

Perpetual knowledge bank series: investment grade

By Perpetual Asset Management

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Investment grade refers to the quality of a company's credit and the probability that it will repay its issued debt. Fixed income assets can be rated by a ratings agency such as Moody's or Standard & Poor's, with these credit ratings based on a multitude of financial and economic indicators to ascertain the borrower's creditworthiness. Credit ratings therefore reflect the

rating agency's opinion about credit risk; the ability and willingness of an issuer to meet its financial obligations on time and in full.

An investment grade asset has a long-term rating of BBB- to AAA for Standard & Poor's (S&P) and Fitch or Baa3 to Aaa for Moody's. The highest rating is AAA/Aaa which indicates that the issuer of the debt asset has extremely strong capacity to meet its financial commitment. A sub-investment grade asset has a rating below BBB- for S&P and Fitch or Baa3 for Moody's. For example, a high-yield bond is a bond that is rated below investment grade. These bonds have a higher risk of default or other adverse credit events but offer higher yields than better quality bonds to make them attractive to investors. Unrated securities are also becoming increasingly common and refer to assets issued by borrowers without an established credit rating from a rating agency such as S&P, Moody's Investor Services or Fitch.

Because an investment-grade credit rating indicates a low risk of a credit default, it can make for an attractive investment vehicle – especially for conservative investors or as the more defensive part of a portfolio. The active approach of the Perpetual Credit Income Trust (PCI) means our diversified portfolio of investments is continually assessed, and actively traded, in favour of credit and fixed income assets that aim to deliver attractive risk-return outcomes for investors. Allocations to investment grade assets are core to the portfolio. We only invest in high-yield securities and private loans where we have high conviction.

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