

## INVESTMENT UPDATE July 2021

### 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 JULY 2021	AMOUNT
ASX unit price	\$1.095
NTA per unit <sup>1</sup>	\$1.112

<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.

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

#### AS AT 31 JULY 2021

ASX code:	PCI
Structure:	Listed Investment Trust
Listing date:	14 May 2019
Market capitalisation:	\$439 million
Units on issue:	400,512,745
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.

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

AS AT 31 JULY 2021	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PCI Investment portfolio	0.2%	1.0%	2.8%	7.4%	-	-	4.0%
Returns net of operating expenses							
RBA Cash Rate	0.0%	0.0%	0.0%	0.1%	-	-	0.5%
Excess returns	0.2%	1.0%	2.8%	7.4%	-	-	3.5%
Distribution return	0.3%	0.9%	1.7%	3.5%	-	-	3.5%

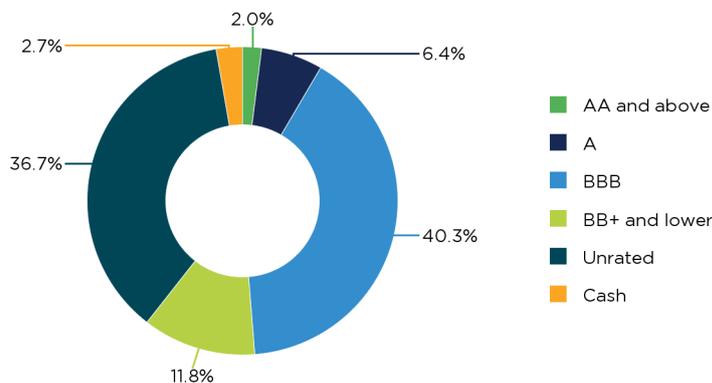
<sup>4</sup> Investment returns, net of management costs have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management costs) and assuming reinvestment of distributions on the ex-date. Distribution return has been calculated based 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 JULY 2021	AMOUNT
Number of holdings	120
Number of issuers	90
Running yield **	3.8%
Portfolio weighted average life	3.9 years
Interest rate duration	32 days

\*\*The methodology used to calculate Running Yield is now 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.

### RATINGS BREAKDOWN



Source: Standard & Poor's and Perpetual Asset Management Australia. Data is as at 31 July 2021. All figures are unaudited and approximate.

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

The table below shows the distribution in cents per unit for each distribution period in the respective financial year. The annual distribution return is 3.5%. 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 JULY 2021	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	0.30	0.31	0.28	0.30	0.30	0.27	0.30	0.29	0.33	0.32	3.63
FY2022	0.32	-	-	-	-	-	-	-	-	-	-	-	0.32

<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>

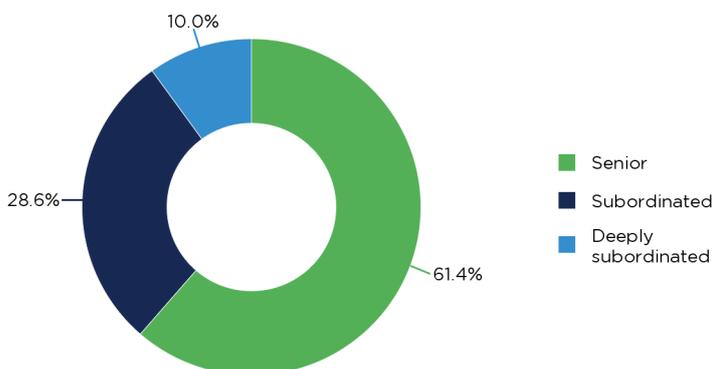
AS AT 31 JULY 2021	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
Total unitholder return	5.1%	5.8%	5.1%	18.1%	-	-	3.0%
RBA Cash Rate	0.0%	0.0%	0.0%	0.1%	-	-	0.0%
Excess returns	5.1%	5.7%	5.1%	18.1%	-	-	3.0%
Distribution return	0.3%	1.0%	1.8%	4.0%	-	-	3.2%

<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.

