Perennial Yield Plus Conservative Trust

Monthly Report August 2021

	Month (%)	Quarter (%)	FYTD (%)	Since Inception^ (%)
Perennial Value Yield Plus Conservative Trust (Net)	0.2	-	0.2	0.2
RBA Cash Rate Total Return Index	0.0	-	0.0	0.0
Value Added	**0.2**	**-**	**0.2**	**0.2**

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

Overview

- August saw a perpetuation of the recent paradigm for equities, where any sell-off related to growth fears or other concerns was quickly bought. Buy-the-dip remains in force.
- In terms of the Core Income portfolio - widening credit spreads largely offset income for the month, with weakness in the industrial sector the main driver.
- Overall, the Trust delivered a strong performance for the month of +20 bps net of fees. A key driver of profits this month was the initiation of the put write strategy, where we were also able to apply some discretion around put write and protection entry to take advantage of the buy-the-dip dynamic.

Fund Characteristics

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 $7 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

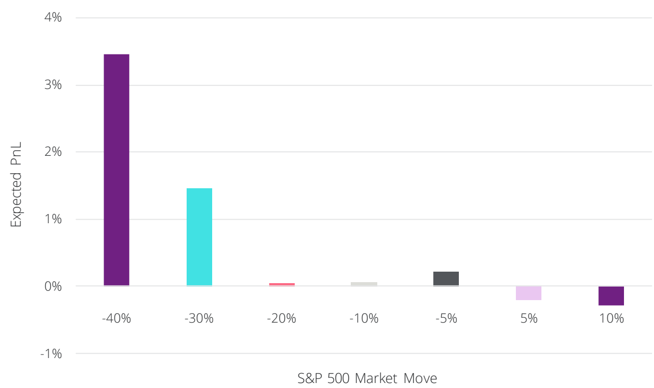
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.47
Spread Duration (Yrs)	3.14
Portfolio Yield (%)	1.39
Average Credit Quality	A

Source: Perennial Value Management. As at 31 August 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.

Estimated PnL Outcomes by Market Move

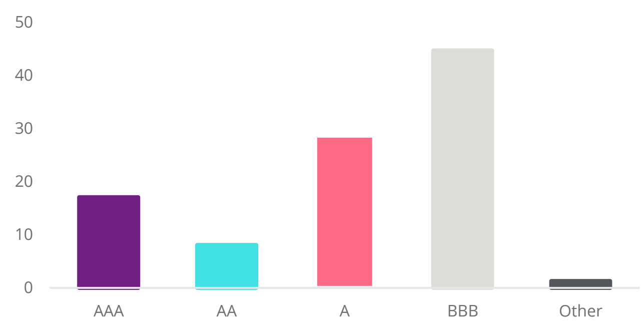


The chart provides the total expected portfolio PnL given a high velocity move in the S&P 500 .

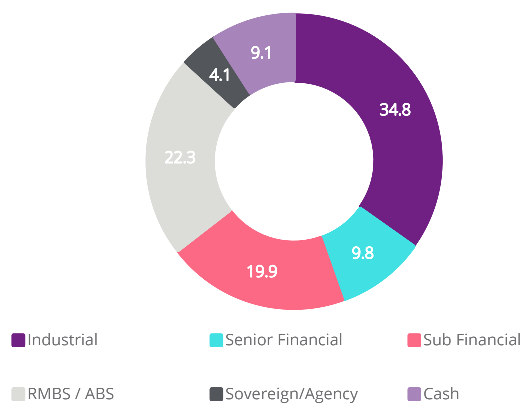
Source: Perennial Value Management. As at 31 August 2021

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.

Rating Exposure



Sector Active Exposure vs Index



Trust Review

The Core Income Fund had a small contribution for the month, following prior strong performance (twelve-month performance of 3.27% gross of fees). The contribution of duration was limited during the month, while coupon income was largely offset by wider credit spreads and a small loss from overlay trading.

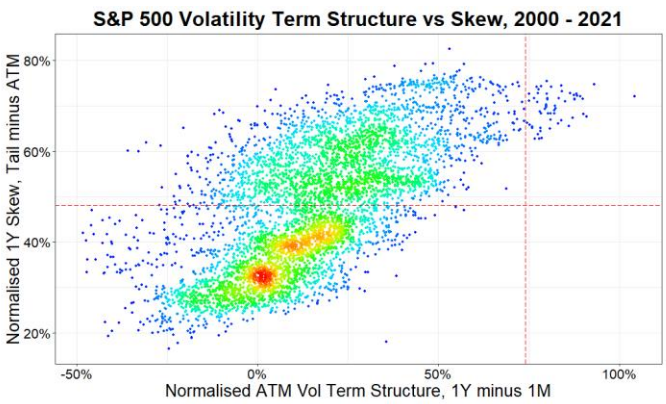
Australian market credit spreads were a little mixed during the month with mid tenor financials a touch wider, and similar tenor corporates and RMBS a little tighter. The bulk of the negative spread contribution in the portfolio was driven by longer dated corporates. The fund continues to have a modest interest rate duration positioning at 0.5 years.

The put write sleeve of the option strategy was implemented during the month, benefitting from some active management around timing, given the buy-the-dip regime. Conversely, we were able to get set on protection at higher levels of the market, producing an overall strong outcome for the option strategy.

After initiation of the put write, the overall protection profile of the Trust is at more moderate levels than last month, but still positioned for meaningful protection.

Trust Activity

During the month we took profits and reduced holdings in a number of outperformers, including MA Financial Group, Orora and Graincorp. Proceeds were used to increase our holdings in stocks which will benefit from the reopening of the global economy including Star Entertainment, Virgin Money UK, Ramsay Healthcare and Qantas. At month end, stock numbers were 55 and cash was 5.0%.



Outlook

In Australia, speculation continued as to the RBA's reaction function: Will tapering of QE be delayed in September as the RBA aligns itself with 'Team Australia', or will tapering proceed regardless? The Australian dollar has already depreciated by 5.6% since mid-May (despite the 2% rally in the last week and a half of August). At current levels the currency is providing more outright support to the external sector of the Australian economy than has been the case for some time.

That said, we believe the more important consideration is the future profile for Australian domestic demand, which has clearly taken a hit due to lockdowns. The RBA is of the view that the rebound from lockdowns will be significant in 2022, but it remains to be seen whether this is in fact the case. In particular, the strong linkage between workers and employers that was a feature of the 2020 Job-Keeper support package is not replicated in current government support measures. Sharply weaker labour markets may therefore manifest in New South Wales and Victoria in the coming months.

The option market structure remains somewhat challenging for the option strategy, where we tend to buy greater notional in low strike options vs selling in high strike options (skew), and also tend to sell shorter tenor options vs buying longer tenor options (term structure). Much has been made of the pronounced skew in the equity derivatives market in recent times, which does work against us, but more striking is actually the steep term structure, where longer tenor options are priced at a large premium to shorter tenor options.

In the below-left graph you can see that, at current levels marked in red, the normalised term structure is indeed at extreme levels; and the skew, whilst steep, is actually lower than might be expected given the term structure. We continue to manage the option strategy actively to ensure the most efficient outcomes.

As always, our aim will be to generate a running yield from credit and fixed income markets, with a conservative risk profile, whilst deploying an options 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 toward prioritising protection.

Normalised skew = 1Y 10 delta implied vol minus 1Y 50 delta implied vol.
Normalised term structure = 1Y 50 delta implied vol minus 1M 50 delta implied vol.
Source: Perennial Value Management, OptionMetrics

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