Perennial Yield Plus Conservative Trust

Monthly Report March 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.7	1.7	5.2	6.2	1.5
RBA Cash Rate Total Return Index	0.4	1.1	3.2	4.2	2.3
Value Added	**0.3**	**0.6**	**2.0**	**2.0**	**-0.8**

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

Overview

The bulls were still in charge through March, with the equity rally looking strong and broad. The narrative has shifted from soft-landing to no-landing in the United States, as most economic indicators suggest an economy firing on all cylinders. This has led to plenty of discussion around how many rate cuts to expect for the year, if any, though this macro uncertainty has not translated into higher option volatility, with the VIX languishing around recent lows.

The Trust delivered a strong performance, with a gain of 0.66% for the month, net of fees. The Core Income strategy was the key driver, once again; with high coupon receipts, narrowing of credit spreads, and gains from the overlay strategies.

The Option Strategy lost 0.07%, with option decay lower than prior months. The first tranche of Protection Ratchet spending rolled off, leading to somewhat lower expected profit in a dislocation, though the profile remains very compelling.

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.

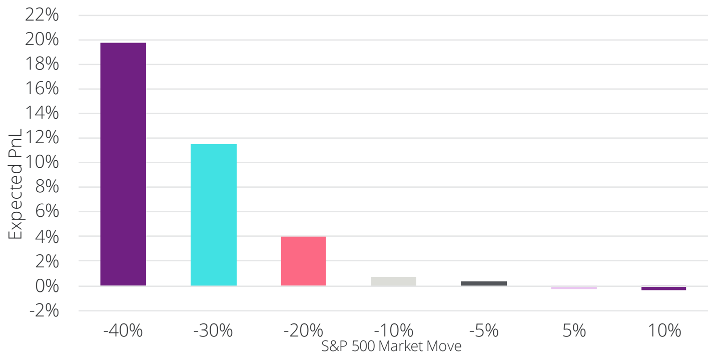
Portfolio Manager Michael Pollard	**Trust FUM** AUD $26.9 million
Distribution Frequency Quarterly	**Minimum Initial Investment** $50,000
Trust Inception Date June 2021	**Fees** 0.6% p.a.
APIR Code WPC3204AU	**Expense Recovery** Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.28
Spread Duration (Yrs)	2.60
Portfolio Yield (%)	6.59
Average Credit Quality	A-

Source: Perennial Value Management. As at 31 March 2024

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

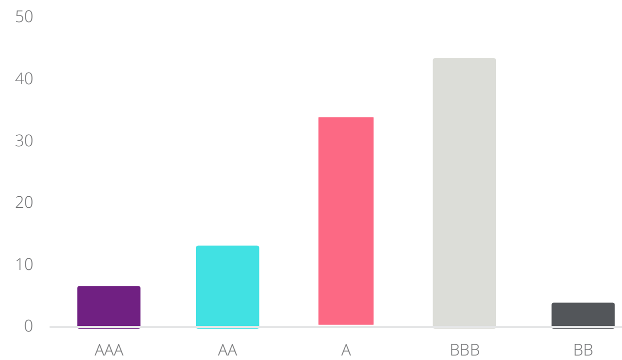


The chart provides the total expected portfolio PnL given a high velocity move in the S&P500.

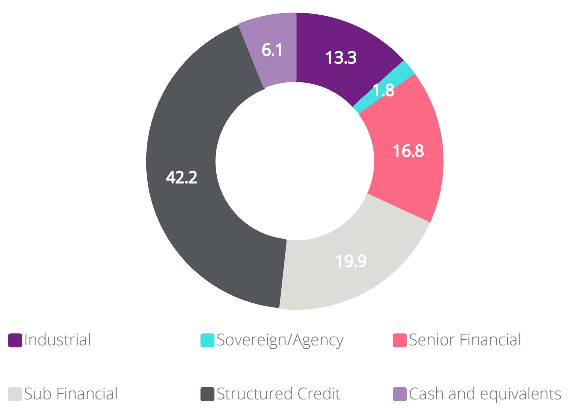
Source: Perennial Value Management. As at 31 March 2024.

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's strong performance was driven by coupon income with support from credit spreads, with all major sub-sectors contributing to the positive tone. Overlay positions made a noticeable positive contribution again in March after solid results in February.

There are strong technical and fundamental tailwinds for credit markets in the short term. Active issuers in the corporate bond market have been attracting strong bids, but deal activity moderated somewhat in March.

