Perennial Yield Plus Conservative Trust

Monthly Report November 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.4	-0.1	-0.5	-2.9	-2.4
RBA Cash Rate Total Return Index	0.2	0.7	0.9	1.1	0.8
Value Added	**0.2**	**-0.8**	**-1.4**	**-4.0**	**-3.2**

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

Overview

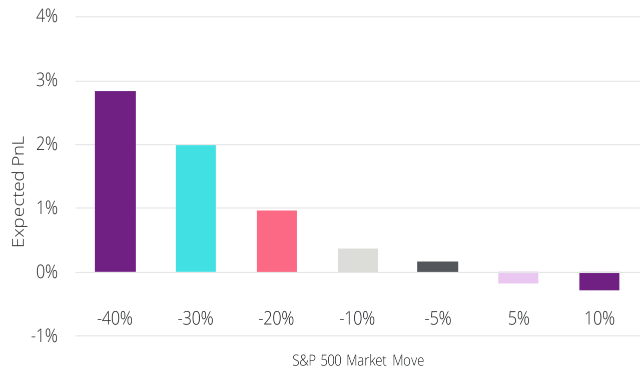
Markets retained their strong momentum in November, and investors seemed willing to continue buying on good news and discounting most negative negative points. However, we believe that the rally may be reaching its end.

The Trust delivered a gain of 0.44% for the month, net of fees, driven by strong gains on the Core Income strategy, and a modest drag from the Option Strategy.

Narrower credit spreads supported performance during the month. Core Income positioning remains defensive, as we envisage further challenging market conditions in the coming months.

The Option Strategy produced a drag of 0.09% for the month, with a gain of 0.21% on the Put Write more than offset by a loss on the Protection sleeve of 0.30% as markets rallied.

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 November 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 $19.0 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

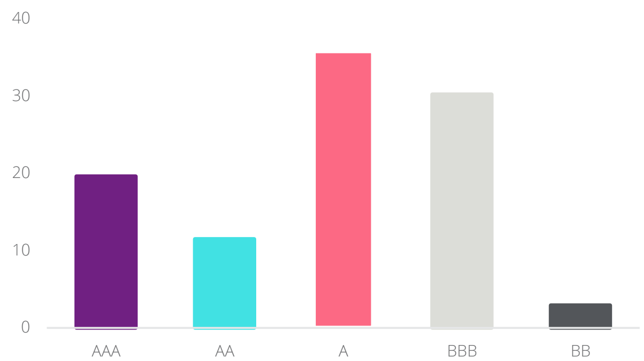
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	-0.04
Spread Duration (Yrs)	1.87
Portfolio Yield (%)	4.38
Average Credit Quality	A

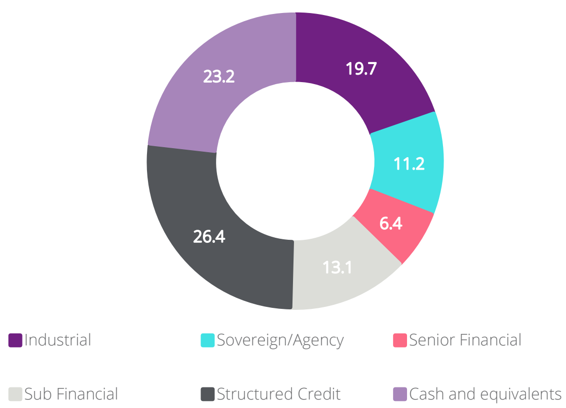
Source: Perennial Value Management. As at 30 November 2022

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 0.54% for the month net of fees. The fund's performance was positively impacted by both coupon income and narrower credit spreads. We also have hedges in place that underperformed given the relatively 'risk-on' tone seen during the month.

The Australian market underperformed markets offshore in November, but the overall tone was positive. More constructive views of the trajectory for the global economy and expectations of less central bank tightening going forward combined with expectations for a reopening of the Chinese economy to support narrower credit spreads. Major bank paper was a stronger performer than other domestic sectors, while globally the strength in credit markets was led by lower beta sectors.

Our interest rate position at month end was zero, and our view remains that inflation momentum will be more difficult to lower than what the markets currently assume. This leaves us unconvinced that the recent strength in government bond markets can be sustained.

Given our defensive positioning and continuing modestly bearish outlook for spreads over the medium term, we largely avoided new issues during the month. We continue to carry larger than normal cash and short-term securities weightings in the fund.

Trust Activity

Given our defensive positioning and continuing modestly bearish outlook for spreads over the medium term, we largely avoided new issues during the month. We continue to carry larger than normal cash and short-term securities weightings in the fund.

Two tranches of Put Writes were profitably rolled during the month, and a third tranche initiated to increase the exposure. Premiums have been attractive in the Put Write, producing a pnl of 0.21% for the month despite fairly light exposure. Conversely the Protection sleeve dragged by 0.3% as markets rallied.

Outlook

Last month saw a continuation of volatile trading conditions. Investors were sensitive to news flow, which when combined with unpredictable liquidity led to sharp intra-month movements in equities, interest rates and commodities. Events influencing this thematic included speculation of easing lockdown restrictions in China (which included rarely seen street protests) and inflation readings that surprised on the downside (prompting Fed speakers to take a hawkish stance against bullish adjustments to expectations). Despite ongoing shortages and disruptions, oil prices ended the month lower as growing demand uncertainty outweighed supply issues.

Real yields remain elevated and are the strongest indication that financial conditions remain tight. Simultaneously, yield curves inverted further during the month, signaling that growth concerns are building for 2023. This set up leaves us with little conviction that the positive sentiment of recent weeks is anything other than a bear market rally, especially as it pertains to corporate earnings, which we expect to disappoint expectations and potentially go negative on a year-on-year basis. Mixed data in the form of retail sales (which remain reasonably resilient) and consumer confidence (which in some cases is at post-GFC lows) is feeding into this sanguine earnings outlook.

After a very strong year, the USD index in November had its worst month since May 2009. As speculation of pauses or pivots picked up with the latest inflation data in the US, currency investors seemingly took profits, with implications for the AUD, commodities, and emerging markets. Copper struggled as a proxy for the global growth outlook, while gold, which has been negatively correlated to the USD, outperformed as the reserve currency came off multi-year highs.

Despite broader growth concerns, credit markets performed well in November and have continued their trend of remaining relatively calm when compared to rates markets. Even as near-term earnings concerns linger, corporate fundamentals remain strong. Leverage is well contained, a distinct positive if we are on the precipice of a recession, while a shortage of labour across many sectors is quite unusual for this period of the economic cycle. We retain the stance held in our funds for much of this year – zero duration exposure, a shorter tenor and higher quality bias in the credit book, and a focus on liquidity.

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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