Perennial Yield Plus Conservative Trust

Monthly Report April 2022

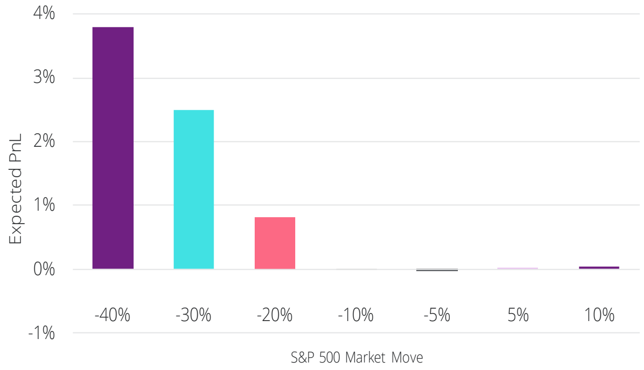
	Month (%)	Quarter (%)	FYTD (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	-0.1	-1.4	-1.8	-1.8
RBA Cash Rate Total Return Index	0.0	0.0	0.1	0.1
Value Added	**-0.1**	**-1.4**	**-1.9**	**-1.9**

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

Overview

- The transformation from a buy-the-dip to sell-the-bounce paradigm appears to be in full flight. Concerns over what measures might be required to tame runaway inflation, coupled with geopolitical angst and a COVID-slowdown in China, conspired to send markets tumbling in April. The associated continued widening in credit spreads, and high cost of equity protection, saw the Trust deliver a loss of 0.13%, net of fees.
- Core Income Trust performance was negatively impacted by wider credit spreads. Coupon income as well as positive contributions from overlay and hedging strategies were partial offsets. Fund duration has been reduced to zero and we note that when market conditions normalise, this period will give rise to a portfolio with a much higher yield that will benefit investors over time.
- The Option Strategy produced a modest loss as equity markets fell. The high cost of equity protection has meant it has been difficult to build a large notional exposure in defensive positions.

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 30 April 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.

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 $16.3 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

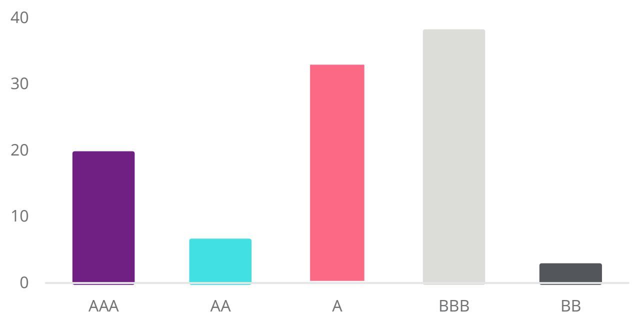
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.0
Spread Duration (Yrs)	2.88
Portfolio Yield (%)	1.92
Average Credit Quality	A

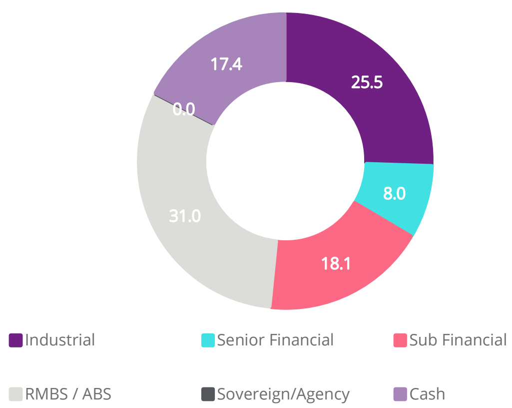
Source: Perennial Value Management. As at 30 April 2022

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.