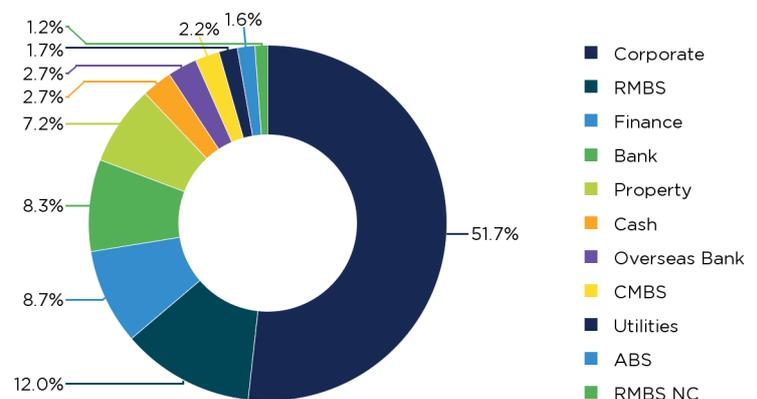
## NTA PER UNIT VS ASX UNIT PRICE PERFORMANCE



## SENIORITY BREAKDOWN



## SECTOR ALLOCATION



Source: Bloomberg and Perpetual Asset Management Australia. Data is as at 31 July 2021. All figures are unaudited and approximate.

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## TRUST COMMENTARY

### PORTFOLIO UPDATE

The Trust's portfolio returned 0.2% in July, outperforming the Reserve Bank of Australia (RBA) Cash Rate (benchmark). Over the 12 months to 31 July 2021, the portfolio has returned 7.4%, outperforming the benchmark by 7.4%.

Income return was the most significant contributor of performance during July. The Trust's income was predominantly generated by coupon payments and interest income from portfolio exposure to non-financial corporate bonds and residential mortgage-backed securities (RMBS). Non-bank financials and property also contributed to income return. The portfolio's running yield was 3.8% at month end.

Credit spread dynamics were marginally positive for performance. Domestic spreads remained in range of recent levels during the month. Spreads were supported by supply side constraints as primary market issuance was subdued. Spreads were resilient to increasing COVID-19 concerns and offshore volatility. In contrast to domestic credit, US dollar spreads widened through July as the spread of the delta variant of COVID-19 impacted economic growth expectations. The Trust's exposure to financial spreads contributed to performance, most notably in the insurance and domestic bank sectors. Spread performance in the corporate sector was mixed. The Trust's small exposure to utilities spreads continued to perform well in July contributing to credit spread return.

Key changes to the portfolio are detailed below.

The Trust was very selective in investments made during July. Primary market activity was subdued over the month. The reduced supply was partially attributable to seasonal factors with corporate issuance expected to increase following company reporting season. Nonetheless, issuance volume remains below trend relative to the long-term average and significantly below 2020 volumes.

The Trust took part in the new \$300M deal from DWPF Finance. The financing entity of the Dexus Wholesale Property fund came to market for \$600M across two maturities in their first foray into the Australian dollar market in 6 years. The deal met robust demand in a quiet primary market and priced tighter than initial guidance. The Manager elected to invest in the longer dated of the two maturities offering a higher running yield.

The Manager elected to trim exposure to a number of corporate exposures during July, taking profit on names that have performed well over the recent rally. During the month, the Trust's exposure to Transurban and Qantas were reduced. Qantas spreads have experienced a strong rally following the COVID-19 sell off in 2020 and continued to contribute to credit spread return during July 2021.

The Manager believes that the outlook for credit remains strong and that the portfolio is well positioned to capitalise. The Trust is near fully invested across multiple sectors with exposure to the breadth of the capital structure and credit rating spectrum. The Trust remains strongly weighted towards corporate credit in the BBB, high yield and non-rated spaces where the Manager believes there are quality issuers offering healthy yields. In a persistent low yield environment with credit spreads at very tight levels, active management based on rigorous research and due diligence is, in the Manager's view, essential. The Manager will continue to look for relative value opportunities and with the aim of identifying quality issuers offering a competitive running yield.

