

PERPETUAL CREDIT INCOME TRUST

May 2020

Perpetual 

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PORTFOLIO MANAGERS



MICHAEL KORBER
Head of Credit & Fixed Income

Portfolio Manager:
Perpetual Credit Income Trust
Perpetual Pure Credit Alpha

38 years experience, 15 years at Perpetual



ANNE MOAL
Senior High Yield Analyst

Portfolio Manager:
Perpetual Loan Fund

23 years experience, 5 years at Perpetual

AGENDA

| Market Update

| Portfolio Update

| High Yield Update

| Questions

PERPETUAL CREDIT INCOME TRUST (ASX: PCI)

A ROBUST, ACTIVE AND RISK AWARE INVESTMENT PROCESS



Investment objective & target return

- To provide investors with monthly income by investing in a diversified pool of credit and fixed income assets.
- To target a total return of RBA Cash Rate + 3.25% per annum (net of fees) through the economic cycle.¹



Investment guidelines

Typically 50 – 100 assets

30% - 100%	Investment grade assets ² Maximum issuer limit 15%
0% - 70%	Unrated or sub-investment grade assets ³ Maximum issuer limit 10%
70% - 100%	Assets denominated in AUD
0% - 30%	Assets denominated in foreign currencies ⁴
0% - 70%	Perpetual Loan Fund



Investment process

- 1 Top down market screening
- 2 Risk appetite and matrix of preferences
- 3 Approved list of issuers
- 4 Fundamental research bottom up

STABLE, EXPERIENCED TEAM OF PORTFOLIO MANAGERS AND ANALYSTS WITH A PROVEN TRACK RECORD

¹ This is a target only and may not be achieved.

² An investment grade asset has a long term rating of BBB-/Baa3 to AAA/Aaa.

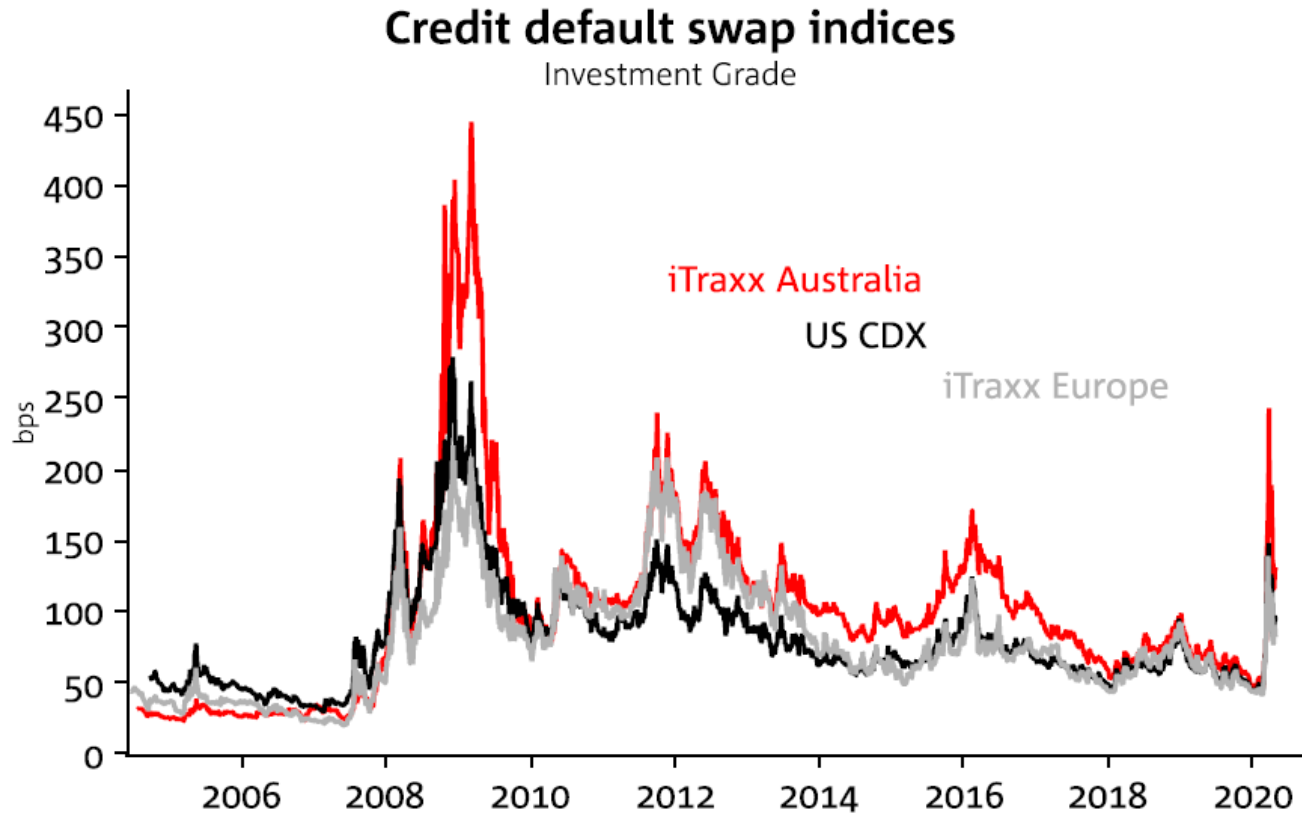
³ A sub-investment grade asset has a rating below BBB-/Baa3 and includes unrated assets

⁴ Foreign currencies are typically hedged back to the Australia dollar. As at 30 April 2020, foreign currency exposures were hedged to Australian dollar floating rate.

