Perpetual Investment Funds

PERPETUAL CREDIT INCOME FUND

January 2025

FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in a diversified range of income generating assets, and outperform the Bloomberg AusBond Bank Bill Index** over rolling three-year periods before fees and taxes.

Benchmark: Bloomberg AusBond Bank Bill Index**
Inception date: November 2004
Size of fund: $182.1 million as at 31 December 2024
APIR: PER0263AU
Mgmt Fee: Please contact us for a copy of the disclosure document.
Benchmark Yield: 4.273% as at 31 January 2025
Suggested minimum investment period: Three years or longer

FUND BENEFITS

Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed and liquid investment.

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 January 2025

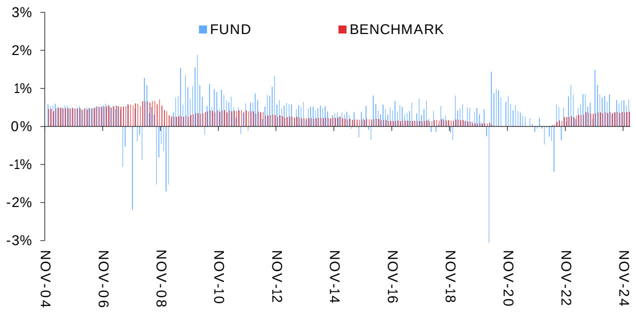
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Credit Income Fund	0.71	1.96	3.98	7.96	8.41	5.84	4.50	4.13	4.74
Bloomberg AusBond Bank Bill Index**	0.38	1.12	2.25	4.48	4.24	3.32	2.05	1.94	3.41

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.

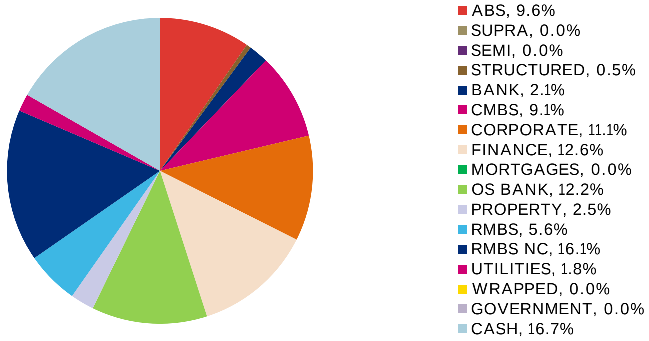
POINTS OF INTEREST

•Trump tariffs / US jobs data spark bond-market volatility;
•Inflation eases; February RBA rate cut expectations firm;
•Domestic spreads rangebound, tighten marginally;
•Primary market disrupted by seasonal factors; Banks, semis and supras active;
•The credit outlook is balanced.

MONTHLY PERFORMANCE SINCE INCEPTION



PORTFOLIO SECTORS



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	27.99%
Subordinated Debt	58.20%
Hybrid Debt	13.81%
Modified Duration	0.06
Running Yield#	5.99%
Portfolio Weighted Average Life	2.60 yrs
No. Securities	102

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

Financial markets performed well during January, notwithstanding elevated volatility among global bond yields. Uncertainty around the implications of the second Trump presidency remained a driving force for global markets. Declining domestic inflation was a key theme locally with December quarter CPI data below expectations and nearing the midpoint of the RBA's target band. Improved inflation print alongside a run of soft economic data and slow wages growth saw expectations firm for the RBA to commence monetary policy easing as early as February.

Bond markets saw elevated volatility during January as strong US employment data saw long term yields spike before retracing. Domestic bond yields also rose mid-month before receding. The yield curve steepened slightly with the very short end rallying - reflecting the market increasingly pricing in a February RBA rate cut – while longer tenors ended the month marginally higher.

Domestic credit spreads contracted through January, led by industrial corporates and real estate sectors. Spreads remain supported by low recession risks and resilient employment data, despite softer economic growth. Default rates – while rising – remain low and the possibility of lower interest rates during 2025 is constructive. Globally, USD spreads traded in a tight range, remaining close to historically tight levels, while EUR denominated spreads rallied.

Primary market volumes were bumpy through January with a rapid pace set in the first full week of the year before easing over the remainder of the month and pausing in the last week as the January public holiday and lunar new year disrupted deal flow. Westpac raised $2.5B of senior paper across fixed and floating tranches, while CBA came to market for $3.0B. Deal flow was notable among government adjacent sectors, with elevated volumes of kangaroo supranational issuance alongside a number of domestic semi-government deals. There were no new securitisation deals during January, following record breaking volumes printed in 2024.

PORTFOLIO COMMENTARY

Income return was a substantial contributor to outperformance during January. The Fund's yield premium above benchmark is predominantly RMBS and offshore bank allocations. The portfolio's running yield was 6.0% at month end, with the spread (credit yield premium) measured at 1.5%.

Credit spread contraction was the most substantial contributing factor to performance over the month. While domestic spreads traded in range of recent levels, EUR denominated spreads rallied on an improving economic outlook and better than expected 4th quarter earnings guidance among corporates. The Fund's allocation to EUR denominated debt was constructive, most notably among European bank subordinated and hybrid exposures. The Manager continues to prefer offshore and domestic regional banks and retains an elevated exposure EUR denominated sub debt.

Sector and risk allocations were broadly maintained during January. The Fund's allocation to offshore financials was adjusted with the manager trimming exposure to UBS and HSBC while taking part in Credit Agricole's $350M floating rate subordinated deal which priced in early January. The Manager also elected to add exposure to a subordinated QBE Insurance Group bond in secondary.

The outlook for credit is balanced and the Fund remains defensively positioned. The Fund retains liquidity via its slightly elevated cash allocation. The Manager continues to look for attractively priced issues and relative value opportunities while carefully managing credit and liquidity risks.

OUTLOOK

The credit outlook remained neutral at the first meeting of 2025.

Valuation indicators are marginally negative. US high yield spreads are trading below the fair value range and AU swap spreads remain very tight.

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 remain marginally negative. While recent issuance volumes, the maturity schedule and market demand are benign, a heavy pipeline of new deals weigh on the outlook.

Technical indicators continued to improve, remaining in positive territory. Intermediary positioning is supportive with street inventory looking particularly light for RMBS. Cash levels among real money accounts remains elevated, supporting the outlook. US credit spreads, equity markets and equity market volatility indicators are all constructive.

MORE INFORMATION

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