Perennial Yield Plus Conservative Trust

Monthly Report February 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.3	1.4	0.9	-1.1	-1.2
RBA Cash Rate Total Return Index	0.3	0.8	1.7	1.8	1.1
Value Added	**0.0**	**0.6**	**-0.8**	**-2.9**	**-2.3**

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

Overview

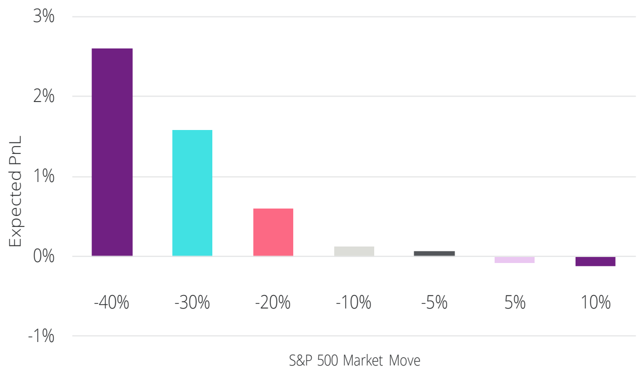
Markets hit pause on the new year rally in February as a big move higher in interest rates, given persistent inflation and words of caution from the central banks, spooked buyers of equities.

The Trust delivered a gain of 0.26% for the month, net of fees, driven by gains on the Core Income strategy, and a flat performance from the Option Strategy.

Coupon income and narrower credit spreads supported performance during the month, though duration positioning detracted. We continue to prudently shift portfolios away from cash and short-dated assets and modestly add duration.

The Option Strategy produced a flat outcome for the month as the modest decline in equity markets led to flat PnL in both the Put Write and Protection sleeves, with market moves offsetting option decay through the month.

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 28 February 2023.

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 $19.9 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

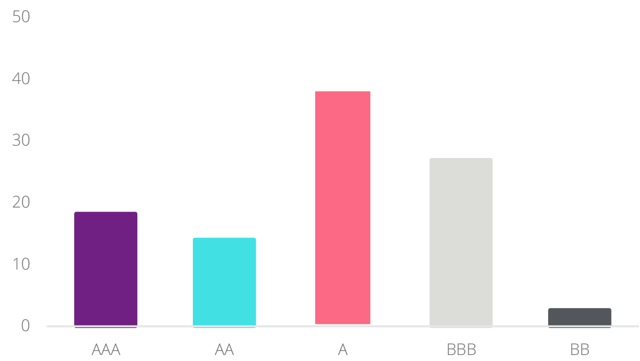
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.44
Spread Duration (Yrs)	2.08
Portfolio Yield (%)	5.06
Average Credit Quality	A

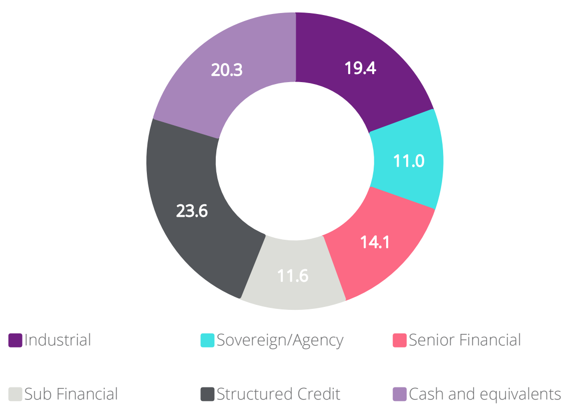
Source: Perennial Value Management. As at 28 February 2023

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 driven by coupon income and narrower credit spreads.

Continued stronger than expected economic data has encouraged investors to contemplate a scenario where growth remains resilient in the face of higher interest rates, scuttling any possibility of a pivot later this year, described as a "no landing". This was supportive of risk assets that have also benefitted from a short-term liquidity injection on a global basis even as the US Federal Reserve quantitative tightening programme continues. Sovereign yields at the short-end and long-ends rose in response, while yield curves generally inverted further, in some cases to record levels.