MARKET UPDATE

CREDIT MARKETS – A LONGER TERM PERSPECTIVE

THE CYCLICALITY OF CREDIT OFFERS OPPORTUNITIES

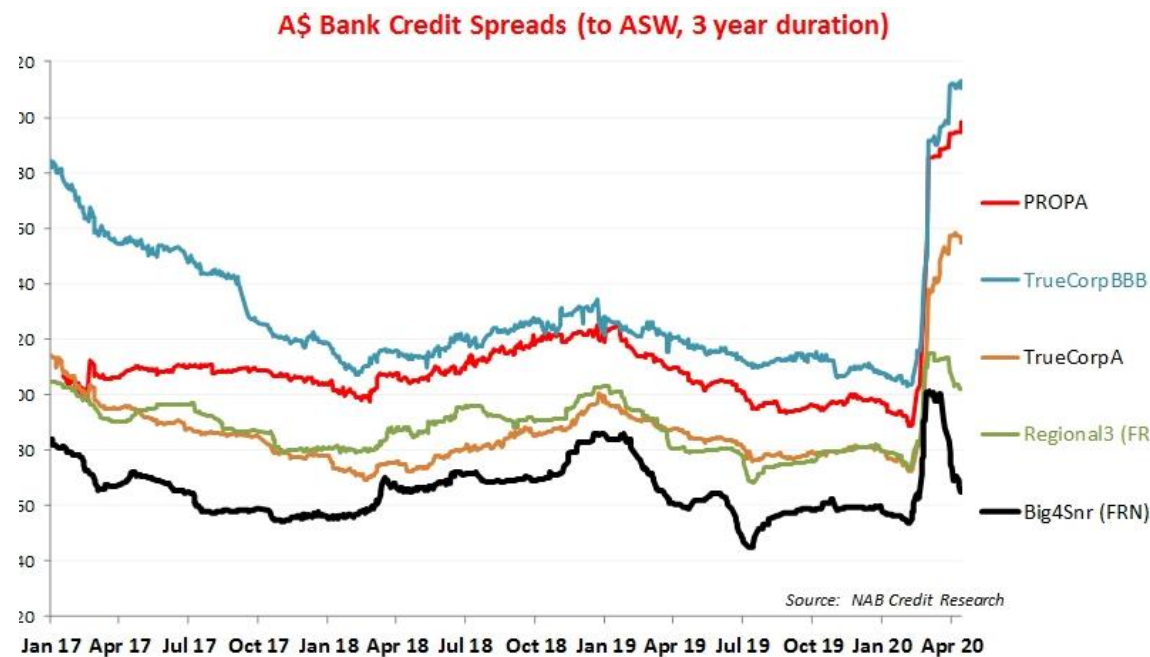
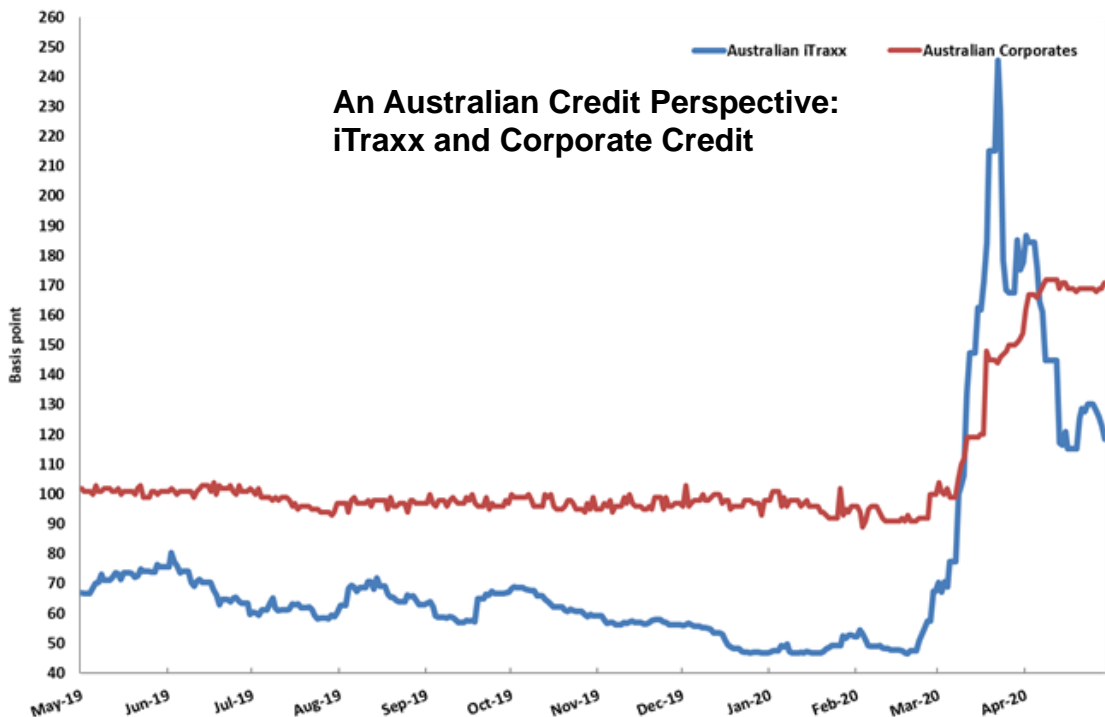


Source: Bloomberg, NAB Credit Research

- The credit market shows cyclicality over time.
- Credit spreads represent the risk premium added to a base interest rate (i.e. bank bills) when pricing corporate securities.
- Credit spreads are now wider to reflect a heightened sense of risk but we believe this also offers better prices to invest / lend.
- Through cycles, it is our view that credit securities have demonstrated a tendency to overcompensate investors for risk.

