Perpetual Investment Funds

PERPETUAL
ESG CREDIT INCOME FUND - CLASS A

July 2024

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:	$59.2 million as at 30 June 2024
APIR:	PER1744AU
Mgmt cost:	0.59%pa*
Benchmark Yield:	4.32% as at 31 July 2024

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 July 2024

	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	0.38	1.56	3.84	8.59	7.69	4.50	3.82	-	3.66
Bloomberg AusBond Bank Bill Index	0.37	1.10	2.18	4.37	3.76	2.56	1.69	-	1.73

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

•Equities rise marginally, global bond yields rally;
•Credit spreads rangebound, tighten marginally;
•2Q CPI decelerating, reducing likelihood of further RBA hikes;
•Primary market volumes orderly;
•The outlook for credit is marginally negative.

PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	41.33%
Subordinated Debt	50.25%
Hybrid Debt	8.41%
Running Yield^	5.51%
Portfolio Weighted Average Life	2.93 yrs
No. Securities	74
Modified Duration	0.01

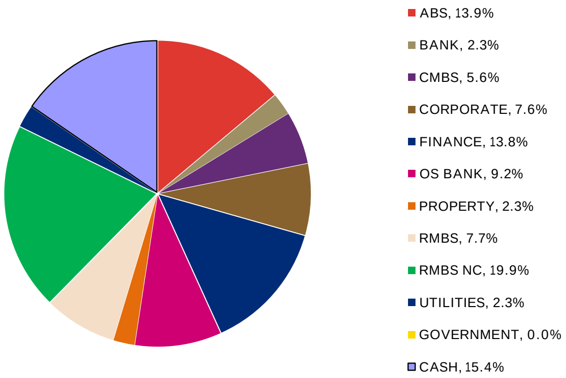
ESG APPROACH

Before being considered for investment, companies or issuers must pass a series of exclusionary screens. The screening processes is designed to limit the investible universe to only those companies or issuers that meet minimum values-based and ESG standards. The Perpetual ESG Credit Income Fund first applies a values-based and ESG exclusionary screen. Sovereign issuers are subject to a separate exclusionary screen. Please refer to the Perpetual Investment Funds PDS for further information.

* 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.

PORTFOLIO SECTORS



MARKET COMMENTARY

Financial markets consolidated during July with global equities ending the month higher while bond yields fell. Markets were relatively subdued throughout July before below consensus expectations US non-Farm payroll data and the Bank of Japan's 31 July decision to increase interest rates precipitated a spike in volatility in the first days of August.

Domestic bond yields fell aligning with a broader global trend that saw bonds rally through July. 10-year Australian yields rallied 19bps while 10-year US yields led the way, falling 32bps. Slowing core inflation in the second quarter CPI print saw expectations of an August RBA rate increase ease. While inflation has been more subdued through the first half of 2024, there remains a long way back to the central banks target range, which is reflected in the hawkish pricing of potential rate cuts.

Domestic credit spreads consolidated during July tightening marginally. Euro denominated spreads also rallied slightly while USD spreads were close to flat during the month. Financial spreads outperformed corporates while trading in a tight range. Government adjacent spreads including semi-government and supranational spreads outperformed credit. While July was relatively subdued for credit markets, the first week of August saw a spike in spread volatility.

Primary issuance was mixed during July with a busy mid-month period bookended by a slow start and a late month calm as markets anticipated key economic data releases. A number of offshore financial issuers met strong demand including Toronto Dominion, Banco Santander, Cooperative Rabobank and Sumimoto Mitsui Banking Corporation. ANZ raised $1.9B in a fixed rate subordinated transaction which was heavily oversubscribed before moving wider after pricing. Westpac issued subordinated bonds, raising $1.5B early in July.

PORTFOLIO COMMENTARY

Income return was a substantial contributor to relative return over the month. The Fund's RMBS allocation remains the most substantial pillar of its yield advantage above benchmark. The portfolio's running yield was 5.5% at month end, with the average spread measured at 1.7%.

Credit spread dynamics were constructive for performance during the month. Domestic spreads traded in range of recent levels, tightening on aggregate. The Fund's exposure to non-financial corporates – led by transport logistics and managed care sectors – performed well. The Fund's offshore bank allocation was a notable contributor including a number of EUR denominated positions.

During July, the Manager continued to derisk the portfolio. The Fund's allocation to high yield and BBB credits are low relative to recent history and capital structure risks have been reduced with the Manager liquidating subordinated major bank paper. Tier 2 major bank sub debt had proven a very strong contributor over recent months and the Manager took the opportunity to lock in profits. The Manager continues to see opportunities in domestic regional bank sub debt as well as in non-US offshore banks. During the month, the Fund took part in new deals from Toronto Dominion Bank and Westpac. The Fund's defensive positioning remains bolstered by its elevated cash position which offers protection against liquidity risks and offers the flexibility to take advantage of relative value opportunities presented by market volatility.

The outlook for credit is marginally negative. The Manager is comfortable with the current defensive positioning of the Fund. The Fund is well positioned to navigate uncertainty presented by current market conditions while retaining ammunition to take advantage of the relative value opportunities resulting from elevated volatility. The Manager continues to look for attractively priced issues and relative value opportunities while carefully managing credit and liquidity risks.

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 declined in the second half of July (prior to the US non-farm payroll release, BOJ rate increase and ensuing volatility) to end the month with a slight negative reading.

Valuation indicators turned negative as tightening AUD swap rates and the USD/AUD basis swap detracting from the outlook.

The macro outlook remained very marginally positive throughout July. Lending conditions as expressed by the Senior Loan Officer survey remain negative. Meanwhile, access to equity market capital and the ratio of credit rating upgrades to downgrades remain supportive.

Supply and demand indicators declined, ending the month marginally negative. As highlighted in recent months, upcoming maturity volumes have fallen, impacting the outlook. Recent supply remains strong and while demand has matched the level of issuance thus far, the volume of year to date primary issuance is weighing on the outlook.

Technical indicators shifted throughout July. By month end, intermediary positioning and US equity market indicators were positively contributing, while cash levels of domestic real money accounts and US credit spread indicators were detracting from the overall outlook.

The team is actively monitoring the elevated volatility that has impacted markets since July month end. In the second week of August, the outlook declined further reflecting tightened liquidity conditions.

MORE INFORMATION
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