Perennial Yield Plus Conservative Trust

Monthly Report June 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.3	0.9	1.9	1.9	-0.5
RBA Cash Rate Total Return Index	0.3	1.0	3.0	3.0	1.6
Value Added	**0.0**	**-0.1**	**-1.1**	**-1.1**	**-2.1**

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

Overview

Markets were strong in June, with narrow tech megacap and AI-themed stocks still in the ascendancy.

The Trust delivered a gain of 0.33% for the month, net of fees, driven by strong gains on the Core Income strategy, and a drag of 0.2% from the Option Strategy.

Core Income performance was supported by coupon income and credit spreads. Interest rates rose over the month, but having reduced duration toward the beginning of May, the impact on performance was minimal.

The Option Strategy dragged for the month as strong markets combined with implied volatility being marked down aggressively, which saw a meaningful write down on the Protection positions. Conversely June positions were rolled at attractive levels.

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 $16.3 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

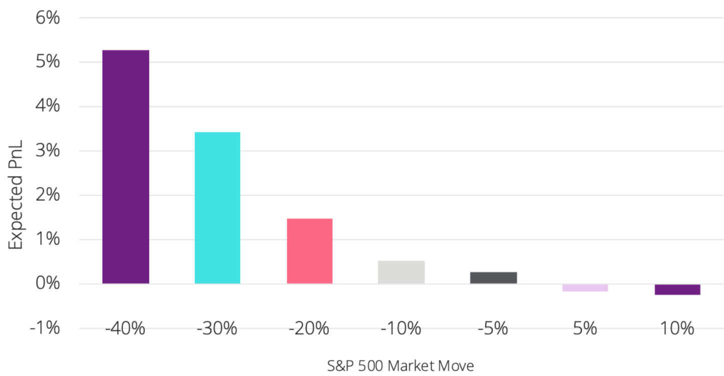
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.15
Spread Duration (Yrs)	2.66
Portfolio Yield (%)	6.51
Average Credit Quality	A

Source: Perennial Value Management. As at 30 June 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.

Estimated PnL Outcomes by Market Move

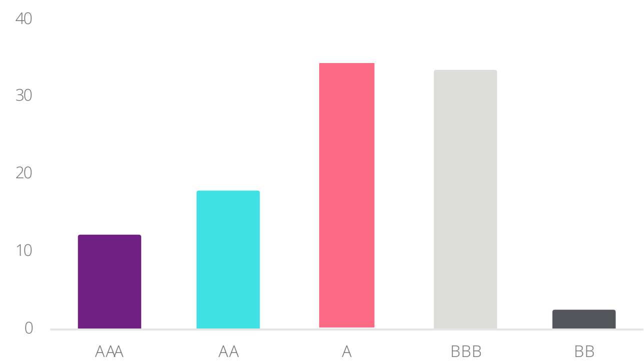


The chart provides the total expected portfolio PnL given a high velocity move in the S&P500.

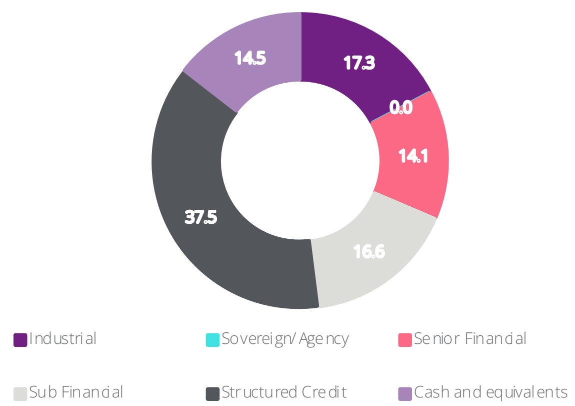
Source: Perennial Value Management. As at 30 June 2023.

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.

Rating Exposure



Sector Active Exposure



Trust Review

The Core Income strategy returned 0.56% for the month. The strategy's performance was supported by coupon income and credit spreads. Duration created a modest drag as did overlay and hedging.

Credit markets continued their positive year, with volatility in March quickly absorbed by the larger tightening trend. Spread performance suggests credit investors are sanguine about the short-to-medium term outlook.

