Perennial Yield Plus Conservative Trust

Perennial Partners

Monthly Report November 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.2	1.4	2.9	5.3	0.7
RBA Cash Rate Total Return Index	0.4	1.0	1.8	3.9	2.0
Value Added	**-0.2**	**0.4**	**1.1**	**1.4**	**-1.3**

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

Overview

Markets were very strong in November, with many equity indices regaining their losses from the prior three months. The main driver of this was the equally high-velocity reversal in US 10-years, that finished the month a staggering 0.60% lower. This return to risk-on also saw implied volatility marked down severely.

The Trust delivered a positive performance, with a gain of 0.2% for the month, net of fees. The Core Income strategy had another very strong month, driven largely by high coupon receipts.

However, this month also saw a 0.54% drag from the Option Strategy. This was due to the large moves in equities and implied volatility, which saw options marked down, as well as increased protection spending due to exceeding trailing 12-month alpha targets. This means that the Trust is positioned very defensively, an attractive profile whilst markets are so buoyant.

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.

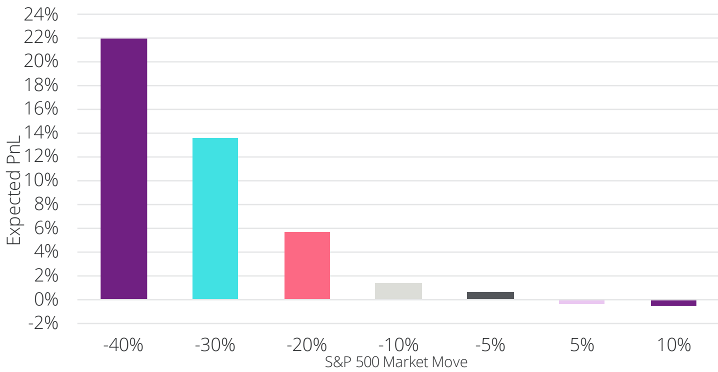
Portfolio Manager Michael Pollard	**Trust FUM** AUD $27.5 million
Distribution Frequency Quarterly	**Minimum Initial Investment** $50,000
Trust Inception Date June 2021	**Fees** 0.6% p.a.
APIR Code WPC3204AU	**Expense Recovery** Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.22
Spread Duration (Yrs)	2.38
Portfolio Yield (%)	6.59
Average Credit Quality	A-

Source: Perennial Value Management. As at 30 November 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

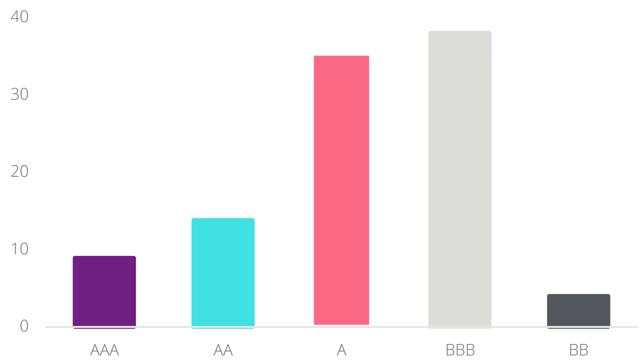


The chart provides the total expected portfolio PnL given a high velocity move in the S&P500.

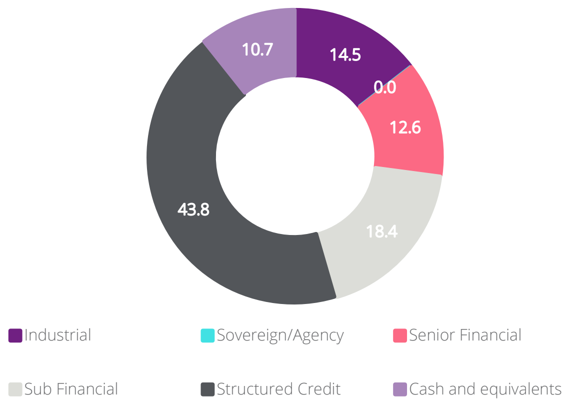
Source: Perennial Value Management. As at 30 November 2023.