CORPORATE CREDIT HAS NOT RETRACED AS QUICKLY AS BANKS

OPPORTUNITIES CONTINUE TO EMERGE AT ATTRACTIVE RATES OF RETURN

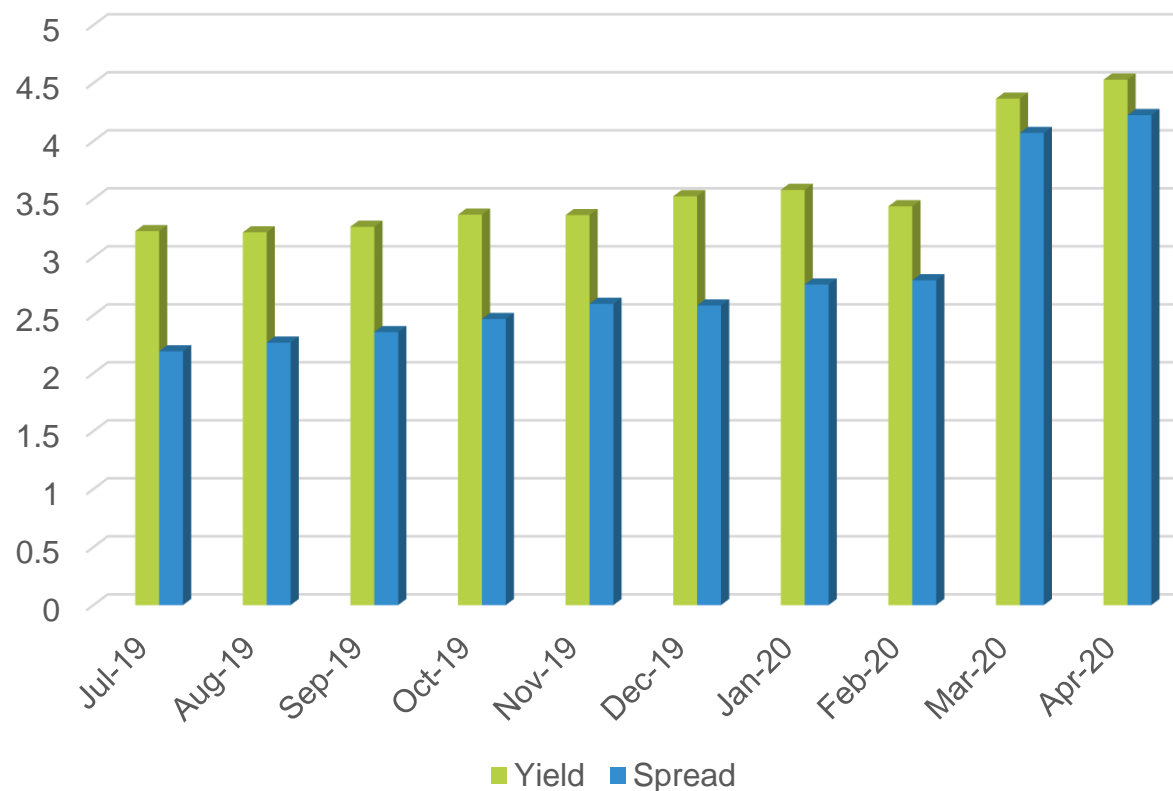


- Credit spreads have retraced from wider marks substantially since March but not uniformly across all securities/sectors.
- The government response for bank debt has seen this sector recover faster than corporate credit.
- Therefore, we still see good relative value opportunities in the corporate credit market.

FORWARD RETURNS LOOK ATTRACTIVE

CREDIT SPREAD CONTINUES TO GROW DESPITE CASH RATES FALLING

PCI portfolio yield and credit spreads



- Increasing uncertainty around the outlook for dividend income from shares means investors may be looking for other sources of income.
- Fixed income securities will continue to pay regular income.
- PCI's investment objective aims to provide investors with monthly income by investing in a diversified pool of credit and fixed income assets

