

	Month (%)	Quarter (%)	FYTD (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	-0.4	-1.4	-2.3	-2.3
RBA Cash Rate Total Return Index	0.0	0.0	0.1	0.1
Value Added	-0.4	-1.4	-2.4	-2.4

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

Overview

Despite major intra-month volatility in rates and equities markets, by the end of May risk assets had largely finished where they started. The volatility is being driven by the ongoing tension caused by persistent inflation rubbing up against a more uncertain growth outlook

The Trust delivered a loss of 0.43% for the month, net of fees, driven by Core Income performance

Core Income performance was negatively impacted by wider credit spreads, particularly in CLOs and Tier 2 financials. Overlay and hedging strategies also contributed small negative returns. We avoided most new issuance during the month in line with our defensive stance

The Option Strategy PnL was close to flat for the month, with some drag from Put Write positions expiring during the month offset by gains as the market stabilised

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	Trust FUM
Michael Pollard	AUD \$17.0 million
Distribution Frequency	Minimum Initial Investment
Quarterly	\$50,000
Trust Inception Date	Fees
June 2021	0.6% p.a.
APIR Code	Expense Recovery
WPC3204AU	Capped at 0.1% p.a.

Portfolio Characteristics

Modified Duration (Yrs)	0.41
Spread Duration (Yrs)	2.15
Portfolio Yield (%)	2.48
Average Credit Quality	A

Source: Perennial Value Management. As at 31 May 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.

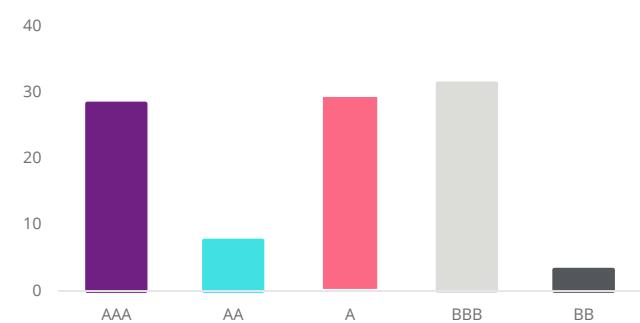
Estimated PnL Outcomes by Market Move



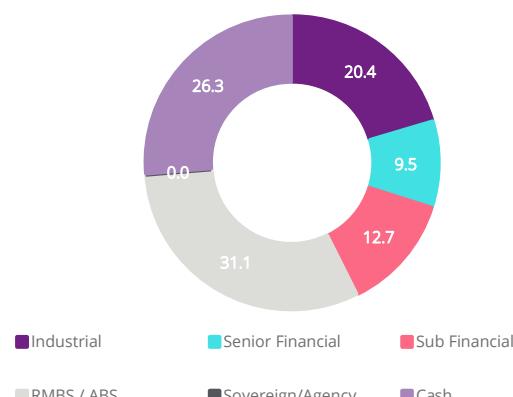
The chart provides the total expected portfolio PnL given a high velocity move in the S&P500.
Source: Perennial Value Management. As at 31 May 2022.

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

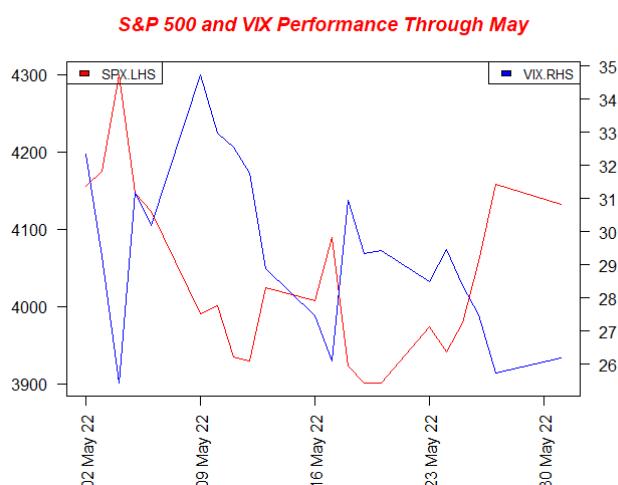
The Core Income strategy returned -0.43% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads which offset coupon income. In addition, the fund had a small negative contribution from overlay and hedge positions. Performance was most negatively impacted by our CLO and Tier two financials exposure. On average Australian credit spreads were approximately eight basis points wider on the month, underperforming US\$ spreads which were about five basis points tighter. We slightly increased the fund core interest rate position in the month from 0 to 0.25 years.

The round trip in risk assets, in May, was striking. The market may be girding for a potential long grind down. This can be seen in the declining beta of the VIX, to equity moves, through the month. Indeed, by the end of the month the S&P 500 was largely flat, but the VIX was 7 points lower (see below). Despite this – put write premiums still remain attractive relative to recent history, and we believe there will be a floor to option pricing.

Trust Activity

Given our defensive positioning and continuing bearish outlook for spreads, we largely avoided new issues during the month but did participate in the Vicinity green bond issue.

Within the option strategy we have been continued to run a lower notional to the Put Write strategy. Some Put Write positions did expire during the month, creating a drag, though this was then offset by profits on new positions initiated at attractive levels of premium.



Outlook

Despite major intra-month volatility in rates and equities markets, by the end of May risk assets had largely finished where they started. The volatility is being driven by the ongoing tension caused by persistent inflation rubbing up against a more uncertain growth outlook. Indeed, while 2022 consensus inflation forecasts now average more than 7% across the United States, Europe and the UK, consensus growth estimates have fallen from an average of 4.5% in March to now be only just above 3%. The primary dilemma for central banks remains how to address inflation without impeding growth expectations too severely.

Supply chain disruptions and rising energy costs continue to cast a long shadow over the global economy. Despite this, late May gave rise to a relief rally of sorts as COVID lockdowns in China began to ease. The reopening of some of the largest container ports in the world will have a positive knock-on effect for parts of the supply chain, but restrictive transport costs and the impact of the war in Ukraine will persist for at least the remainder of this year. Supply-side inflationary forces such as these will limit the effectiveness of the interest rate tightening cycle. The question is, will high energy prices and shortages sufficiently dampen activity of their own accord and reduce the need for restrictive tightening, or will they keep inflation elevated and force central banks to continue their normalisation agenda?

The RBA increased the cash rate for the first time in more than a decade, and Australia saw a change of federal government. With little detail or major differentiation in the policy outlook, let alone anything resembling a reform agenda, financial markets took little notice of the election result. However, the movement in the cash rate was notable in that it occurred during the election campaign and before the release of highly anticipated wage data that printed below expectations. We would expect additional increases at most meetings for the remainder of the year. We also note that the structure of Australian mortgage markets allows the transmission mechanism of cash rates through to the real economy to be quick and direct, at least for borrowers. In the banking system, deposits continue to grow faster than loans, suggesting an underlying caution amongst households as cost-of-living pressures remain front-of-mind.

Credit spreads continue to gradually widen, a trend that has persisted for close to a year. Relative value is emerging across a range of sectors. Whilst economic uncertainty has increased, expected returns have in some cases doubled, while the probability of default has not. Asset valuations in some growth-heavy sectors have moderated in recent months, but corporate fundamentals overall remain strong. Similarly, bank balance sheets have limited allowances for credit losses, but households are showing a high degree of prudence in uncertain times. We retain a degree of flexibility in our portfolios, with modest credit hedges complementing higher-than-normal cash levels, and limited duration.

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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