

	Month (%)	Quarter (%)	FYTD (%)	Since Inception <sup>^</sup> (%)
Perennial Yield Plus Conservative Trust (Net)	-0.6	-1.2	-2.9	-2.9
RBA Cash Rate Total Return Index	0.1	0.1	0.2	0.2
<b>Value Added</b>	<b>-0.7</b>	<b>-1.3</b>	<b>-3.1</b>	<b>-3.1</b>

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

## Overview

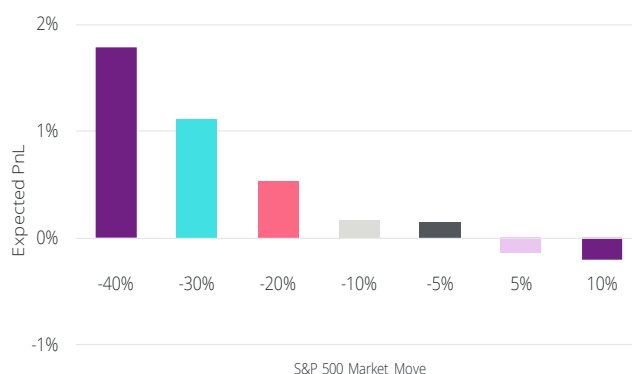
June saw something of a replay of risk drivers from May, with concerns over central bank tightening and inflation alongside fears over the recession that this may precipitate. Once again risk assets were sold off aggressively through the middle of the month, though equities stabilised in the second half, outperforming credit.

The Trust delivered a loss of 0.62% for the month, net of fees, with a bit over half driven by Core Income performance, and the remainder from the Option Strategy.

Core Income performance was impacted by wider credit spreads, which overwhelmed coupon income and a positive contribution from overlay strategies.

The Option Strategy was negatively impacted by Put Write positions expiring in the middle of the month, unfortunately coinciding with the intra-month dip. The gain on the Protection portfolio was not enough to offset this loss.

## 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 June 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 \$17.5 million

### Distribution Frequency

Quarterly

### Minimum Initial Investment

\$50,000

### Trust Inception Date

June 2021

### Fees

0.6% p.a.

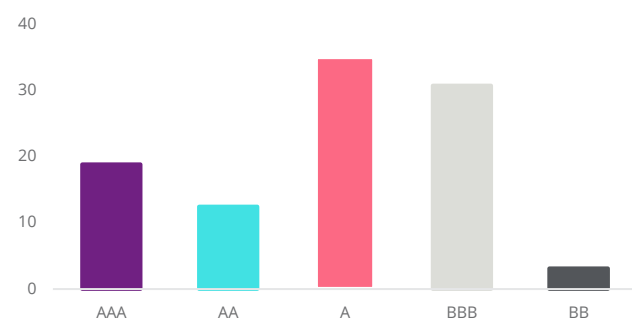
### APIR Code

WPC3204AU

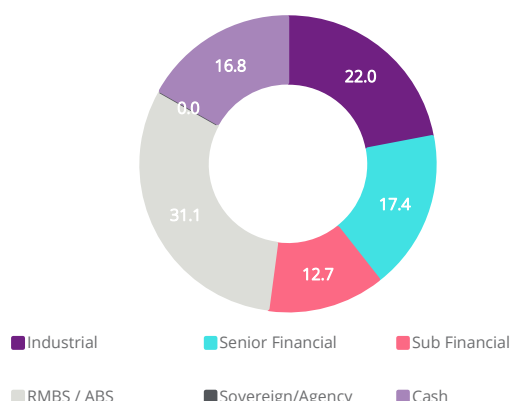
### Expense Recovery

Capped at 0.1% p.a.

## Rating Exposure



## Sector Active Exposure



## Portfolio Characteristics

Modified Duration (Yrs)	0.0
Spread Duration (Yrs)	1.68
Portfolio Yield (%)	2.62
Average Credit Quality	A

Source: Perennial Value Management. As at 30 June 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.

## Trust Review

The Core Income Fund returned -0.38% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads which more than offset coupon income and a substantial contribution from our overlay and hedging strategies. All sectors widened on the month, but the corporate sector was the largest detractor. On average Australian and US credit spreads were approximately twenty-three basis points wider on the month, but both markets substantially outperformed European spreads which were out approximately fifty-five basis points. The core duration position in the fund remained flat as at month end.

The drawdown in markets over the six months to June has been fairly orderly, without any high velocity, true capitulation events. Consequently, option prices and implied volatility have remained somewhat subdued versus what one might expect from a 20%+ pullback in the S&P 500. This has meant that the Protection component of the Option Strategy, which is designed to pay out in tail events, has not been able to deliver a substantial windfall.

## Trust Activity

Given our defensive positioning and continuing bearish outlook for spreads, we largely avoided new issues during the month. Having said that supply was limited locally which helped spread performance relative to offshore markets. We did, however, start to spend some of our excess cash on short-dated corporate and financial assets.

A number of Put Write positions reset in the Option Strategy through the month, with most strikes now set meaningfully below end of month spot levels. A tranche of June 22 expiry Protection was also rolled out during the month. Given options costs are high - a decision was made to include put spreads rather than outright puts. In addition, an allocation was made to ASX 200 put spreads, predicated on its outperformance against the S&P 500, and cheaper option costs.

## Outlook

The near-term outlook remains considerably uncertain, with intra-week volatility being exacerbated by lower trading volumes brought on by the northern hemisphere summer.

Central banks are quickly gaining ground in their bid to collar inflation, but their actions still feel more about catching pace with prices rather than having any real influence on their moderation. The more pressing issue, voiced recently by Federal Reserve Chairman Jerome Powell, is ensuring that inflation expectations remain anchored. He went so far as to say that "The Fed would restore price stability even at the risk of raising interest rates too high". Breakeven rates and inflation forwards peaked in late April and have subsequently fallen by an average of half a percentage point, suggesting that the financial markets believe the Fed can return inflation to desired levels. Similar trends are evident in Europe, the UK and Australia, with local breakeven rates back to levels prior to Russia's invasion of Ukraine..

## Outlook

While anchored inflation expectations would help to keep Chair Powell from following through on his "too high" threat, we believe a deteriorating growth outlook is also influencing their recent march lower. Economic data has been mixed, particularly in the United States, with several indicators printing below consensus estimates in recent months. However, monetary policy transmission channels are typically lagged by several months, thus it is difficult to attribute this weakness to central bank actions alone. Another possible sign of economic fragility is weakness in commodities, including base metals such as copper. Long watched as a barometer of economic health, the price of copper has fallen by more than 15% in June alone.

Despite these signals of caution, demand for labour remains strong. Business sentiment has proven resilient when compared with consumer sentiment, leading to record low unemployment rates across the developed world. Despite central banks' inflation problem, we believe the employment market will be of as great an interest to policymakers as midterm elections loom for the United States in November. Surging prices for essentials such as gasoline and food, coupled with tenuous housing markets stalled by sharply rising mortgage rates make for a politically volatile combination.

The lure of strong nominal yields in the United States has seen the US dollar appreciate materially this year. Against an uncertain geopolitical backdrop, this poses risks to emerging markets that are already struggling to secure stable food and energy supplies as the sanctions noose is tightened on Russia. However, despite sustained global pressure, Russia's currency has been one of the strongest in the world this year after forcing certain customers to purchase their energy products with rubles. Meanwhile, the Bank of Japan's steadfast maintenance of yield curve control has driven sustained weakness in the yen, a currency that has traditionally acted as a safe-haven of sorts in risk-off environments.

Concerns are growing about the durability of the current expansion, which we believe will contribute to ongoing credit market volatility. Local estimates for the terminal cash rate are too high, in our view. We are sceptical that the Australian economy could sustain a restrictive 3%+ cash rate when most market forecasts of the neutral rate are currently around 2.5%. We expect AUD cash rates to approach neutral by the end of 2022 before becoming more sensitive to incoming data. Credit spreads have been repricing since late 2021, reflecting a very tight starting point and macro/geopolitical concerns. Corporate balance sheets are strong, with plentiful liquidity and sensible term structures which will limit the widening impulse of the current cycle. Nevertheless, we believe it is premature to consider removing hedges or adding spread duration for now.

**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



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