## HOW WE INVEST

The Manager employs a robust, active and risk aware investment process to invest across the broad credit and fixed income universe. It aims to find the most attractive credit investment opportunities on a risk-adjusted basis at any point in time. The investment strategy is outlined in more detail below.

Diversification - the Trust is actively managed and through its flexible investment strategy diversification can be achieved across asset type, credit quality, maturity, country and issuer. The allocation to high yield assets (sub-investment grade and unrated assets) provides the opportunity to generate higher returns for the portfolio while complementing the allocation to investment grade assets. The Manager typically focuses on assets at the top of the capital structure such as senior or subordinated debt as these assets are higher in the order of priority for payment in the event the issuer of the asset is liquidated.

Australian focused credit LIT - while the Trust has the flexibility to invest globally, the preference generally is to focus on Australian issuers which can be listed or unlisted and denominated in AUD or foreign currencies. The Manager believes its local presence and ability to meet borrowers and their management team provides an advantage in assessing opportunities and managing credit risk for the portfolio.

Income - the Trust's income is primarily generated by coupon payments from corporate bonds and asset backed securities, and interest income from investment in loans. Importantly, there is reliability in the receipt of these payments from borrowers as there is an obligation to pay unlike dividend payments from listed companies which are at the discretion of the Board. Therefore, predictability of coupon payments is typically high. The Trust's income also contributes to the running yield which is the expected return (based on net tangible assets) of the portfolio assuming assets are held to maturity. The Trust achieves its running yield by investing in a diverse mix of assets across issuers, sectors and asset types.

Investment performance - this is generally determined by the Manager's selection of assets for the portfolio and the movement of credit spreads. Credit spreads refer to the compensation or return provided for accepting credit risk, which is the risk that a borrower or counterparty does not meet its principal and/or interest payment obligations as they fall due. When credit spreads tighten, this indicates improving market conditions and/or a more positive view on the risk profile of borrowers. This means the value of an existing asset in the portfolio will increase. Conversely, when credit spreads widen, the value of the asset in the portfolio will decrease. This is usually the result of uncertain economic conditions or where the perceived creditworthiness of the borrower has deteriorated.

Valuation of assets - the assets in the portfolio are typically bonds and floating rate notes which are tradeable with daily pricing and liquidity. Where external pricing is not available, loan valuations are considered by the Perpetual Loan Valuation Committee (LVC) and valued at fair value. This means if there is a market price dislocation, as we observed in 2020 with the pandemic, or a risk of impairment on a credit, the fair value changes.

Critical to the Manager's investment process is having regular access to information to enable credit risk to be monitored on an ongoing basis. This allows the assessment of the loans to be current and timely. The full value of the portfolio's assets is reflected in the Trust's estimated Net Tangible Asset (NTA) released to the ASX daily.

## INVESTMENT OBJECTIVE

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

## 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.

## INVESTMENT STRATEGY

The Perpetual Credit Income Trust (PCI) (the "Trust") will hold a diversified and actively managed portfolio of credit and fixed income assets.

The Trust will typically hold 50 to 100 assets.

30% - 100%	Investment grade assets
0% - 70%	Unrated or sub-investment grade assets
70% - 100%	Assets denominated in AUD
0% - 30%	Assets denominated in foreign currencies (which are typically hedged back to AUD)
0% - 70%	Perpetual Loan Fund

The Trust will diversify exposure and will have maximum exposure limits to issuers.

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.

## 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



### Managing Director, Credit & Fixed Income

#### Portfolio Manager: Perpetual Credit Income Trust Perpetual Pure Credit Alpha

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



### Head of Corporate High Yield

#### Portfolio Manager: Perpetual Loan Fund

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 Asset Management Australia 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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Before making any investment decisions you should consider the Product Disclosure Statement (PDS) for the Trust issued by PTSL and the Trust's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange (ASX), which are available at [www.perpetualincome.com.au](http://www.perpetualincome.com.au) or can be obtained by calling 1300 778 468 (within Australia) or +61(2) 9299 9621 (from overseas).

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