

## Perpetual Investment Funds

# PERPETUAL ESG CREDIT INCOME FUND - CLASS A

May 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:** \$68.1 million as at 31 March 2023  
**APIR:** PER1744AU  
**Mgmt cost:** 0.59%pa\*  
**Benchmark Yield:** 3.66% as at 31 May 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 May 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	0.55	1.25	4.05	4.92	2.04	3.45	2.57	-	2.57
Bloomberg AusBond Bank Bill Index	0.29	0.89	1.65	2.64	1.33	0.91	1.14	-	1.14

Please note: Performance for Perpetual's complete list of investment funds is available on [www.perpetual.com.au](http://www.perpetual.com.au). Past performance is not indicative of future performance.

### POINTS OF INTEREST

- Markets price further tightening;
- Domestic yields rise, curve steepens;
- Credit spreads rangebound; credit curve steepens;
- Corporate issuance rebounds; securitisation remains robust;
- The outlook for credit remains marginally 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

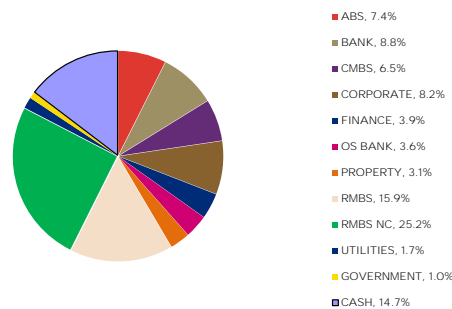
Additionally, issuers are scored (both positively and negatively) on a broad range of ESG factors such as the issuers environmental policy and strategy, how it considers ESG factors in its supply chain management and whether it has been involved in any corporate misconduct.

### 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	41.28%
Subordinated Debt	50.45%
Hybrid Debt	8.27%
Running Yield <sup>^</sup>	5.27%
Portfolio Weighted Average Life	2.22 yrs
No. Securities	116
Modified Duration	0.13

\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

<sup>^</sup>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 fortunes during May as equity and bond markets continue to price in starkly different outlooks for global growth. The fight over the US debt ceiling and the looming threat of a US default had an impact with US short end yields spiking during the month. Elsewhere, markets tried to anticipate the path of monetary policy tightening as central banks continue to grapple with stubbornly high core inflation and resilient labour data.

Domestic bond yields rose throughout May as markets adjusted to the RBA's surprise rate hike and parsed their increasingly hawkish commentary. The RBA elected to increase rates at their May meeting and their rhetoric was adjusted to include reaching target inflation levels "in a reasonable timeframe" which prompted markets to anticipate further rate hikes in the near term. While headline inflation has eased throughout 2023, this has been primarily attributable to moderating goods prices while services sector inflation remains intransigent. The domestic yield curve steepened as 1 and 2-year yields sold off sharply and the inversion of the short end deepened further.

Credit spreads were relatively benign during May, trading in range of recent levels. Financials marginally outperformed corpo rates on aggregate as global banking sector concerns continued to ease. The credit curve steepened with shorter dated spreads outperforming while long dated issues saw more widening. Swap to bond spreads narrowed as bond yields rose more rapidly than swap rates.

The domestic primary market welcomed back non-financial corporate issuance during May following an extended lean period. Australian Postal Corporation raised \$100M in a fixed rate Sustainability bond deal. Meanwhile, TransGrid (\$500M), Ausnet (\$700M) and PACCAR financial (\$200M) also contributed to the nascent resurgence in corporate issuance. Financial sector issuance remained robust, headlined by NAB's \$5.25B deal which priced in early May across 3 and 5-year fixed and floating tranches. The Securitisation market continued to be active with the recent trend of elevated Auto ABS issuance persisting.

## PORTFOLIO COMMENTARY

The Perpetual ESG Credit Income Fund in the month of May delivered a return of 0.6%, outperforming its benchmark by 0.3%.

Income return was the most significant determinant of outperformance during May. The Fund continues to collect a healthy running income in excess of the benchmark and rising interest rates continue to increase the coupons paid on the Fund's floating rate assets. The portfolio's running yield was 5.3% at month end, with the spread measured at 2.1%.

Credit spread tightening also contributed strongly to performance. During a month of benign spread dynamics, the Fund's exposure to non-financial corporates, utilities and securitised sectors was constructive. Subordinate tranches of a number of RMBS issues performed well, contributing to relative return.

In recognition of tightening financial conditions, the Fund continues to maintain a highly liquid sleeve (14-15%) of cash and government securities which protects against liquidity tail risks. During the month the Manager actively traded government bonds ending the month with a slightly reduced allocation. Allocation to government bonds supported the Fund's running income and during the month the Fund's curve positioning contributed to outperformance.

The Fund was active in primary and secondary markets during May. The Manager was able to monetise new issue concessions on deals from NAB, Credit Agricole and Bendigo Adelaide Bank. The Fund added allocation to a number of RMBS and ABS issues, taking the opportunity to rotate into higher yielding tranches and longer dated issues. Non-financial corporate exposures were selectively trimmed with the Manager taking profits on a number of positions. This included a USD denominated NBN co fixed rate bond which performed well as a result of Moody's upgrading its credit rating during the month.

Throughout the first half of 2023, the Manager has reduced credit risk in the Fund in line with the negative outlook. The credit outlook has improved while remaining slightly negative. Accordingly, the Fund remains defensively positioned while retaining the capacity to take advantage of relative opportunities.

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 improved towards the end of May, remaining slightly negative.

Valuation indicators have improved to neutral. Spreads remain in range of historical averages across Australian investment grade, US investment grade and high yield. The relative attractiveness of Australian Dollar credit has improved somewhat on the back of narrowing spreads vs offshore comparable as well as the tightening of USD AUD basis swaps.

Macro indicators continue to detract from the overall credit outlook. Tightened financial conditions as described in the Fed's Senior Loan Officer survey remain a significant headwind. The ratio of credit rating upgrades to downgrades has improved to neutral with a number of investment grade issuers upgraded following a US reporting season.

Supply and demand indicators remain marginally negative. Robust aggregate issuance volumes continue to weigh on the outlook for spreads.

Technical indicators are constructive. While cash levels across real money accounts have moderated, demand from intermediaries remains healthy. US credit, equity and equity volatility indicators are supportive for the credit outlook.

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## MORE INFORMATION

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