Perpetual Investment Funds

PERPETUAL ESG CREDIT INCOME FUND - CLASS A

December 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:	$45.9 million as at 30 September 2024
APIR:	PER1744AU
Mgmt Fee:	0.59% pa*
Benchmark Yield:	4.363% as at 31 December 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 December 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	0.60	2.02	3.83	8.36	8.28	5.58	4.27	-	3.96
Bloomberg AusBond Bank Bill Index	0.38	1.12	2.24	4.47	4.18	3.19	1.98	-	1.91

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

- •RBA on hold; Fed lowers rates by 25 bps;
- •Bond yields rise marginally. Domestic credit resilient;
- •Primary market activity winds down;
- •The outlook remains 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.

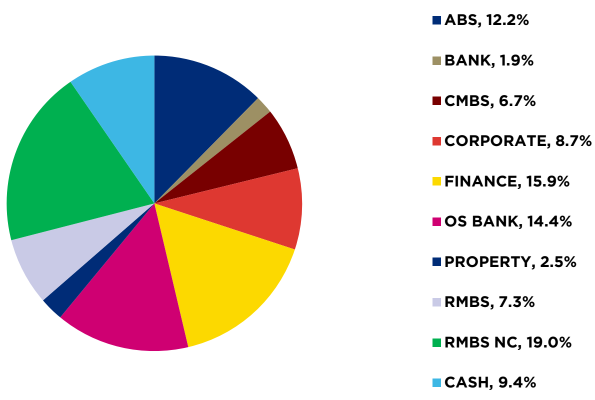
PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	21.96%
Subordinated Debt	61.50%
Hybrid Debt	16.54%
Running Yield#	5.90%
Portfolio Weighted Average Life (yrs)	3.00 yrs
No. Securities	75
Modified Duration	0.12

* 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

December marked the close of a robust year for risk assets, though equities saw some pressure as expectations for US monetary policy moderated. The Federal Reserve's decision to implement a 25bps rate cut was in line with market expectations, while its updated dot plot forecasted only two additional rate cuts in 2025. This shift in outlook led to some volatility in risk markets.

Bond markets experienced mixed movements, with Australian government bond yields rising slightly, with the 10-year yield up 3bps to 4.37%. In contrast, U.S. Treasury yields saw a sharper increase as the market priced in a slower pace of rate cuts. In Australia, the Reserve Bank of Australia (RBA) kept the cash rate steady at 4.35%, with the December meeting accompanied by a more dovish statement reflecting easing wage growth. By month's end, market pricing anticipated up to two rate cuts by May, ahead of the federal election.

On the credit front, domestic spreads remained stable throughout December, contributing to a strong year for credit. Despite occasional volatility driven by global events, the overall "risk-on" sentiment—fuelled by strong equity performance, soft economic landings, central bank easing, and low credit defaults—supported spread compression. This positive environment provided an encouraging backdrop for the credit market, concluding 2024 on a strong note.

December is historically a quiet month for primary issuance and wound down in the second half of the month. CIBC raised $1.5B across fixed and floating tranches in the last major deal of the year. There were a pair of corporate hybrid deals priced during early December from Pacific National ($500M) and Ampol ($600M). The deals met strong demand, benefitting from forthcoming changes to bank hybrid capital. The securitisation market capped off a very busy 2024 with a $1.2B prime RMBS deal from Columbus Capital.

PORTFOLIO COMMENTARY

Credit spread dynamics were the most significant determinant of outperformance during December. Domestic spreads traded in a relatively tight range and the portfolio benefitted from issuer and security selection to generate positive spread performance. Allocation to offshore banks was the most substantial contributing factor to spread return, supported by non-financial corporate and securitised asset exposures.

The Fund's yield premium above bank bills contributed to performance during the month. Allocation to RMBS, domestic and offshore banks – led by subordinated issues – remain the key contributors to income return. The portfolio's running yield was 5.9% at month end, with the spread (credit yield premium) measured at 1.7%.

Sector and risk allocations were actively managed. The Fund selectively took on credit risk, increasing allocation to BBB and BB corporates. The Fund also move down the capital structure, taking part in a pair of new corporate hybrid deals from Pacific National and Ampol. The deals met strong investor demand, realising a tailwind from the forthcoming changes to bank hybrid capital.

The credit outlook improved in early December to reach a neutral reading. 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 improved in mid-December to reach neutral territory for the final reading of 2024.

Valuation indicators are marginally negative. US high yield spreads are trading below the fair value range and AU swap spreads remain very tight. Elevated demand and attractive rates conditions for borrowers continued to contribute to elevated levels of opportunistic issuance in early December.

The growth outlook remains neutral. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain slightly challenging.

Supply and demand indicators improved in early December ending the month marginally negative. The high volume of recent issuance continues to weigh on the outlook. Market demand and the issuance pipeline have moderated somewhat reflecting seasonal trends.

Technical indicators remained in positive territory. Intermediary positioning has normalised however cash levels among real money accounts remains elevated. US credit spreads, equity markets and equity market volatility indicators are all constructive.

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