

	Month (%)	Quarter (%)	FYTD (%)	Since Inception [^] (%)
Perennial Yield Plus Conservative Trust (Net)	-0.8	-1.4	-1.7	-1.7
RBA Cash Rate Total Return Index	0.0	0.0	0.1	0.1
Value Added	-0.8	-1.4	-1.8	-1.8

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

Overview

- The recovery in risk sentiment this month was perhaps surprising, though one could point to resilient labour markets, receding COVID headwinds, particularly in developed markets, and an improved policy stance in China. At the same time, geopolitics remain fraught, inflation is persistent and central banks are becoming more aggressive. With these extant risks, the credit market has been slower to recover, and the Trust saw a loss of 0.81%, net of fees, largely driven by the Core Income strategy.
- Performance in the Core Income strategy was negatively impacted by wider credit spreads and higher bond yields which more than offset coupon income. On average credit spreads were approximately 11 basis points wider on the month with weakness seen across corporates, financials and structured credit. While we have significantly reduced duration in the portfolio, the larger sell off in government bond yields also contributed to the negative performance for the month.
- The Option Strategy produced a modest gain as equity markets rallied and volatility receded. This benefited the put write component of the strategy.

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 \$15.4 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.

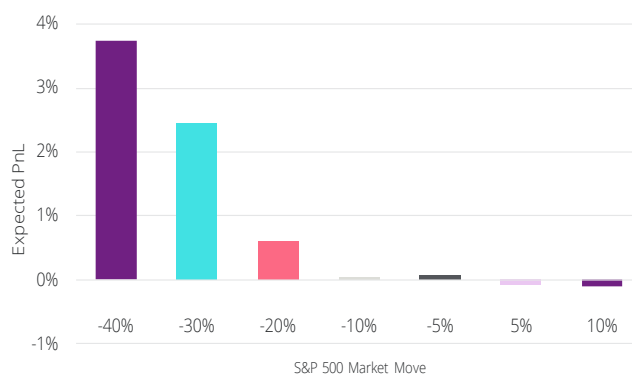
Portfolio Characteristics

Modified Duration (Yrs)	0.31
Spread Duration (Yrs)	2.84
Portfolio Yield (%)	1.92
Average Credit Quality	A

Source: Perennial Value Management. As at 31 March 2022

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.

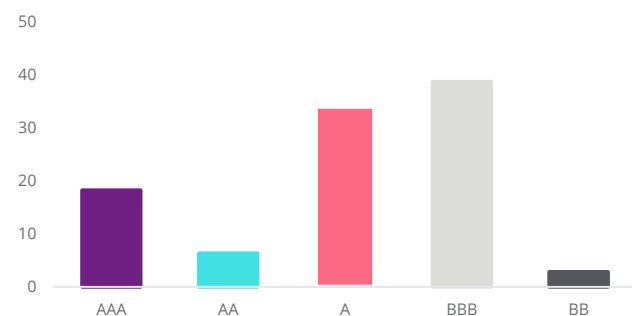
Estimated PnL Outcomes by Market Move



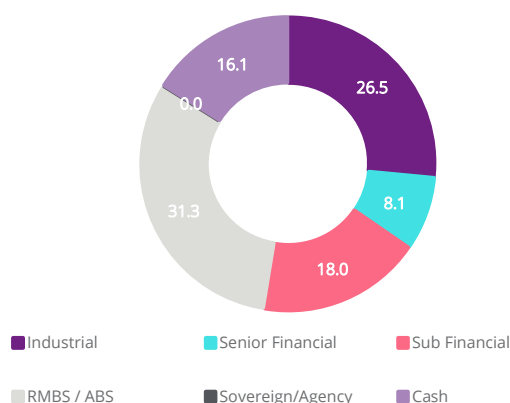
The chart provides the total expected portfolio PnL given a high velocity move in the S&P500. Source: Perennial Value Management. As at 31 March 2022.

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



Trust Review

The Core Income Fund returned -1.01% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads and higher bond yields which more than offset coupon income. On average credit spreads were approximately 11 basis points wider on the month with weakness seen across corporates, financials and structured credit. While we have significantly reduced duration in the portfolio, the larger sell off in government bond yields also contributed to the negative performance for the month. The fund continues to have a very modest neutral interest rate duration positioning of 0.30 years

March was an eventful month for volatility with the VIX peaking at 36 (the highest level since Jan 2021) only to then quickly break 20 towards the end of the month and decline to one of the lowest levels of the year. It's worth noting that the VIX futures curve is fairly steep, reflecting uncertainty around geopolitical developments and the Fed tightening cycle, however, it's incredible how fast the VIX normalized over the last several weeks. The peak to trough decline of 16 points was one of the biggest since April 2020 and has only been observed in ~7% of months since 2000.

The changing term structure saw a monthly profit for the Options Strategy, though it may mean forward earnings are slightly reduced.

Given the uncertainty mentioned above, we have dialed back exposure on the put write component to ensure a reasonable protection profile in a market drawdown.

Trust Activity

New issuance picked up during the month with the market taking the view that the world is not coming to an end because of the Russian invasion of Ukraine. While US credit spreads rallied in the second half of the month, Australia credit spreads largely held steady. We participated in numerous deals during the month including AFG and Plenti in the ABS space and Suncorp, Liberty, BNP and BNS in financials.

VIX curve shifted from inverted to steeply upward sloping over the past few weeks:



* Source: Bloomberg, PSG

Outlook

Risk assets have had a rocky start to 2022, but credit markets have generally been more sanguine than equities. Credit spreads have widened modestly but persistently since late 2021, while equities have fluctuated wildly. We have noted a clear fall in market volumes in both equity and fixed income, with this reduced liquidity contributing to wider daily movements. This may simply reflect some anticipation of the impending commencement of QT, creating the potential for further volatility as the actual process begins.

Therefore, against a backdrop of uncertainty, we remain positioned for flexibility. Yield curves have begun to invert, but they are by no means a perfect predictor of recession. Commodity prices will be supporting an inflationary impulse for the foreseeable future, especially while hostilities continue in Ukraine. Without clear positive catalysts, our base case is for yields and credit spreads to continue moving wider in the months ahead.

As alluded to last month, the equity market did manage to rebound strongly, absorbing continued geopolitical headlines and coping well with the pivoting stance of central banks. Credit spreads were slower to revert, however, negatively impacting the Trust. If the market settles, the portfolio expects a now higher embedded yield to benefit investors going forward.

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.

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au

Signatory of:

PRM Principles for Responsible Management



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