

Perpetual knowledge bank series: investment grade

By Perpetual Asset Management

12 May 2021



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.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website <http://www.perpetual.com.au> .

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.