Rating Exposure



Sector Active Exposure



Trust Review

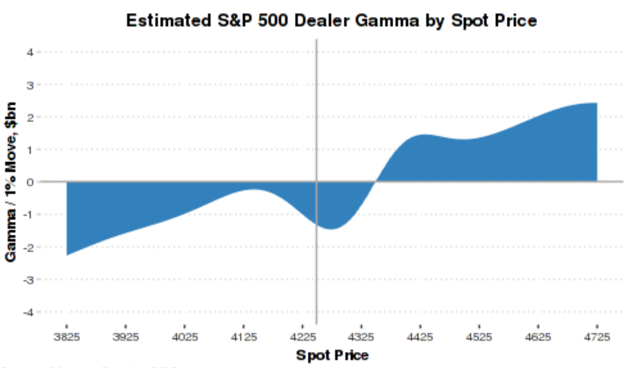
The Core Income Trust returned -0.08% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads which offset coupon income as well as positive contributions from overlay and hedging strategies. On average spreads were approximately 6 basis points wider on the month with weakness seen across corporates, financials and structured credit. However, local A$ cash spreads outperformed both US and EUR investment grade spreads. We have further reduced our interest rate duration to zero from a neutral position of 0.20 years last month, which helped the fund materially given the additional 29 basis point correction seen in Australian 10-year bonds during the month.

April was a jarring month for equity moves, with large moves both to the downside and upside, and implied volatility remains well bid as a consequence. Further to this, at the end of the month Morgan Stanley have estimated that dealer gamma positioning is in the 3rd percentile since 2017, that is – they are heavily short options. This means that the dealers will have to sell when markets drop, and buy when markets rise. This position looks set to get worse on the downside, and will likely exacerbate market moves.

Trust Activity

Given our defensive positioning, we did not participate in many new issues during the month, but we did purchase an NBN 2027 green bond as well as a CBA 2027 subordinated deal. We sat out of deals from Toronto Dominion, Volkswagen, OCBC and Bank of Queensland among others. In the structured credit space, we saw new deals from Ruby 2022-1 and Think Tank 2022-1. Goodman and CSL priced deals in the US market.

Within the option strategy we have been continued to run a lower notional to the Put Write strategy than would normally be held, with the view that markets were at risk. If we experience a further large leg down in the market it may be an opportune time to increase notional in the Put Write once again, as option premiums become very attractive.



Source: Morgan Stanley QDS

Outlook

After a consolidation in late March, April saw a resumption of the trends apparent since late 2021. Rates markets globally saw yield curves flatten, with the focus on how much and how quickly central banks will act to normalise interest rates. Meanwhile, credit markets are working through the impacts of inflation and spreads moved modestly wider again during the month. In addition, outsized moves in major currencies such as the yen created an additional dynamic that kept investors on edge.

With the decision of the RBA to increase interest rates for the first time in 10 years, and offering a strong signal that further increases are imminent, Australia has joined much of the world in a concerted push to bring interest rates back to a neutral setting as swiftly as possible. Subject to the evolution of the inflation picture in coming months, we should expect rates to rise at most meetings of the RBA this year, toward an estimated neutral rate around 2.5%. With up to 40% of local borrowers having at least some part of their borrowings fixed, the flow through to the real economy will be gradual.

In the US, we expect quantitative tightening (ie: the reduction in the Fed's holdings of Treasuries) to begin in coming weeks in addition to rate increases, which we have held for some time to be the "x-factor", particularly for financial markets. This will have the effect of removing excess liquidity from the system which given the prominence of the US dollar in global trade and commerce, could have unintended consequences well beyond America's shores.

COVID-related disruptions in China and the conflict in Ukraine show us that ongoing supply chain concerns will linger for the foreseeable future. Part of the inflation story can be attributed to these factors, on which tighter monetary policy can have limited impact. In the real economy, employment indicators have positively exceeded expectations, creating upward pressure on wages. This is creating challenges for businesses that are seeing raw material input costs and wage costs rise more quickly than they have for some time, risking margin contraction if these cannot be passed through to consumers.

Thus, overall we expect volatility to continue and maintain a defensive posture as a result.

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.

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