Perpetual Investment Funds

PERPETUAL
ESG CREDIT INCOME FUND - CLASS A

February 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:	$64.7 million as at 31 December 2022
APIR:	PER1744AU
Mgmt cost:	0.59%pa*
Benchmark Yield:	3.12% as at 28 February 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 28 February 2023

	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	0.65	2.76	3.72	2.81	1.86	2.32	-	-	2.44
Bloomberg AusBond Bank Bill Index	0.24	0.76	1.40	1.76	0.89	0.66	-	-	1.01

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

-Economic outlooks improves; US inflation exceeds expectations;
-Increasing terminal rate expectations; Bond yields rise;
-Credit spreads tighten moderately;
-Primary market issuance robust; Financials dominate new deals;
-The outlook for credit is 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

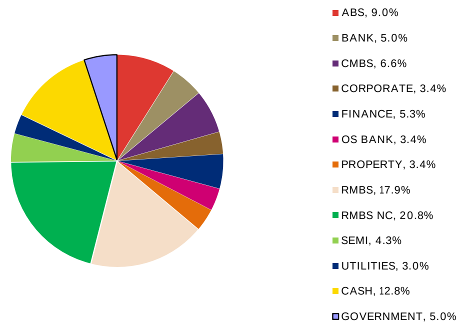
Additionally, issuers are scored (both positively and negatively) on a broad range of ESG factors such as the issuers environmental policy and strategy, how it considers ESG factors in its supply chain management and whether it has been involved in any corporate misconduct.

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	48.37%
Subordinated Debt	46.95%
Hybrid Debt	4.69%
Running Yield^	4.63%
Portfolio Weighted Average Life	2.95 yrs
No. Securities	114
Modified Duration	0.38

* 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

Equity and bond markets slowed in February following a strong start to the year as a series of strong economic data saw a repricing of central bank interest rate expectations. While markets reacted positively to the improving economic outlook in January, February saw increasing caution as robust PMIs, tight labour market data and elevated inflation prompted markets to anticipate further monetary policy tightening and higher terminal rates.

Domestic credit spreads were resilient, grinding tighter through February while remaining in range of recent levels. The primary issuance market remained mixed through February. There continued to be elevated volumes in the financial sector while non-financial corporate and securitisation activity was subdued. Westpac priced $4.25B of senior unsecured paper across 3 and 5-year tranches. ANZ raised $1B in a fixed rate tier 2 transaction that was notable for its unusual 15-year non-call 10 structure. Offshore bank, supranational and agency issuers were also active during the month. Signs point towards an emergence of corporate issuance with Telstra launching a $650M fixed rate bond in the final days of the month.

Bond yields rose giving back late 2022 and January gains. Strong economic data alongside hawkish central bank commentary released during the month led to increasing terminal rate expectations. The domestic yield curve flattened as short end yields sold off sharply. While the US yield curve is deeply inverted (reaching its deepest inversion in 40 years during the month), the slope of the domestic curve remains in positive territory. The RBA elected to increase the target cash rate by 25bps in early February with minutes later revealing that a 50bps increased was discussed. Similarly, the Fed minutes revealed a hawkish tone and discussion of a 50bps increase.

PORTFOLIO COMMENTARY

Income return contributed to outperformance during the month. The portfolio's running yield was 4.6% at month end, with the spread measured at 1.7%.

Credit spread dynamics were constructive for performance during the month as spreads tightened on aggregate. The Fund's allocation to financials – most notably domestic and offshore banks – were the key contributors to spread return during February. The Manager elected to reduce credit risk in the portfolio, moving up the quality spectrum, trimming BBB exposures while increasing allocation to AAA rated credit. As a result, the Fund's exposure to financials was reduced while allocation to RMBS – a sector which offers access to AAA floating rate credit – increased. Additionally, in the rotation away from riskier segments of credit, the manager has added to the short position on high yield credit (initially established in January), through a credit default swap (CDS) hedge. While the credit outlook remains neutral, it is worth noting that while technical indicators are supportive, credit fundamentals are more challenged, and the Manager elected to de-risk the portfolio and lock in recent gains.

Over recent months, in recognition of tightening financial conditions and liquidity risks, the Fund has held approximately 15-20% in cash and highly liquid government and semi-government bonds. This high liquidity sleeve has also allowed the Manager to express duration positions to take advantage of opportunities presented by recent yield volatility, with duration contributing positively to performance during the month. The Fund began February with a short duration position which performed well as yields sold off early in the month. The Manager selectively added duration at attractive levels via government and semi government bonds later in the month. By month end, the Fund's duration was 0.4 years.

The Manager was active in primary and secondary markets during the month, trading recently issued paper in order to monetise elevated new issue concessions. The Fund's defensive positioning continues to mitigate the impact of tightening financial conditions and the potential elevated market volatility that may result as central banks continue to withdraw liquidity from financial markets (quantitative tightening) at an unprecedented pace. This positioning provides a degree of risk mitigation, whilst preserving the capacity to take advantage of relative value opportunities should market volatility increase.

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 is neutral after briefly reaching the first positive reading in 12 months during early February.

Valuation indicators remain marginally negative. While the majority of indicators are in neutral territory, 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. Tightened financial conditions as described in the Fed's Senior Loan Officer survey continue to be a significant headwind. Meanwhile, the ratio of credit rating upgrades to downgrade has turned and is now detracting.

Supply and demand indicators have improved and are slightly positive. An elevated volume of maturities in the first quarter is expected to be supportive of credit spreads. While market demand has been positive, recent elevated issuance volumes detract from the outlook.

Technical indicators continue to be supportive for the overall credit outlook with each individual indicator in positive territory. There remain elevated levels of cash across real money accounts while demand from intermediaries has been healthy. At the same time, improving trends across US credit and equity and equity volatility are all supportive.

MORE INFORMATION
Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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