THE RUNNING YIELD OF PCI HAS INCREASED, DESPITE A REDUCTION IN UNDERLYING INTEREST RATES

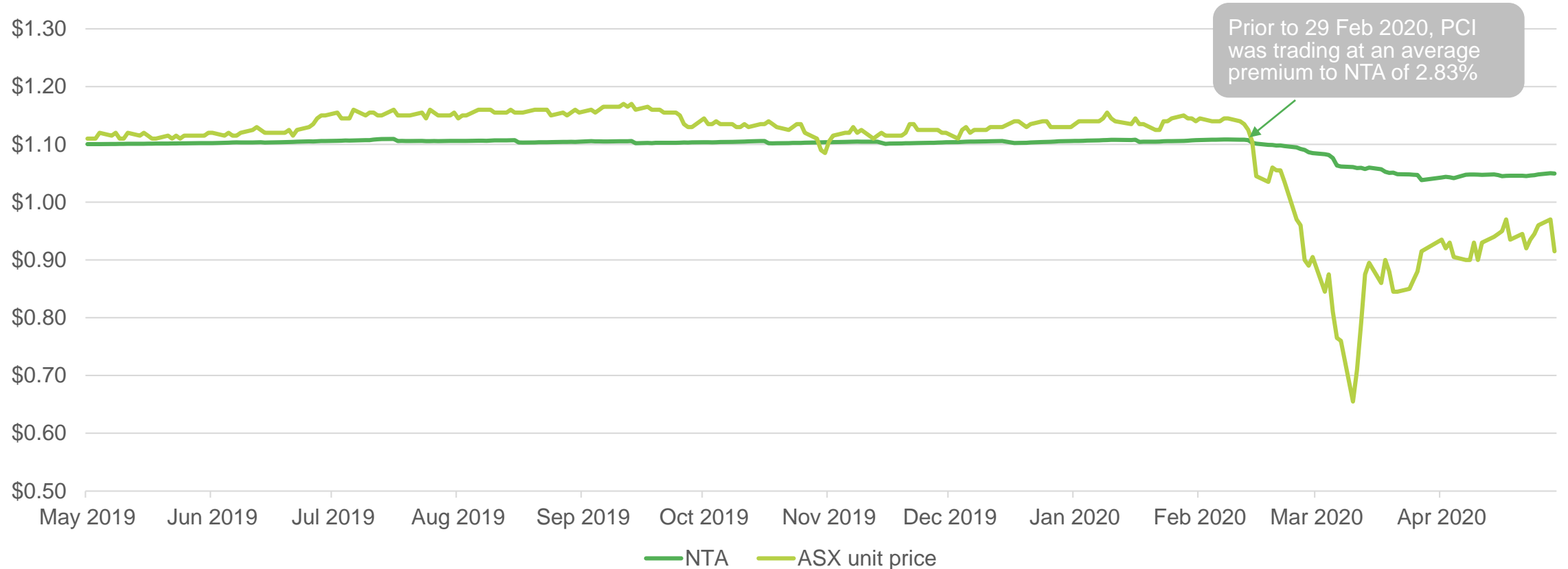
PORTFOLIO UPDATE

PCI PORTFOLIO WAS RESILIENT THOUGH NOT IMMUNE TO MARKET VOLATILITY

- Credit spread widening was the key detractor of performance over recent months:
 - March saw the most significant widening in credit spreads since the Global Financial Crisis
 - Key sectors impacted by credit spread widening have been domestic banks, financial and non-financial corporates
 - Some sectors recovered in April following the government response and central bank activity
 - Reductions in primary market issuance and secondary market liquidity
- Between 29 February and 30 April 2020, NTA decreased -5.1%.
- Monthly distributions continue to be paid and running yield of PCI has increased.

PCI UNIT PRICE TO NET TANGIBLE ASSETS (NTA)

DESPITE MARKET VOLATILITY, NTA HAS SEEN A SMALL DECLINE



FULL VALUE OF PORTFOLIO'S ASSETS REFLECTED IN THE ESTIMATED NTA PUBLISHED DAILY

Source: Perpetual Investment Management Limited

FLEXIBLE INVESTMENT STRATEGY

DEFENSIVELY POSITIONED WITH THE AIM OF PRESERVING CAPITAL

- Flexible investment strategy means we can actively move within the broad range of credit and fixed income assets to adapt to changing market conditions
 - Permits diversification across asset type, credit quality, maturities, countries and issuers.
- Key focus on identifying assets and issuers who have
 - A good balance sheet
 - Predictable cash flows
 - Hold a competitive market position
 - Have a quality, capable management and governance structure
 - Issuers who have low susceptibility to the potential impact of regulatory changes, political risk, litigation risk and other types of event risk
- Portfolio weighted average life is ~4.5 years, which is short and less sensitive to credit spread movements than longer dated securities.

DYNAMIC INVESTMENT STRATEGY AND A BROAD MANDATE

DIVERSIFICATION ACROSS ASSET TYPE, CREDIT QUALITY, MATURITIES, COUNTRIES AND ISSUERS

Corporate bonds and floating rate notes		Issued by banks	Issued by financial corporations	Issued by property trusts and infrastructure groups
Non-investment grade	Investment grade			
<p>OMNI BRIDGEWAY since 1986</p> <p>myob</p> <p>NEXT DC</p> <p>I-MED Radiology Network Comprehensive care. Uncompromising quality.</p>	<p>AB InBev</p> <p>coles</p> <p>AURIZON.</p> <p>BLUESCOPE</p>	<p>nab</p> <p>BOQ</p> <p>Westpac</p> <p>Bendigo and Adelaide Bank</p>	<p>iag</p> <p>SUNCORP</p> <p>BARCLAYS</p>	<p>GPT</p> <p>VICINITY CENTRES</p> <p>dexus</p> <p>Dampier Bunbury Pipeline</p>

