

## INVESTMENT UPDATE

### August 2020

#### INVESTMENT OBJECTIVE

To provide investors with monthly income by investing in a diversified pool of credit and fixed income assets.

#### PORTFOLIO SNAPSHOT

AS AT 31 AUGUST 2020	AMOUNT
ASX unit price	\$0.995
NTA per unit <sup>1</sup>	\$1.075

<sup>1</sup> Daily Net Tangible Asset (NTA) is available at [www.perpetualincome.com.au](http://www.perpetualincome.com.au)

All figures are in Australian dollars (AUD), unless otherwise stated. All figures are unaudited and approximate. Past performance is not indicative of future performance. NTA figures are calculated as at the end of day on the last business day of the month.

#### INVESTMENT PERFORMANCE <sup>4</sup>

AS AT 31 AUGUST 2020	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PCI Investment portfolio	0.8%	2.9%	-0.7%	1.2%	-	-	1.7%
Returns net of operating expenses							
RBA Cash Rate	0.0%	0.0%	0.1%	0.5%	-	-	0.7%
Excess returns	0.8%	2.9%	-0.8%	0.7%	-	-	1.0%
Distribution return	0.3%	0.9%	1.7%	3.8%	-	-	3.5%

<sup>4</sup> 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.

#### PORTFOLIO SUMMARY

AS AT 31 AUGUST 2020	AMOUNT
Number of holdings	102
Number of issuers	79
Running yield	4.1%
Portfolio weighted average life	4.5 years
Interest rate duration	12 days

#### KEY TRUST INFORMATION <sup>2</sup>

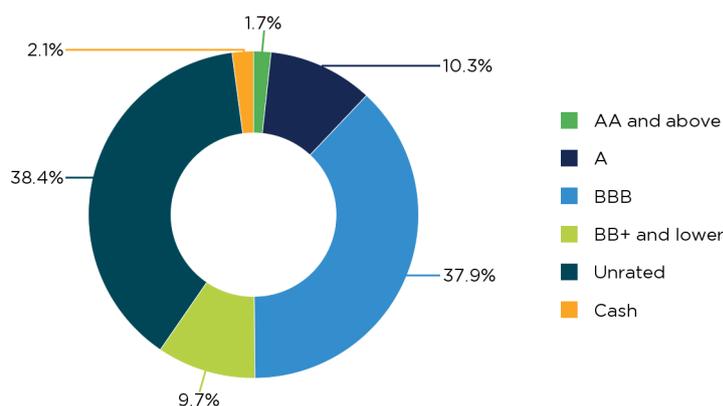
##### AS AT 31 AUGUST 2020

ASX code:	PCI
Structure:	Listed Investment Trust
Listing date:	14 May 2019
Market capitalisation:	\$398 million
Units on issue:	400,333,882
Distributions:	Monthly
Management costs:	0.88% p.a. <sup>3</sup>
Manager:	Perpetual Investment Management Limited
Responsible Entity:	Perpetual Trust Services Limited

<sup>2</sup> Perpetual Credit Income Trust ARSN 626 053 496.

<sup>3</sup> Estimate inclusive of net effect of GST.

#### RATINGS BREAKDOWN



Source: Standard & Poor's and Perpetual Investments. Data is as at 31 August 2020. All figures are unaudited and approximate.

## DISTRIBUTIONS CPU<sup>5</sup>

PCI announced a 0.32 cent per unit (CPU distribution) for August paid on 7 September 2020. The annual distribution return is 3.8%. This is in line with the Trust's target return of RBA Cash Rate +3.25% (net of fees) through the economic cycle. This is a target only and may not be achieved.

AS AT 31 AUGUST 2020	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FYTD
FY2020	0.40	0.40	0.39	0.37	0.36	0.37	0.37	0.35	0.33	0.30	0.31	0.30	4.26
FY2021	0.32	0.32	-	-	-	-	-	-	-	-	-	-	0.63

<sup>5</sup> Distributions are stated as cents per unit and have been rounded to two decimal places. Detailed distribution announcements are available on the PCI website and are stated in Australian dollars rather than cents per unit. 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.

