Perpetual Private

PERPETUAL INCOME OPPORTUNITIES FUND

Fund Update – 31 December 2024

FUND FACTS

Benchmark:	Bloomberg Ausbond Bank Bill Index +2% p.a.^
Inception Date[1]:	March 2008
Size of Fund:	$244 million
APIR:	PER0436AU
Management Fee*:	0.5% as at 30 June 2024
Buy/Sell spread:	0.00% / 0.00% as at 9 October 2024
Liquidity:	Quarterly withdrawals subject to restrictions, refer to PDS
Distribution Frequency:	Quarterly
Risk Level[2]:	5 – Medium to High

**Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.*

INVESTMENT OBJECTIVE

To provide consistent income through investment in a diversified portfolio of corporate strategies, asset backed strategies and other investments consistent with the fund's investment approach.

To outperform the Bloomberg Ausbond Bank Bill Index over rolling three-year periods by 2% per annum.

STRATEGY

Build a diversified portfolio that includes specialist credit and absolute return investments.

Subject our investment opportunities to detailed research, screening them for expected return, risk, downside protection properties and portfolio fit.

Select the highest ranked investment managers that have passed our Quality Filters.

MARKET OPPORTUNITY

Both Australian and global banks are currently under pressure to reduce their loan books. This is driving the opportunity for the Perpetual Income Opportunities Fund to invest in strategies that conduct institutional grade direct lending to high quality companies and real estate assets that require capital.

A common trait of the lending opportunity is that lending is senior in the capital structure and secured against assets. We have identified and built material investments in three key credit sectors, specifically infrastructure debt, senior bank loans and commercial mortgages.

NET PERFORMANCE

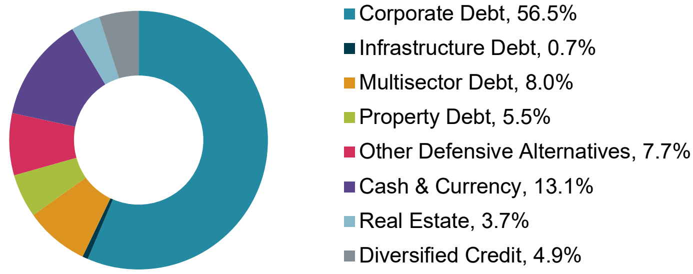
As at December 2024

NET RETURNS[3]	1M%	3M%	1Y%	3Y% (p.a.)	5Y% (p.a.)	INCEPTION % (p.a.)
Total return	0.8%	2.1%	5.8%	5.3%	4.5%	4.5%
Growth return	0.1%	1.4%	1.3%	-0.7%	0.1%	0.0%
Distribution return	0.7%	0.7%	4.5%	6.0%	4.4%	4.5%
Benchmark	0.5%	1.6%	6.6%	4.8%	3.3%	3.9%
Excess Returns	0.3%	0.5%	-0.8%	0.5%	1.2%	0.6%

Source: State Street. Past performance is not indicative of future performance.

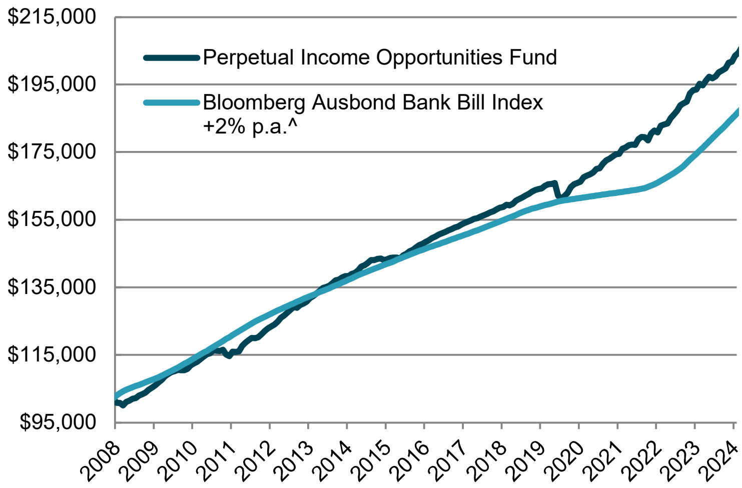
SECTOR ASSET ALLOCATION

As at December 2024



Source: State Street, PPIRT.

GROWTH OF $100,000 SINCE INCEPTION (NET OF FEES)[5]



Source: State Street. Past performance is not indicative of future performance

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OBSERVATIONS

Market sentiment remained positive over the final quarter of 2024, with strong credit formation supported by investor demand. M&A activity picked up towards the end of the year but the refinancing of existing deals remains the bulk of activity in 2024. Looking ahead, we are more positive on credit formation despite having recently witnessed a marginal uptick in credit defaults. Spreads compressed further over the quarter as tighter margins incentivised further refinancing of debt positions and maturity extensions.