As outlined previously – the strong market action in prior months brought forward the decay profile of the Option Strategy, such that expected decay going forward is lower. This dynamic did indeed play out in March, with option drag declining to 0.07%. Performance was also assisted by the Put Write strategy, which continues to produce a small profit each month.

Trust Activity

The Fund selectively engaged in new issuance, with a focus on financials offered by non-Australian domiciled issuers, as well as residential and asset-backed securities. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained into 2024.

March positions were rolled in the Protection sleeve during the month. This saw the first tranche of the extra Protection Ratchet spending roll off. However, with option costs still low, the level of March 2025 notional bought in was still very attractive.

Outlook

Recalibration of the expected trajectory for interest rates this year continued during March, driven by economic data that exceeded expectations. The vast majority of investors, analysts, commentators, pundits, and taxi drivers believe that interest rates will be cut at some stage in developed markets, but we hold fast to our view that they simply may not move from current levels this year. Because of generally high valuations across risk assets, there is concern that current multiples may be at risk of contraction without rate relief. We are less concerned in credit markets, however, where we view spreads as tight but fair.

Against this reasonably positive tone in markets, geopolitical uncertainty continues to rise. It is notoriously difficult to translate developments in this sphere into market impacts, but there can be no denying that the risks of unintended consequences are rising as the war in Gaza metastasises into a wider regional conflict. From an economic perspective, the challenges in the Middle East are translating into snarled supply chains given the inability of Western nations to secure the passage through the Suez Canal, and also on oil prices given the importance of the region in terms of both production and transport. A strongly rising oil price has the potential to interrupt disinflationary tailwinds on which the expected interest rate path is so heavily reliant.

The Bank of Japan took the momentous step of concluding its negative interest rate policy, along with a slate of measures aimed at slowly withdrawing accommodation that has been in place for close to two decades. The shift back to a zero percent cash rate from -0.1% was modest in gross terms, but the symbolism of the BoJ having sufficient confidence that inflation has rebounded to a desired level was meaningful. This confidence has been particularly evident in Japanese equities, where the Nikkei index has hit record highs in recent months. Coupled with a weak yen, Japanese exporters have been the biggest beneficiaries.

Australian data released last month included the Q4 GDP release, minutes of the latest RBA meeting and labour force estimates for March. The national accounts showed an economy losing momentum, particularly within the consumer and construction sectors. After a better January the consumer again struggled in nominal terms. On a more positive note, the labour market looks less alarming. After the February numbers, the key message is that the kick up in unemployment in the last few months reflected seasonal adjustment problems rather than a rapid deterioration in the labour market. That said, trend employment growth is currently running around 20k per month. To stabilise unemployment the required rate is nearer to 40k. Meanwhile, the market reaction to the RBA minutes suggested a belief that the committee has become less hawkish but maintained maximum flexibility by not ruling anything in or out regarding the future path of rates.

If the macro environment requires interest rates to hold steady for the foreseeable future, we think this bodes well for credit markets. Spreads have largely returned to average levels in Australia, but in some non-AUD markets they have tightened noticeably. This further highlights the attractiveness of local corporate bonds from both fundamental and valuation perspectives.

We have noted in recent months that credit markets seem to be looking through geopolitical tensions and short-term market noise, but 2024 will present a range of challenges including a growing refinancing wall, for which elevated interest rates pose a distinct risk. Should the availability of capital be constrained as this refinancing wave gathers pace, we cannot rule out some spread widening as the current economic cycle matures. Ironically, capital is plentiful for issuers right now, which may slow spread tightening as issuers take advantage of the conditions resulting increased supply. Daintree retains the view that the investment grade segment of the credit market is well placed to navigate near-term challenges and 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

Signatory of:

PRI Principles for Responsible Investment

Issued by Perennial Value Management Limited (ABN 22 090 879 904, AFSL No. 247293) as the Investment Manager. The Responsible Entity is Perennial Investment Management Limited (ABN 13 108 747 637, AFSL No. 275101). Perennial Partners Limited (ABN 90 612 829 160) is a Corporate Authorised Representative (1293138) of Perennial Value Management Limited. Both the Investment Manager and Responsible Entity form part of Perennial Partners. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation and is not intended to constitute advertising or advice of any kind and you should not construe the contents of promotional statement as legal, tax, investment or other advice. This promotional statement does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant information memorandum and application forms can be found on Perennial's website www.perennial.net.au. Use of the information on our website is governed by Australian law and is subject to the terms of use. No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful.