Perennial Yield Plus Conservative Trust

MONTHLY REPORT JULY 2021

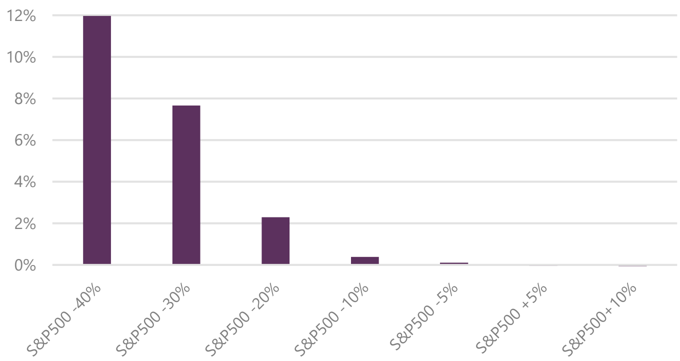
	Month (%)	Quarter (%)	FYTD (%)	Since Inception (%)
Perennial Yield Plus Conservative Trust (Net)	0.0	-	-	0.0
RBA Cash Rate Total Return Index	0.0	-	-	0.0
Value Added	**0.0**	**-**	**-**	**0.0**

Since inception: June 2021. Past performance is not a reliable indicator of future performance.

Overview

- The overarching theme in July was the reappraisal of growth prospects for the global economy, coupled with the inflation debate tilting towards the transitory camp. Both these themes were epitomised by the 0.25% decline in U.S. 10-year yields.
- The portfolio carried substantial equity tail protection through the month, at nearly 100% of notional. We expect to initiate the put write strategy in the coming month.
- The Trust delivered a flat return for the month, net of fees. Lower bond yields assisted performance for the month, but wider credit spreads detracted. This number does not include 4 bps of accrued rebates from the Daintree Core Income Trust, which will be credited at the end of the quarter.

Estimated PnL Outcomes by Market Move



* The chart provides the total expected portfolio PnL given a high velocity move in the S&P 500. Source: Perennial. As at 31 July 2021

The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Perennial Yield Plus Conservative Trust

The Trust aims to generate income by harvesting equity, credit and volatility risk premia; with a conservative risk profile. A portion of this income is invested in an explicit rules-based equity option defensive strategy to offset, or benefit from, market drawdowns.

Portfolio Manager
Michael Pollard

Trust FUM
AUD $1.3 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

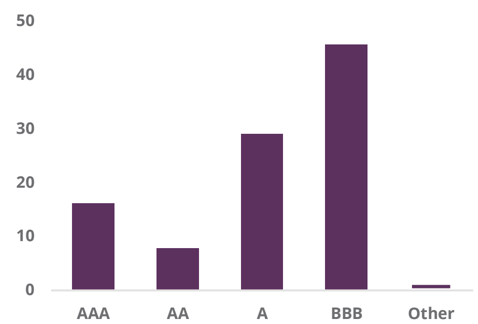
Trust Inception Date
Jun 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

Expense Recovery
Capped at 0.1% p.a.

Rating Exposure



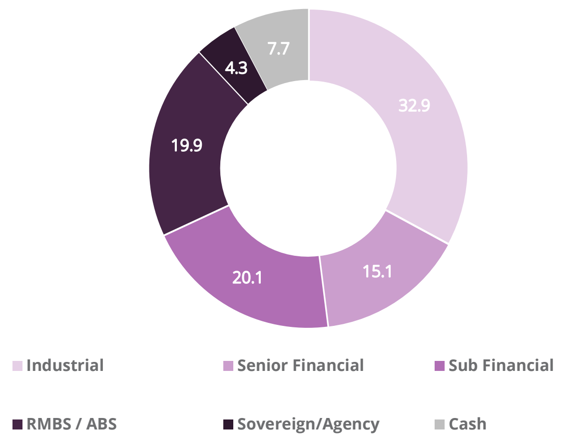
Portfolio Characteristics

Portfolio Characteristics	Trust
Modified Duration (Yrs)	0.67
Spread Duration (Yrs)	3.17
Portfolio Yield (%)	1.36
Average Credit Quality	A

Source: Perennial Value Management. As at 31 July 2021

Portfolio yield is the expected return over the next year, assuming no changes to either portfolio composition or market yields. Average credit quality excludes overlay positions. Portfolio yield and spread duration reflect the net credit default swap exposures in the portfolio.

