the overall credit outlook. Conditions in financial sectors have normalised somewhat while issuance and secondary market liquidity in corporate sectors remains disrupted.

Technical indicators have improved on the back of a noticeable uplift in cash across real money accounts and improving trends in US credit and equity markets.

While the outlook for credit spreads has improved considerably, the team remains cognisant of the risks associated with tightening financial conditions and slowing economic growth.

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