Perennial Yield Plus Conservative Trust

Monthly Report July 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	-0.4	-1.5	-0.4	-3.3	-3.0
RBA Cash Rate Total Return Index	0.1	0.2	0.1	0.3	0.3
Value Added	**-0.5**	**-1.7**	**-0.5**	**-3.6**	**-3.3**

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

Overview

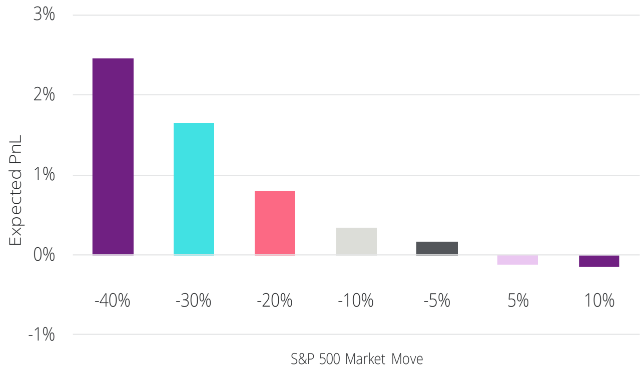
June finally saw a solid break to the upside for risk assets, with equities rallying, credit spreads contracting, and yields coming in. The market appears to be pricing in a quick reversal in inflation, and low risk of a damaging or prolonged recession.

The Trust delivered a loss of 0.43% for the month, net of fees, largely driven by Core Income performance, with a modest drag from the Option Strategy as we remained positioned defensively.

Core Income performance was impacted by wider credit spreads, which overwhelmed coupon income. Overlay and hedging strategies also detracted.

The Option Strategy saw gains on the Put Write component, which was more than offset by losses on the Protection sleeve as markets rallied, and implied volatility was marked down aggressively.

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 July 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 $17.8 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

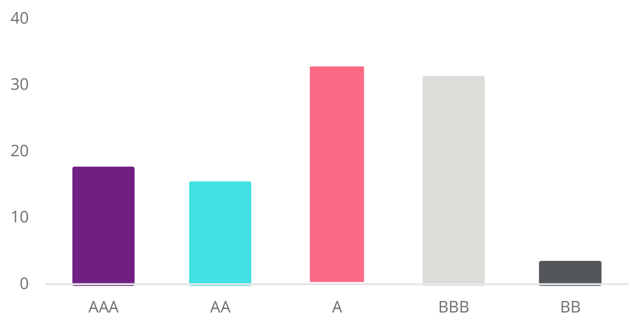
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.51
Spread Duration (Yrs)	1.95
Portfolio Yield (%)	3.8
Average Credit Quality	A

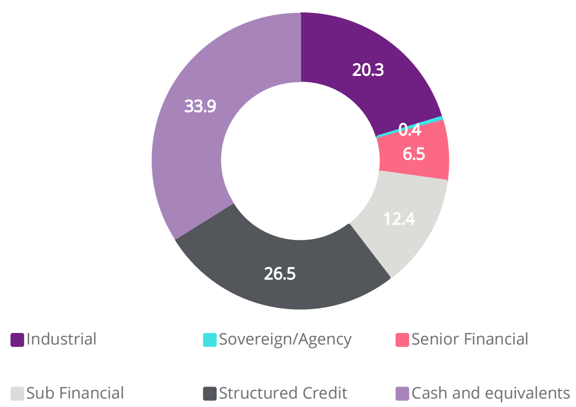
Source: Perennial Value Management. As at 31 July 2022

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

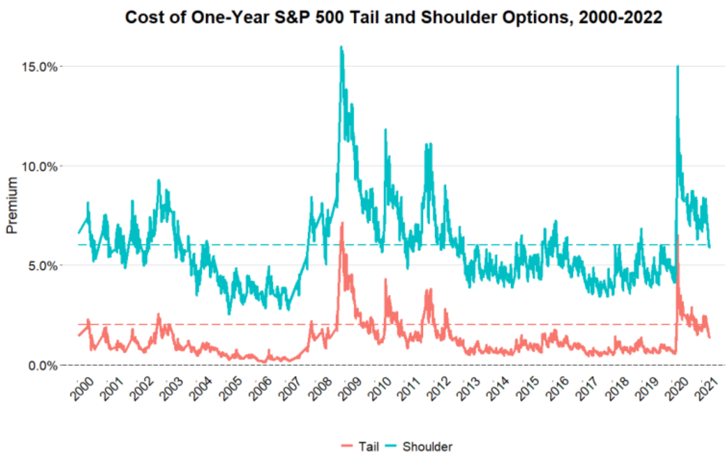
The Core Income strategy returned -0.32% for the month net of fees. The fund's performance was negatively impacted by wider credit spreads and a negative contribution from overlay and hedging strategies which more than offset coupon income and positive contributions from duration positioning. Most sectors were negative contributors, but there was particular weakness in RMBS and ABS sectors as new primary issuance into soft markets caused the entire sector to reprice wider. On average Australian credit spreads were approximately five basis points tighter on the month, while the US market was eleven basis points tighter. We have started to increase our core duration position in the fund, with the fund carrying 0.5 years of duration at month end.

The Option Strategy saw substantial gains on the Put Write component as markets stabilized then rallied, and implied volatility came in. This dynamic had the opposite effect on the Protection sleeve, which gave back the gains (and more) seen in June.

Trust Activity

Given our defensive positioning and continuing modestly bearish outlook for spreads, we largely avoided new issues during the month. We did participate in some of the new RMBS deals in the market; but are still carrying larger than normal cash balances.

Four Put Write positions were unwound during the month, though have not been fully re-initiated as we sought to maximise defensiveness in the Option Strategy. No Protection positions are due for rolling until September.



Source: Bloomberg, OptionMetrics, PSG

Outlook

Risk assets rallied strongly into the latter half of July despite higher-than-expected inflation data and hawkish central bank commentary. Bonds were also bought, driving yields materially lower and maintaining the unusual scenario where volatility in fixed income markets (measured by the MOVE index) is well above historical averages, while equities volatility (measured by the VIX index) remains calm by comparison.

There are some reasons to suggest that the growth impulse may have peaked in this cycle, and thus therefore long bond yields may have also. Cost of living pressures are impacting consumer sentiment, even as local unemployment hit new lows of 3.5%. Cash rates are likely to rise further but market expectations about the terminal rate moderated considerably during July. Ultimately, we believe that investors will continue to grapple with growth and inflation concerns while also keeping one eye on geopolitical issues, be they in Ukraine but increasingly also in Taiwan.

Despite the improving tone in markets, we still expect risk to remain elevated for the rest of this year, and that credit markets remain vulnerable to shocks. Even if interest rates have peaked, it is very rare to see credit spreads display a similar pattern until several months afterward. Also, with the upcoming company reporting season in Australia, investors will be closely scrutinising outlook statements for insights into the health of the economy.

While we believe a defensive position is still required, we have reduced cash holdings across the funds by adding shorter-dated assets from quality issuers and progressively increased duration. We retain a high degree of flexibility to adjust our stance as the situation evolves.

The Option Strategy has been positioned with a view that the market turbulence is likely to resume in the short-term. We have been surprised by the resilience through July, but perhaps this needs to be seen in the context of bearish positioning in prior months. However, we believe that risks remain to the downside and will continue to position accordingly.

We note that the cost of protection has actually contracted meaningfully, to the lowest levels since inception of the fund. Higher strike ("shoulder") options are now below our spending cap (see chart to left). If markets remain stable in coming months, it means we will likely be able to buy more protection than we have previously.

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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