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

For the Core Income strategy - performance was supported primarily by coupon income with some support from credit spreads. Duration exposure was modestly lengthened late in the month, with some related overlay trades adding to performance as bonds rallied.

Credit markets remained resilient and saw some spread compression in a continuation of the dominant theme of 2023. Based on recent spread performance, credit investors remain focused on solid corporate fundamentals and a supportive technical backdrop as year-end approaches.

During the month protection spending was increased as the "Protection Ratchet" was triggered. This doubles the amount of protection spending at times when trailing 12-month (gross) alpha to cash exceeds 2%. The purpose of the Ratchet is to reinvest "excess" profits back into protection in order to attain maximum defensiveness, whilst still delivering a reasonable ongoing return.

This increased defensiveness will last until December next year, but will decrease at each quarterly expiry until then, in the absence of an event. With equities looking expensive relative to other asset classes, and an uncertain macroeconomic and geopolitical backdrop, having extra protection at this time is of great value. In addition to this option costs are historically low, making it an ideal entry point.

Trust Activity

The fund selectively engaged in new issuance, favouring industrial and securitised assets. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained into 2024.

Three quarters of the Protection Ratchet was deployed through the month, with the final (Dec 2024) tranche to be spent next month. We have taken a patient approach to deploying the Ratchet spending given the buoyancy in markets. In addition to this the Put Write notional was increased slightly during the month, but still remains at low levels, in order to maximise defensiveness.

Outlook

Market developments in November continued a theme that has been persistent throughout 2023, whereby real economy resilience has allowed central banks to aggressively address inflation. These efforts for the most part have been successful. Indeed, in the eyes of the market the progress has been such that in November we saw the largest rally in bond markets in more than 40 years.

This rally was undoubtedly welcomed by many, but our enthusiasm is dampened somewhat by the nature of inflation itself. Having largely resolved the temporary factors driving the CPI, we are yet to be convinced that the "last mile" of bringing core inflation back to target can be achieved with the current policy toolkit. If you take Australia as an example, tensions are growing between monetary and fiscal approaches to moderate inflation without exacerbating cost-of-living, which continues to be a hot-button political issue here and around the world.

Recent local data suggests that excess pandemic savings are near enough to being exhausted, which will remove one of the economy's tailwinds into 2024. Economic growth in the September quarter slowed to just 0.2%, weighed down by a negative contribution from net exports and anaemic consumption. The emergence of Black Friday as a consumption event in November and the important Christmas trading period means some of this consumption may have simply been deferred to the fourth quarter, but in terms of net exports both volumes and prices were down, pushing the current account into deficit for just the second quarter since the start of 2019. The Australian economy will need consumers and business to dig deep to push back against headwinds which we believe will gain in strength over the coming year.

Investors will be closely watching important employment updates into year-end, trying to identify any areas of weakness or concern. Arguably, robust labour market conditions have been the biggest contributor to market resilience this year. Continued strength is pivotal to a more positive outlook for 2024 because we believe that low unemployment translates into stability in residential property prices, consumption and ultimately prices via a natural rebalancing of demand and supply.

One area of the market where growth concerns are showing through most tangibly is in commodities. For example, while copper prices rose in November, they are down year-to-date. While often seen as an economic growth proxy, copper has struggled to find a firm footing despite being a key component of the clean energy transition. Energy markets were weak in November, despite voluntary production cuts from OPEC+ and a cold start to winter across much of Europe (including freezing private jets to the runway in Germany bound for the COP28 conference in Dubai). On the other hand, gold has been testing record highs, reprising its role as a safe-haven asset.

Credit spreads tightened in November but did not get caught up in the near euphoric performance of other risk assets. We have noted in recent months that credit markets seem to be looking through the geopolitical tensions and short-term market noise, which in November led to underperformance on a beta-adjusted basis. We cannot rule out some further spread widening as the current economic cycle matures, but we are confident that the investment grade segment of the market is well placed to navigate near-term challenges. Strong coupon income will remain the foundation of the return profile over time.

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

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au