ACTIVE MANAGEMENT TO FIND RELATIVE VALUE OPPORTUNITIES

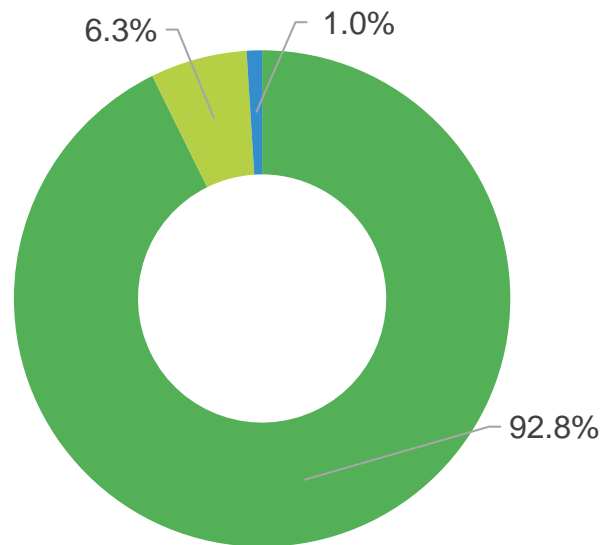
FOCUS ON QUALITY OF ISSUERS AND STRONG RUNNING YIELD

- Strong running yield 4.5%.
- PCI continues to collect income and strong running yield from issuers (non-financial corporates, domestic banks and RMBS/ABS) which assists in offsetting widening credit spreads.
- Relative value opportunities in primary and secondary markets:
 - Banks have retraced their widening in February and March and the portfolio has recovered some of this exposure.
 - As credit spreads remain wide for corporates, we have identified what we believe are some attractively priced opportunities in the non-financial space to generate returns for the portfolio.
 - This is in line with our investment process and risk aware approach to active management based on high conviction and identifying what we believe are the best relative value opportunities.

PORTFOLIO IS PREDOMINANTLY AUSTRALIA-CENTRIC

AS AT 30 APRIL 2020

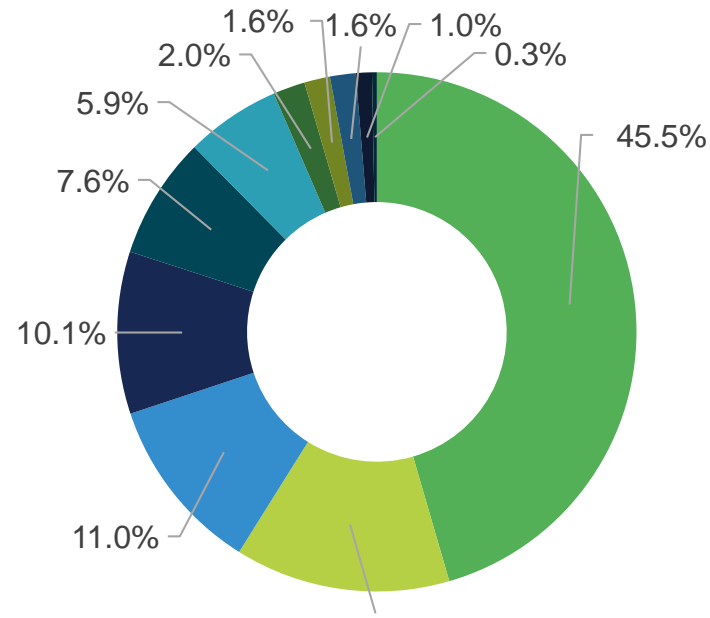
Currency breakdown



■ AUD ■ USD ■ Cash

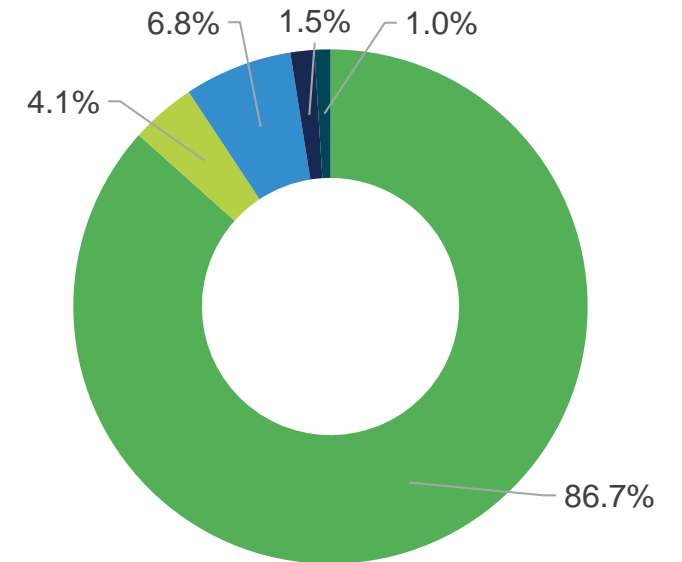
Non-Australian dollar exposures are hedged to the Australian dollar.

Sector allocation



■ Corporate ■ Bank ■ RMBS
 ■ Finance ■ Overseas Bank ■ Property
 ■ CMBS ■ Utilities ■ ABS
 ■ Cash ■ RMBS NC

