Perpetual Investment Funds

PERPETUAL
ESG CREDIT INCOME FUND - CLASS A

June 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:	3.64% as at 30 June 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 June 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	0.60	1.61	3.69	6.74	2.21	3.38	2.69	-	2.65
Bloomberg AusBond Bank Bill Index	0.30	0.90	1.70	2.89	1.48	1.01	1.17	-	1.18

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.

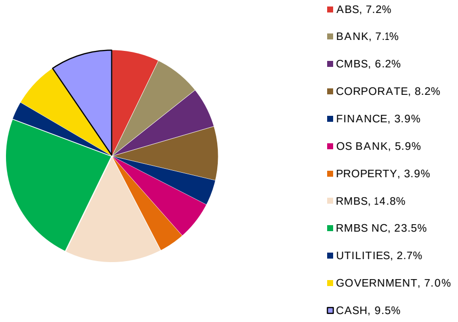
POINTS OF INTEREST

-Bond yields selloff sharply; yield curve flattens;
-RBA increases cash rate; 400 bps of hikes in 13 months;
-Credit spreads rangebound; narrow slightly;
-Swap spreads tighten; primary market orderly.
-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.

PORTFOLIO SECTORS



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.

PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	38.87%
Subordinated Debt	51.38%
Hybrid Debt	9.74%
Running Yield^	5.72%
Portfolio Weighted Average Life	2.83 yrs
No. Securities	111
Modified Duration	0.58

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.

* 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 were mixed during June with equities continuing to rise and credit markets strengthening while bond yields sold off as investors parsed hawkish central bank rhetoric.

Domestic bonds sold off along the curve over the month. Australian 10-year yields rose 42bps to end the month back above 4.0%. The 3-year tenor saw the sharpest upward move with the curve ending the month inverted between 3-and-10 year yields. The selloff in bonds was attributable in part to the 25bs rate increase agreed upon at the RBA's June meeting which defied consensus expectations. Since May 2022, the RBA has increased the target cash rate by 400 bps in the most aggressive rate tightening cycle in memory. The US AU 10-year spread returned to positive following the selloff in Australian bonds with the US 10-year rising less sharply over the month to 3.8%.

Domestic floating rate credit outperformed traditional fixed interest throughout the month as yields rose while credit spread s tightened. Domestic spread narrowed across most sectors while remaining in range of recent averages. Financial spreads performed well, led by offshore b anks. US dollar and Euro spreads outperformed Australian dollar denominated credit, continuing to recover from the spike observed during March.

Primary market issuance was orderly, with multiple deals pricing across financials, corporates and securitised sectors. Westp ac came to market with its first Australian Dollar denominated subordinated deal in over two years (The bank has issued tier-2 debt in USD during this period). The $2.9B book broke the previous record volume for AUD tier-2 major bank issuance. Corporate issuance extended its nascent resurgence with new deals from Endeavour Energy, Transpower New Zealand and Australian Gas infrastructure Group who raised $400M in a 7-year 6.109% fixed rate bond.

PORTFOLIO COMMENTARY

The Fund's June relative return was notable, accounting for almost 20% of the Fund's annual outperformance target in a single month. Income return was a significant contributor to outperformance during the month, led by RMBS, domestic and offshore banks. The portfolio's running yield was 5.7% at month end, with the spread measured at 2.1%.

Credit spread tightening was the most substantial contributor to return during June. Domestic credit spread dynamics were rel atively subdued, narrowing slightly on aggregate while remaining in range of recent levels. The Fund's exposure foreign denominated hybrid securities wa s the key contributing factor to the robust credit spread return. After reducing hybrid exposures early in the year, the Manager selectively added exposure to USD denominated Macquarie hybrid debt at attractive levels following the sharp selloff in March in the wake of UBS's purchase of Credit Suiss e. In June, the spread on this position narrowed substantially, contributing to return. Elsewhere, a Euro denominated hybrid in the utilities sector was a s ignificant contributor.

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. Allocation to government bonds contribute to the fund's running income and allow the m anager to inexpensively express duration positions. During the month the Manager added exposure to government bonds, increasing the Fund's duration t o 0.6 years by month end.

The Fund was relatively active in primary and secondary markets during the month. The Fund invested in the new fixed rate iss ue from AGI finance which the manager believes offers attractive carry for the level of risk. The Fund also bought some recently issued EUR denominated Sydney Airport senior bonds in secondary which were priced cheaply relative to the AUD BBB curve. 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 th e business of and the way business operations are conducted respectively. Upon application of the ESG and Values based criteria, several bond issuers h ave been screened out. These include, for example, companies involved in the extraction of fossil fuels or companies whose revenues are significa ntly associated with socially questionable products or services.

OUTLOOK

The Credit outlook remains marginally negative.

Valuation indicators are marginally negative. Spreads remain in range of historical averages across Australian investment gra de, US investment grade and high yield. Widening USD AUD basis swaps increase the attractiveness of domestic markets for issuers, detracting slightly fro m the outlook.

Macro indicators remain negative. The slowing pace of economic growth and tightening financial conditions as described in the Fed's Senior Loan Officer continue to weight on the outlook.

Supply and demand indicators have improved over the month and are now marginally positive. Demand has been robust across prim ary and secondary markets with a number of new deals oversubscribed and performing well on the break. Meanwhile, the elevated pace of issuance observed through the first 6 months of the year weighs on the outlook.

Technical indicators have moderated while remaining positive. Cash levels of real money accounts and intermediary demand are benign. US equity and equity volatility indicators are supportive for the credit outlook.

MORE INFORMATION
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