The improvement in the growth backdrop is supported by various drivers such as the re-opening of China, strength in US consumption that is likely to continue for longer than expected, and the absence of the fiscal drag in the US that featured in 2022. In Australia too, the re-opening of China should support growth. We acknowledge that the RBA may remain hawkish for longer as a result.

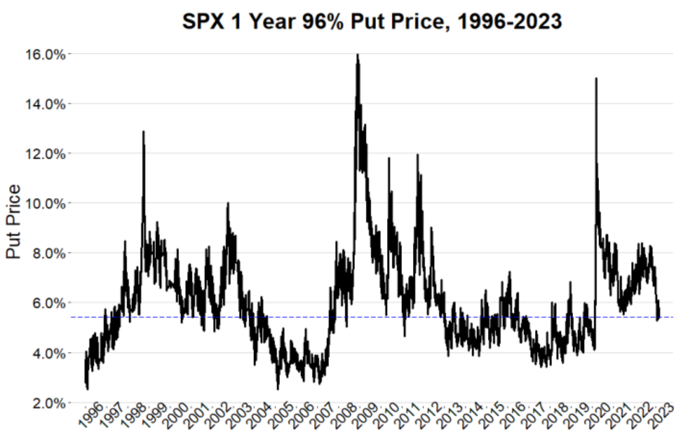
The Option Strategy was flat for the month as somewhat softer equity markets delivered flat PnL for both the Put Write and Protection sleeves, where in both cases the change in value due to market moves over the month was perfectly offset by the option decay (earning in the Put Write and paying on the Protection sleeve).

March rolls are upcoming for the Protection strategy, and with costs heading back towards pre-COVID levels (see chart), a more defensive profile should be achievable, including higher strike "shoulder" options.

Trust Activity

Following our change in risk appetite in January, we continued to prudently shift portfolios away from cash and short-dated assets, selectively participating in primary issuance in the senior unsecured banking sector where the market technical was supportive, and in securitised assets where relative value remains attractive.

In the Option Strategy a single tranche of Feb expiry puts was profitably rolled in the Put Write sleeve, out to Mar. We continue to maintain a defensive profile, with low Put Write notional.



Source: OptionMetrics/PSG

Outlook

Recent economic data has exceeded market expectations, increasing the odds of higher interest rates for longer, and greatly reducing the prospect of a moderation in the monetary policy response to inflationary pressures this year. The expected terminal rate for Fed Funds is now well above 5%, while some local economists now expect the RBA to reach a cycle high above 4%, implying multiple further quarter-point moves.

Even in the EU, where cash rates were negative for years, terminal rate expectations are now approaching 4%. A mild winter, falling energy prices, and a resilient banking system are leading forecasters to suggest that the continent may avoid a recession in 2023. The one-year anniversary of the conflict in Ukraine, with little hope of a peaceful resolution, is a stark reminder that geopolitical risks loom as a moderating factor to growth and confidence across the developed world.

Australian GDP growth underwhelmed in the last quarter of 2022, with the 0.5% result wholly reliant on net exports growth of 1.1% underpinned by strong resource prices and improving education and tourism exports. The recently concluded February reporting season showed that the corporate sector is adjusting to inflationary pressures but is still riding a COVID-reopening tailwind. Household savings data released as part of the national accounts suggest that households are starting to feel the impact of rising living costs, while wage data remains well anchored.

Credit markets have had a strong start to the year, suggesting that spreads were reflecting a more sanguine economic outlook in comparison to recent data. We think credit can rely on a strong technical foundation for 2023, with little refinancing pressure given how active wholesale borrowers were in 2021 and 2022 terming out debt obligations. Therefore, the impacts of higher borrowing costs will filter through gradually to corporate balance sheets. On the other hand, we remain cognisant of the possibility that our growth expectations may prove too optimistic, in which case spreads would be more likely to retrace some of their recent strength.

Therefore, while we continue to prudently shift portfolios away from cash and short-dated assets and modestly add duration, we retain optionality to respond to prevailing conditions.

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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