Geographic breakdown



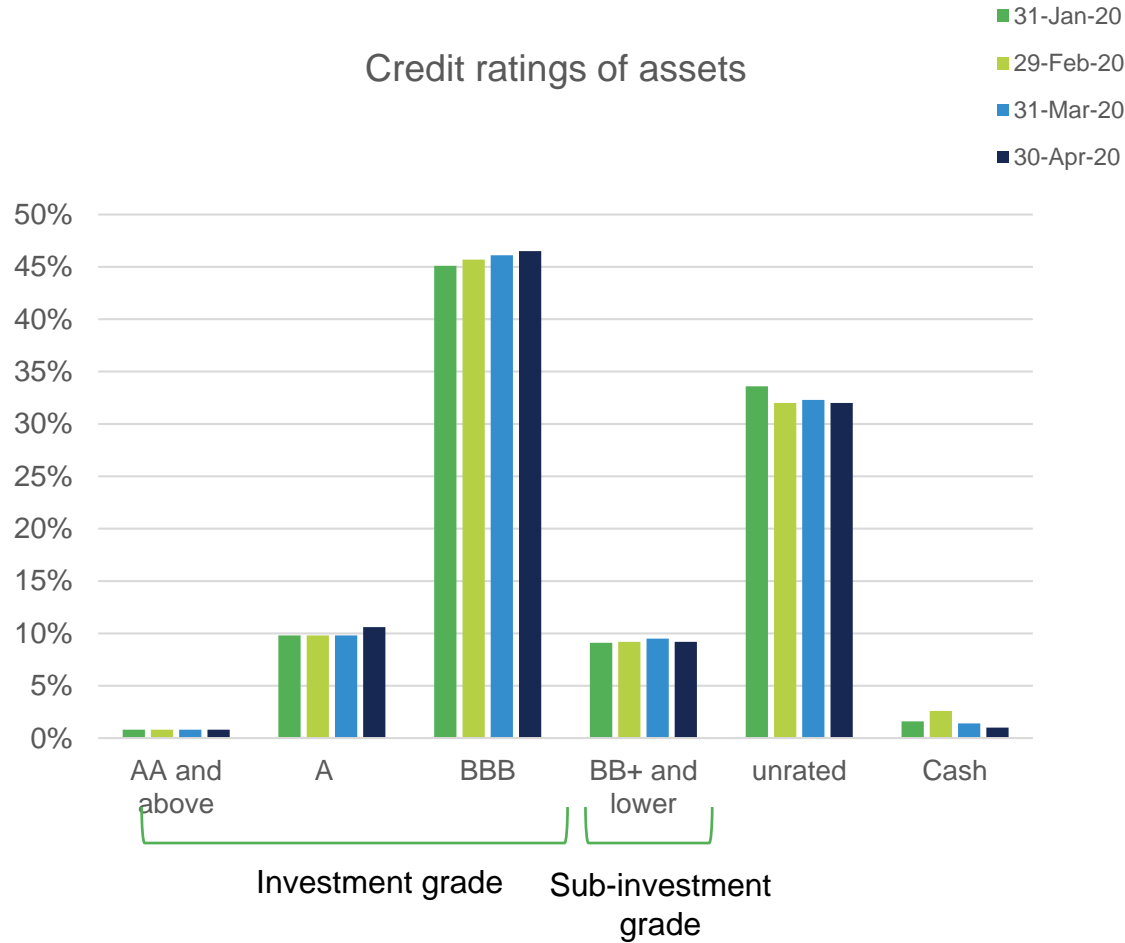
■ Australia ■ North America
 ■ Europe (including UK) ■ Asia

DIVERSIFIED PORTFOLIO OF 93 ASSETS ACROSS 68 ISSUERS WITH A FLEXIBLE INVESTMENT STRATEGY

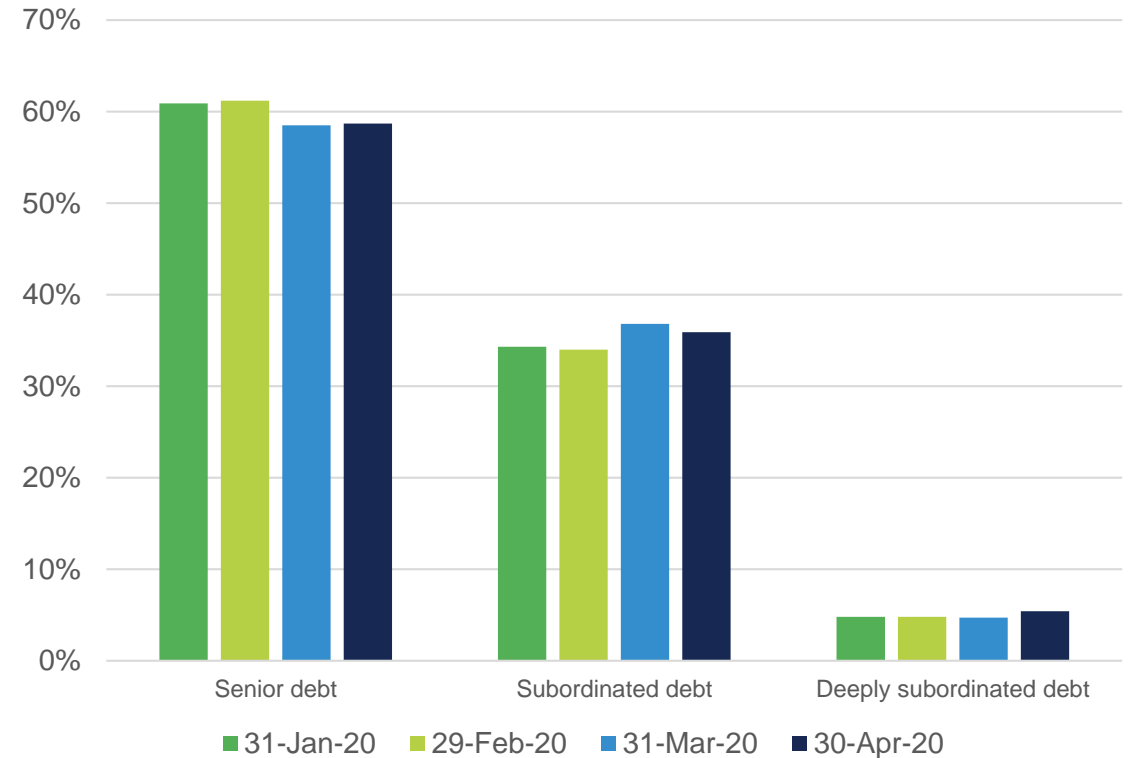
PORTFOLIO COMPOSITION REMAINS LARGELY UNCHANGED

RISK AWARE INVESTMENT REMAINS A FOCUS

Credit ratings of assets



Seniority of assets



Source: Perpetual Investment Management Limited

HIGH YIELD UPDATE

INVESTMENTS IN HIGH YIELD AND LOANS

DESIGNED TO PROVIDE ATTRACTIVE RETURNS WITH WELL MANAGED RISKS

We are looking for assets that provide:

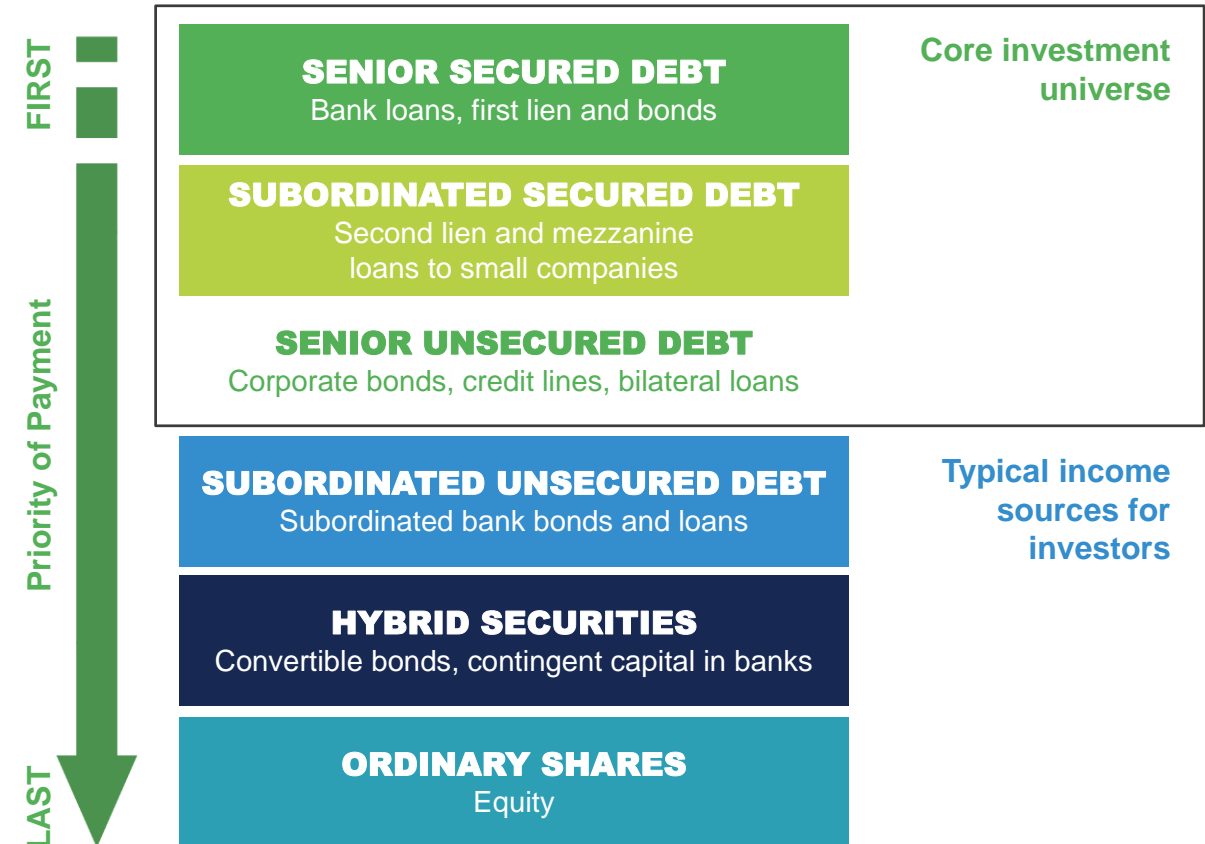
- High coupons
- Capital stability
- Attractive breakeven

The structure of High Yield debt instruments is important to achieve the above objectives

- We focus at the top of the capital structure
- These assets have typically only been available to institutional investors
- Investing at the right point in the capital structure we believe supports the delivery of income

Source: Perpetual Investment Management Limited

Typical capital structure of a company



HIGH YIELD & LOAN SPECIALIST

DISCIPLINED, PROVEN CREDIT RESEARCH PROCESS

Our approach for each investment is to undertake extensive, fundamental and robust research to screen issuers for acceptable credit quality:



Capital structure review



In-depth financial analysis and modelling



Understanding of market position and sector trends



Valuation of business (including distressed valuation)



Board and management review



Legal documentation review



Security selection is critical – our high conviction process helps to identify the most attractive assets

PCI HIGH YIELD INVESTMENTS

INVESTMENTS HAVE BEEN RESILIENT AND DELIVERING INCOME

- 41.2% of the portfolio is non-investment grade including:
 - 16.5% in corporate loans, predominantly senior secured
 - 16.0% in sub-investment grade or unrated corporate bonds, mainly senior secured or unsecured
 - remainder in asset backed securities.
- Active monitoring of the portfolio and regular engagement with all borrowers:
 - we receive monthly or quarterly information for private loans
 - detailed briefings from borrowers
 - some issuers have proceeded with an equity raise strengthening their balance sheet.
- There has been no default in the portfolio.
- We are comfortable with the performance of the high yield portfolio during the recent market volatility.