## TOTAL UNITHOLDER RETURN<sup>6</sup>

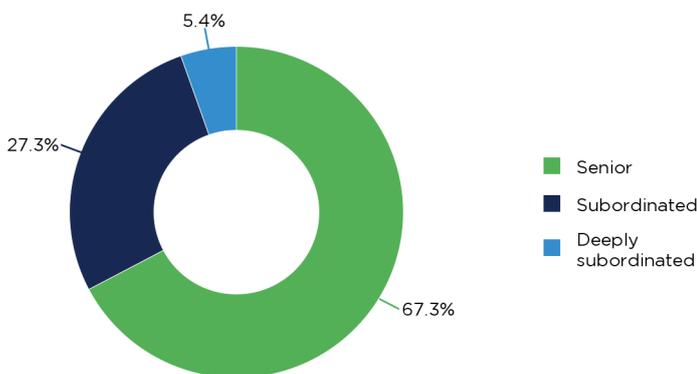
AS AT 31 AUGUST 2020	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS P.A.	5 YRS P.A	SINCE INCEP P.A.
Total unitholder return	4.0%	4.6%	-2.9%	-10.4%	-	-	-4.7%
RBA Cash Rate	0.0%	0.0%	0.1%	0.5%	-	-	0.8%
Excess returns	4.0%	4.6%	-3.0%	-10.9%	-	-	-5.5%
Distribution return	0.3%	1.0%	1.9%	3.5%	-	-	2.7%

<sup>6</sup> Total unitholder return - ASX unit price performance with reinvestment of distributions has been calculated on the growth of the ASX unit price and assumes 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.

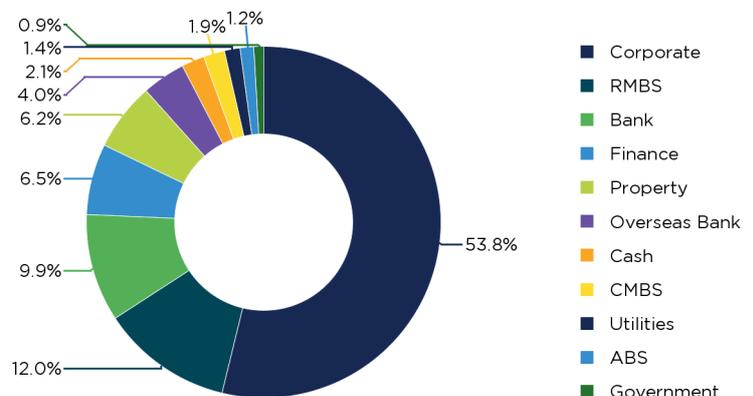
## NTA PER UNIT VS ASX UNIT PRICE PERFORMANCE



## SENIORITY BREAKDOWN



## SECTOR ALLOCATION



Source: Bloomberg and Perpetual Investments. Data is as at 31 August 2020. All figures are unaudited and approximate.

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## MARKET COMMENTARY

The recovery in financial markets continued through August. Global equities rallied strongly, led by strong performance by the US technology giants (Facebook, Apple, Alphabet, Amazon, Netflix and Microsoft). Credit spreads continued to tighten globally which means that compensation or return provided for accepting credit risk has lowered. This was a reflection of continued fiscal and monetary support alongside improved economic indicators. For example, global Purchasing Manager's Index (PMI) data, which indicates the direction of trends and activities in the manufacturing and services sectors, exceeded expectations during the month.

Domestic credit spreads continued to rally, tightening on aggregate. However, the lockdown in Victoria and restrictions on interstate mobility have further contributed to the divergent credit spread performance across corporate sectors. Domestic credit spreads in the telecommunications and utilities sectors outperformed the broader credit market, approaching pre-COVID levels. Infrastructure (including airports and toll roads), airline, university and retail Real Estate Investment Trust (REIT) spreads remain impacted and credit spreads remain wider than pre-COVID levels. This is somewhat reflective of the broader investment market theme where high growth sectors led by US technology have vastly outperformed traditional cyclical sectors throughout the recovery.

Primary issuance was robust during the month. August issuance was notable for a number of subordinated debt deals in the financial sector. Subordinated debt is tier 2 capital that is lower on the capital structure and has a lower priority than senior debt obligations in the event a company is wound up. As a result, spreads are wider for subordinated debt than senior debt from the same issuer. A number of banks and insurance companies issued subordinated debt deals after reporting their financial year 2020 full year results. On aggregate, results exceeded consensus expectations despite the largest fall in corporate earnings since the early 1990s.

Government bond yields rose during August. The domestic yield curve steepened partially as a consequence of the US Federal Reserve relaxing their inflation target, a move that impacted bond markets globally. The Reserve Bank of Australia (RBA) maintained the cash rate at 0.25% and recommenced purchase of government bonds as part of their ongoing yield curve control operations. This counteracted some of the upward pressure on yields.

