Perpetual Investment Funds

PERPETUAL ESG CREDIT INCOME FUND - CLASS A

February 2025

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:	$50.7 million as at 31 December 2024
APIR:	PER1744AU
Mgmt Fee:	0.59% pa*
Benchmark Yield:	4.099% as at 28 February 2025

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 28 February 2025

	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	0.55	1.85	4.05	8.01	8.00	6.24	4.55	-	4.05
Bloomberg AusBond Bank Bill Index	0.34	1.10	2.21	4.48	4.29	3.44	2.10	-	1.97

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

- Volatility persists on US trade policy, slowing growth;
- RBA lowers cash rate, next move is data dependant;
- Domestic spreads trade in a tight range;
- Diverse primary market activity meets strong demand;
- The credit outlook is marginally negative.

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.

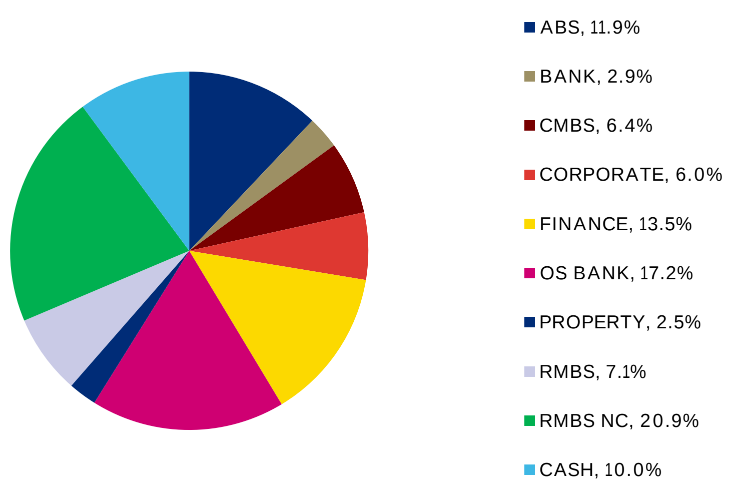
PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	21.89%
Subordinated Debt	62.87%
Hybrid Debt	15.23%
Running Yield[#]	5.72%
Portfolio Weighted Average Life (yrs)	2.78 yrs
No. Securities	78
Modified Duration	0.13

* 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

In February, global markets softened, driven by concerns over a mix of weakening US economic data and stubborn inflation. Uncertainties surrounding U.S. tariff, tax, and immigration policies further fuelled market volatility. While US and Australian markets fell, European and Chinese equities rallied, benefitting from better than expected earnings and technology advancement respectively.

Global bond yields rallied through the second half of the month. US yields rallied strongly, with markets appearing to shake off anticipation of elevated February inflation data, instead rallying on weaker US sentiment and softening growth. Australian bond yields rallied reflecting both falling US yields, softening global economic data and the commencement of the RBA's monetary easing. The RBA lowered the cash rate by 25 basis points to 4.10% in February. The RBA's next move will be data dependent with the governor noting that the market is too confident in pricing further rate cuts.

Australian credit markets saw mixed performance in February contracting through the start of the month before expanding as with physical spreads tightening marginally while the Australian iTraxx CDS index widened slightly. Domestic spreads tightened benefitted from strong demand for primary issuance. Spreads on non-financial corporates alongside consumer finance, insurance, and real estate investment trust sectors narrowed while trading in a tight range.

Primary markets in February were diversified by sector with corporates, financials, securitisations and government adjacent sectors all seeing new deals come to market. ANZ raised $4.5B across 3- and 5-year tranches in senior unsured deal. Domestic subsidiaries of offshore banks were also active with DBS ($1.5B), Mizuho Bank ($550M) and Rabobank ($2B) tapping the market. The non-financial corporate space saw new deals from Ausnet service Holdings ($950M), NBN Co ($750M) and QPH Finance – Port of Brisbane ($500M).

PORTFOLIO COMMENTARY

Income return remained a substantial contributor to outperformance during February, the Fund's yield premium above benchmark is centred around securitised sectors, offshore and domestic regional banks. The portfolio's running yield was 5.7% at month end, with the spread (credit yield premium) measured at 1.6%.

Credit spread contraction was the most substantial component of outperformance over the month. Spreads tightened over the first two weeks of February before retracing, ending the month marginally tighter. Allocation to securitised assets, offshore banks and a small number of corporate issuers contributed strongly to outperformance.

Sector and risk allocations were adjusted during February. The Manager elected to add exposure to subordinated offshore banks in secondary. The Fund holds an elevated allocation to subordinate spreads, focused on Offshore banks and securitised sectors where subordinated spreads continue to offer attractive relative value. The Fund also increased RMBS exposure while trimming non-financial corporate allocations.

The Fund took part in a new corporate hybrid issue from Ausnet Services holdings during February, recognizing attractive valuation relative to comparable deals. The $950M deal was Australia's largest corporate hybrid listing and met very strong demand to build a book that was 5 times oversubscribed. The deal performed very well on the break and the Manager elected to lock in profits, closing the position. The Corporate hybrid space will continue to draw attention as bank hybrids are phased out following confirmation from APRA in late 2024.

The outlook for credit turned marginally negative in the first week of March and the Fund remains defensively positioned. The Fund maintains its liquidity via an elevated cash allocation, retaining capacity to take advantage of relative value opportunities presented by market 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 softened from a mild positive reading to slight negative in the first week of March.

Valuation indicators are marginally negative. While US high yield spreads moderated over the month, AU swap spreads remain very tight. The issuance pipeline saw a tick up in opportunistic issuers looking to take advantage of strong primary demand and relatively tight spreads on new issues which weighs on the outlook.

The growth outlook is finely balanced. Macroeconomic indicators remain marginally negative reflecting softening data and rising uncertainty around the path of US trade policy. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain slightly challenging.

Supply and demand indicators improved to neutral over the month. A heavy pipeline of new deals weighs on the outlook although thus far market demand has been resilient.

Technical indicators worsened across the board during February with US credit spreads, equity markets and equity market volatility indicators all declining. Cash levels among real money accounts have settled while intermediary positioning is supportive with street inventory remaining light.

MORE INFORMATION
Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au