Sector Allocation



Trust Review

The Core Income Fund contributed 0.13% for the month. Performance was assisted by a move lower in government bond yields, but that was largely offset by a widening in credit spreads. Australian market credit spreads were somewhat mixed during the month with financials tightening 1-2 basis points while corporates widened 1-2 basis points. Shorter dated credits outperformed longer dated securities causing curves to steepen. This was largely reflected in our portfolio as well, as corporate exposures largely detracted from performance while financial and RMBS exposures were largely neutral overall. The fund continues to have a modest interest rate duration positioning at 0.67 years.

With the put write strategy still being implemented, and the option program consisting entirely of protection, the net impact of the program was a cost of just under 6 bps for the month. Combined with accrued rebates on the Daintree Core Income investment for the month of 4 bps, which are not reflected in the performance numbers, this offset gains by the Core Income strategy to produce a flat performance on a net of fees basis.

Trust Activity

There were several new primary deals during the month. In the RMBS/ABS space we participated in the Triton 2021-2, Bluestone 2021-1 and Metro 2021-1 transactions. Volume of issuance in the structured space has been very heavy year-to-date and on pace to surpass 2020 issuance levels. July saw the heaviest monthly volume of issuance in the space since the GFC. In the corporate space, we participated in the Dexus Wholesale Property Fund and CNH Industrial Capital transactions. Corporate supply has been relatively modest of late.

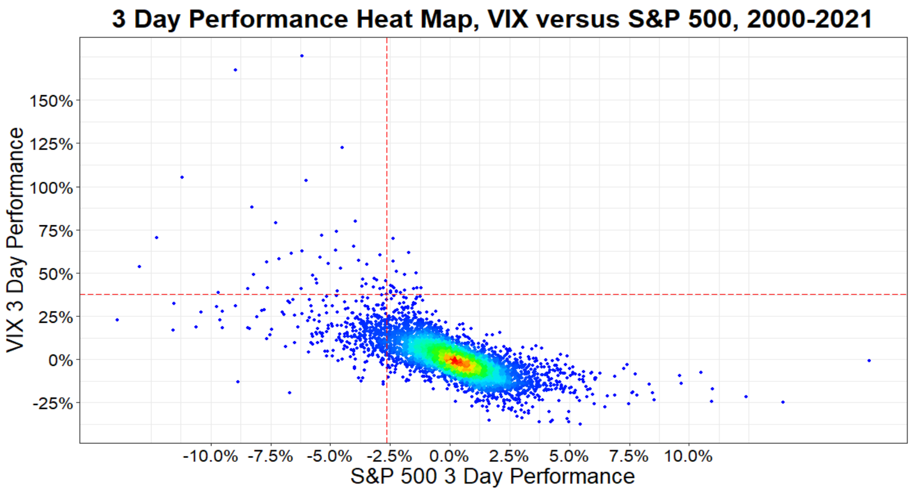
Outlook

The post-FOMC bond market rally continued through July, with real yields in the US reaching record lows. We continue to interpret this as the market casting doubt on the US Federal Reserve's willingness to let the US economy accelerate. Interestingly though, the "search for yield" in credit that we typically expect to accompany a move lower in real yields is not playing out. Credit spreads widened somewhat in July, even as growth stocks led equity markets higher. Credit markets are therefore moving more in line with the lower growth backdrop priced by interest rate markets, than with the relative optimism of equity markets. If growth surprises to the downside in the coming quarters, such equity outperformance makes a period of underperformance across the risk asset complex more likely.

The reaction function of the VIX to SPX moves currently is high, as can be seen in the below heatmap, where the 3 day moves to July 19th are highlighted by the red lines. These short-term spikes in volatility are a favourable dynamic for running of the put write component of the option strategy, which we expect to begin implementing in the coming weeks. This will reduce the protection profile of the overall portfolio somewhat, whilst increasing returns.

Protection costs do otherwise remain high, as the bid to longer-dated and lower-strike options remains a feature of the equity option market. This indicates a broad demand for hedging strategies, which is indeed a sensible approach with current asset market valuations.

As always, our aim will be to generate a running yield from credit and fixed income markets, with a conservative risk profile, whilst running a protection strategy that carries flat to small positive with potential upside in a large equity drawdown. If market conditions make striking a balance between return and protection difficult, we would tend towards prioritising protection.



Source: Perennial, Bloomberg.

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