The Manager's proprietary credit scoring process analyses fundamentals and market conditions to generate an outlook for credit markets. Low economic growth remains the largest impediment to credit spreads with a number of global economies recently recording their worst year on year Gross Domestic Product (GDP) contraction for the June quarter. Credit downgrades still significantly outnumber upgrades and issuers with a negative credit watch classification are at their highest of all time. While the global economic outlook has been significantly impacted by COVID-19, central bank support and improved trading conditions have supported valuations. The Manager maintains a defensive bias while exploiting relative value opportunities presented by recent market conditions.

## TRUST COMMENTARY

The portfolio's running yield at month end was 4.1%. The running yield is the expected return (based on NTA) of the portfolio assuming assets are held to maturity. Income was predominantly generated by coupon payments and interest income from investments in the non-financial corporate sector and residential mortgage backed securities (RMBS). Non-bank financials, domestic banks and property sectors also contributed to the portfolio income return. The Trust maintains its running yield by investing in a diverse mix of assets across issuers, sectors and asset types. The portfolio's income generating assets primarily comprise corporate bonds and private loans. The high yielding sub-investment grade and unrated assets provide the opportunity to generate higher returns for the portfolio and complement the more than 50% allocation to investment grade assets.

Credit spread tightening contributed to performance during August. Credit spreads refer to the compensation or return provided for accepting credit risk. As credit spreads tighten, the value of the Trust's existing assets increase. The key contributing sectors to credit spread return were non-financial corporates, domestic banks, offshore banks and non-bank financials. The Manager took profits on a number of positions that have performed well during the recovery. As credit spreads in the telecommunications sector reached near pre-COVID levels, the Manager trimmed these exposures to lock in returns for the portfolio.

Major bank senior spreads, supported by the RBA's Term Funding Facility, have eclipsed their pre-COVID levels. August saw tier 2 subordinated spreads tighten and credit curves steepen as investors' risk appetites increased and they took advantage of attractive valuations relative to the senior curve. During the month, NAB and ANZ came to market with tier 2 deals representing the first significant major bank subordinated debt issuance since late 2019. The Manager took part in the ANZ deal. The Manager also increased allocation to the existing NAB subordinated debt to take advantage of the new deal's price concession. The Trust's investment in the NAB subordinated debt was one of the Trust's top performers over the month.

The Manager was active in primary markets during August. The month saw robust issuance following the release of full year results by many Australian listed companies. The Manager took part in primary market subordinated debt deals from IAG and QBE. The Trust also invested in the floating rate tranche of Coles' \$450 million senior deal. Coles came to market capitalising on strong FY20 results and the deal was met with strong investor demand.

The Manager maintained the Trust's defensive profile over the month. Portfolio weighted average life was selectively reduced, decreasing overall portfolio risk. Sector allocations were maintained during the month. Issuer exposures were rotated within the domestic bank and financial sectors. The Manager will continue to invest in corporate securities that it assesses to be from good quality issuers offering an attractive yield.

## INVESTMENT STRATEGY

The Trust will hold a diversified and actively managed portfolio of domestic and global credit and fixed income assets. Typical investments will include corporate bonds, floating rate notes, securitised assets and private debt (for example, corporate loans). Exposure to corporate loans may be gained indirectly through the Perpetual Loan Fund. The Trust will typically be invested in 50 to 100 assets. Derivatives may be used as part of the Trust's Investment Strategy.\*

## TARGET RETURN

The Trust has a target total return of RBA Cash Rate plus 3.25% p.a. (net of fees) through the economic cycle. This is a target only and may not be achieved.

## ABOUT THE MANAGER

The Trust is managed by Perpetual Investment Management Limited. The Manager has one of the most experienced, proven and stable credit and fixed income teams in the Australian fixed income market. The Manager and the Responsible Entity are wholly owned subsidiaries of Perpetual Limited.

## PORTFOLIO MANAGERS

### Michael Korber

Michael has over 37 years' experience, having been involved in credit markets since their development in Australia during the 1990's. Unlike many other fixed income portfolio managers in this market, Michael has a background in lending and banking, understanding credit risk in a fundamental way.

### Anne Moal

Anne is an experienced credit markets specialist, having worked for 22 years in credit and fixed income markets in research, origination and trading roles. Anne joined the Credit and Fixed Income Team at Perpetual Investments in 2014. Anne is the portfolio manager of the Perpetual Loan Fund with a focus on higher yielding income opportunities.

## PERPETUAL KEY CONTACTS

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\*For further details on the Trust's Investment Strategy please see the Trust's PDS dated 8 March 2019 at [www.perpetualincome.com.au](http://www.perpetualincome.com.au)

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