Default rates, while marginally higher, are still below the long-term average. Outside of an exogenous shock, we believe private credit markets will continue to remain healthy. Interest rate cuts by the ECB and US Fed have been broadly supportive of this trend. For now, falling interest rate costs are a net positive for corporate earnings and thus accretive to credit quality.

We have seen ongoing lender-on-lender violence and liability management exercises become more common place. This trend is more prevalent in US compared to Europe; and thus we are suitably more cautious given how much yields have fallen. On a more positive note, restructuring of defaulted companies has generally been efficient and points to a well-functioning market.

Asset-backed finance continues to be an attractive opportunity within private credit, providing higher relative spreads with high quality collateral. Within this space, we continue to favour more traditional segments of the market such as mortgages, equipment or invoice financing but have remained cautious of the newer structures backed by more esoteric asset types (e.g. art and timberland). While we appreciate the creativity of the financing solutions, we do not believe the collateral has been appropriately tested in a market downturn and thus we remain cautious.

Over the recent quarter, our research efforts have focused on alternative income solutions such as royalties and insurance. It should be noted that these opportunities are assessed on a case-by-case basis. Given a large component of the Income Alternatives portfolio is sensitive to credit markets we have focused on investment opportunities which are less correlated to credit. Within credit we are exploring specific opportunities in asset backed loans and middle market lending.

HOLDING INFORMATION

As at December 2024

TOP 10 EXPOSURES[4]	ASSET CLASS	SUB-ASSET CLASS	WEIGHT
CVC Global Yield	Corporate Strategies	Corporate Debt	25.4%
Perpetual Credit Income Fund	Corporate Strategies	Multisector Debt	8.0%
Kapstream Private Investment Fund	Asset-Backed Strategies	Diversified Credit	4.9%
Clearmatch Insurance Premium Funding	Corporate Strategies	Other Defensive Alternatives	4.8%
Pemberton European Strategic Credit Opportunities Fund II	Corporate Strategies	Corporate Debt	4.0%
Invesco Credit Partners Fund II	Corporate Strategies	Corporate Debt	4.0%
Nuveen Asia Pacific Cities Fund	Asset-Backed Strategies	Real Estate	3.7%
Blackstone Corporate Funding EUR Fund	Corporate Strategies	Corporate Debt	3.1%
Pemberton European Strategic Credit Opportunities Fund	Corporate Strategies	Corporate Debt	2.9%
Monroe Capital Private Credit Fund IV	Corporate Strategies	Corporate Debt	2.3%
Total Top 10 Holdings			**63.1%**

CASH LEVEL & LEVERAGE	WEIGHT
Cash (AUD)[5]	10.4%
Leverage Ratio[6]	1.23
Maturity Profile: As at 31 December 2024 the Fund has no direct gearing liabilities. Liabilities are generally paid within 30 days of the invoice date.	

Source: State Street, PPIRT

INVESTMENT CHARACTERISTICS

As at December 2024

SECTOR	GEOGRAPHIC LOCATION		MARKET TYPE[7]		
	ONSHORE	OFFSHORE	LISTED	TRADED	PRIVATE
Asset-Backed Strategies	33%	67%	0%	0%	100%
Corporate Strategies	19%	81%	0%	16%	84%
Other Defensive Alternatives	0%	100%	0%	0%	100%
Total	21%	79%	0%	13%	87%
FX Hedge Level	92%				

Source: State Street, PPIRT

1) Fund commenced in March 2008 with performance reporting from 30 June 2008 once the fund had made an investment. The fund was opened to external investors in June 2009. 2) Negative annual returns expected in 4 to less than 6 years over any 20 year period. 3) Total returns have been calculated using exit prices after taking into account Perpetual's ongoing fees and assuming reinvestment of distributions (where applicable). No allowance has been made for contribution fees, withdrawal fees or taxation. 4) Top 10 externally managed exposures. 5) The difference between 'Cash (AUD)' and 'Cash & Currency' (as per the sector asset allocation pie chart) represents offshore currencies held for transactional purposes. 6) The leverage ratio is provided as required by ASIC Regulatory Guide 240. Please note that this is look-through leverage of the Fund based on the leverage of the underlying absolute return managers. The Fund itself will not borrow or apply gearing in the ordinary course of business. 7) Market type data is estimation only, provided by the Perpetual Private research team.

^ The fund's benchmark from inception to 31/05/2023 was the Bloomberg Australian Bank Bill Index + 1% pa. Effective from 01/06/2023, the benchmark has been changed to the Bloomberg Australian Bank Bill Index + 2% pa. Historical performance captures the prior benchmark until the effective date of the new benchmark being implemented.

MORE INFORMATION

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