HIGH YIELD MARKET AND OPPORTUNITIES

HIGH YIELD CREDIT SPREADS HAVE WIDENED

- High yield credit spreads have widened materially, especially in offshore markets where there are a number of issuers directly affected by COVID-19 or the oil price collapse.
- Low primary Australian high yield issuance:
 - discussions about new deals are starting to emerge.
- Secondary trading has been muted:
 - locally, we have seen some bond trading in small parcels at attractive levels
 - negligible secondary loan trading.
- We expect that current market conditions will lead to attractive investment opportunities in the high yield sector.

KEY PERFORMANCE DATA

AS AT 30 APRIL 2020

TOTAL UNITHOLDER RETURN

AS AT 30 APRIL 2020	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	3 YRS P.A.	5 YRS P.A.	SINCE INCEP
Total unitholder return	8.1%	-13.7%	-12.8%	-	-	-	-8.7%
RBA Cash Rate	0.0%	0.1%	0.3%	-	-	-	0.8%
Excess returns	8.1%	-13.8%	-13.1%	-	-	-	-9.5%
Distribution return	0.3%	0.9%	1.7%	-	-	-	3.1%

Total unitholder return - ASX unit price performance with reinvestment of distributions has been calculated on the growth of the ASX unit price and assumed reinvestment of distributions on the ex-date. Distribution return has been calculated based on the total unitholder return less the growth in the ASX unit price over the period. Past performance is not indicative of future performance. Since inception return is from listing on 14 May 2019, initial price used is the subscription price of \$1.10. Unitholder return and index return may not sum to excess return due to rounding.

INVESTMENT PERFORMANCE

AS AT 30 APRIL 2020	1 MTH	3 MTHS	6 MTHS	1 YR P.A.	3 YRS P.A.	5 YRS P.A.	SINCE INCEP
PCI Investment portfolio	-0.4%	-4.5%	-3.3%	-	-	-	-1.7%
Returns net of operating expenses							
RBA Cash Rate	0.0%	0.1%	0.3%	-	-	-	0.8%
Excess returns	-0.4%	-4.6%	-3.6%	-	-	-	-2.5%
Distribution return	0.3%	0.9%	1.8%	-	-	-	3.3%

Investment returns, net of management costs have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management costs) and assuming reinvestment of distributions on the ex-date. Distribution return has been calculated based on the PCI investment portfolio return less the growth of NTA. Past performance is not indicative of future performance. Since inception return is from allotment on 8 May 2019. Investment return and index return may not sum to excess return due to rounding. A full month of performance is not available for May 2019 as the Trust launched mid-month.

- Provided monthly income since inception totalling 3.74 cents per unit.
- Annualised financial year to date distribution rate is 3.81%¹ which is in line with target return² objective of RBA cash rate + 3.25% (net of fees) through the economic cycle.

SUMMARY

- PCI represents a well-diversified portfolio of credit and fixed income assets with a current running yield of 4.5%¹.
- We believe the underlying assets are performing well and further opportunities have emerged with recent market volatility.
- The full value of the portfolio's assets is reflected in the estimated NTA published daily to the ASX and our website.
- PCI's actively managed, risk aware investment process is designed to provide our investors with the ability to participate in attractive future returns.
- PCI aims to continue delivering a monthly income stream and we are confident in our ability to generate income over the economic cycle remains intact.

¹Source: Perpetual Investment Management Limited; PCI Monthly Investment Update April 2020. All figures are unaudited and approximate.

CONTINUING TO KEEP INVESTORS INFORMED

AVAILABLE ON THE COMPANY WEBSITE



Investments
MONTHLY INVESTMENT UPDATE MARCH 2020

by Perpetual Investments | 21/04/2020
March saw unprecedented volatility with risk assets selling off dramatically and the global economy heading towards recession. [Read More.](#)



Investments
UNDERSTANDING THE LIT STRUCTURE

by Perpetual Investments | 21/04/2020
With the growth of listed investment trusts (LITs) in recent years, it is important to understand the features of the LIT structure and how it differs to other product structures. Find out why the LIT structure works for the Perpetual Credit Income Trust (PCI).



Investments
HOW THE PERPETUAL CREDIT INCOME TRUST IS BEING MANAGED IN CURRENT MARKET CONDITIONS

by Michael Korber | 07/04/2020
The continuous spread of the Coronavirus (COVID-19) has dominated news headlines and caused volatility across markets since February. Despite the market turmoil, the Portfolio Manager remains confident in the defensive capabilities of the Perpetual Credit Income Trust (PCI) (Trust) portfolio.



THE RELEVANCE OF FIXED INCOME

by Perpetual Investments | 27/10/2019
In this short video Adam Curtis, Perpetual Investments discusses the relevance of Fixed Income as part of a well-diversified portfolio and the important role it can play for investors seeking a degree of predictability in a climate of some uncertainty.



Investments
GOOD RETURNS WITHOUT THE VOLATILITY

by Perpetual Investments | 16/05/2019
In this short video, Senior High Yield Analyst, Anne Moal, talks to Livewire about (ASX:PCI) telling investors "if you're looking for good fixed-income investment, credit is a great place to go because you have diversity.



Investments
PERPETUAL CREDIT INCOME TRUST COMMENCES TRADING ON THE ASX

by Perpetual Investments | 14/05/2019
The Perpetual Credit Income Trust reached an important milestone, officially commencing trading on the Australian Securities Exchange under the ticker code PCI.



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