Interest rates rose over the month, as rate hikes continue and expectations for further tightening remain priced for the remainder of this year. Having reduced duration toward the beginning of May, the impact on fund performance was minimal.

Option markets continue to mark down implied volatility, with the VIX reaching pre-COVID average levels. This dynamic, combined with strong equity markets, led to a drag on the Protection portfolio of 0.31%, which was only partially offset by gains on the Put Write strategy of 0.11%.

Put Write premiums had been marked lower in the months leading up to June, meaning less gains were available. In addition to this we have been running an active defensive profile by keeping Put Write notional low, whilst risk is being dialed up in the Core Income strategy.

Trust Activity

In the Core Income Strategy we continue to prudently add risk, which includes selective participation in primary issuance across financial, corporate and securitised transactions.

In the Option Strategy both tranches of Put Write are getting towards levels where they will be unwound early and rolled out. In addition to this June 2023 Protection positions were rolled out to June 2024 at attractive levels. This meant a higher amount of larger level of notional could be bought than we have seen in recent times.

Outlook

As we pass the halfway point of the year, one could be forgiven for thinking that the technology sector, particularly artificial intelligence (AI), had single-handedly supported market performance. While there is an element of truth in this as it pertains to the performance of the tech-heavy Nasdaq or the increasingly tech-dominated S&P 500, underlying economic performance has also bettered expectations in most cases, with China being a notable exception.

While resilience in output and employment are creating a supportive outlook for risk assets in the short-term, it is also stifling attempts to rein in core inflation, although again China provides an interesting counterpoint. Core inflation is proving difficult to moderate because of rising services prices, which typically represent about half the CPI basket. This can be observed in actual prices and through diffusion indices such as the PMI.

The debate about how to address inflation is becoming more nuanced because while the overarching problem is the same, the underlying drivers vary across countries or regions. In the United States, there has been a clear divergence between "hard" economic data which has been beating expectations and "soft" data, such as consumer confidence surveys, suggesting households are downbeat.

Meanwhile the Euro area has just entered a technical recession, but the ECB is showing no sign of resiling from its task of returning inflation to target. Consensus expectations are for a relatively short and shallow retrenchment in economic activity, and interest rate markets have no cuts to interest rates priced in over the coming 12 months, in contrast to the United States where the Federal Reserve is expected to have begun easing within a year from now.

Similarly for Australia, we continue to believe it is a matter of when, not if, interest rates move higher from here. With almost all employment indicators at-or-near record levels, and residential property prices supported by a favourable supply-demand dynamic, the RBA will retain the flexibility to act quickly should inflation expectations begin rebasing higher. Labour productivity falling to generational lows is further complicating the outlook, making it harder to justify higher wages.

With the Chinese economy now fully reopened, focus has shifted to the property market, estimated to be the largest single asset market in the world. Sentiment remains fragile after a number of high-profile developers failed in recent years. Concern is growing that further support measures are required to protect buyer confidence and asset values as recent data suggests lending demand for newly built properties has fallen to levels last seen in 2013. Chinese authorities appear reluctant to implement any large stimulatory measures in fear of creating more leverage in the system.

From a markets perspective, the key to understanding prospective returns in the short-term is the evolution of financial conditions. There are several factors to consider. Following the resolution of the debt ceiling debate, the replenishment of the US Treasury General Account is an implied drain on liquidity but has yet to translate into any appreciable headwinds in the performance of risk assets. The immediate impact of these actions will translate through lower bank reserves, but the second order effects could include tighter lending standards and thus reduced credit availability. While not our core view, we note that when senior loan officer surveys have been this restrictive in the past, they have usually coincided with or peaked just before a recession.

Credit spreads continued their positive momentum in June even as expectations for tighter financial conditions rose at the margin. Demand remains strongest for investment grade securities, which is obscuring some more mixed results in segments such as leveraged loans, where defaults are being noted at an elevated rate. Credit availability is a key theme that we believe warrants close attention as the US Treasury resumes debt issuance, concerns linger in the commercial real estate space and banks become more selective about lending, particularly in the leveraged loan and high yield markets. We cannot rule out further spread widening as the current economic cycle matures, but a strong corporate sector will limit the impact, particularly in the investment grade segment where Daintree portfolios are heavily biased.

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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