Perennial Yield Plus Conservative Trust

Monthly Report April 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.6	1.8	5.8	6.5	1.7
RBA Cash Rate Total Return Index	0.4	1.1	3.6	4.3	2.4
Value Added	**0.2**	**0.7**	**2.2**	**2.2**	**-0.8**

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

Overview

April saw some volatility return to the market, as geopolitical risk combined with higher rates spooked investors. For the few days around Israel's strike on Iran liquidity and risk appetite were greatly diminished, and the VIX achieved a 20-handle. Even as nerves were calmed in respect to the Middle East, a nearly 0.5% rise in US 10-years through the month emphasised that the inflation shock is far from over. Despite this the VIX finished the month only at moderately higher levels.

The Trust delivered a strong performance, with a gain of 0.55% for the month, net of fees, driven by the Core Income strategy. High coupon receipts and narrowing of credit spreads drove gains.

The Option Strategy gained 0.02%, with the Protection sleeve providing a small overall profit (Shoulder protection gained, Tail dragged), and the PutWrite sleeve was flat as a small loss was taken on one position.

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 $30.5 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

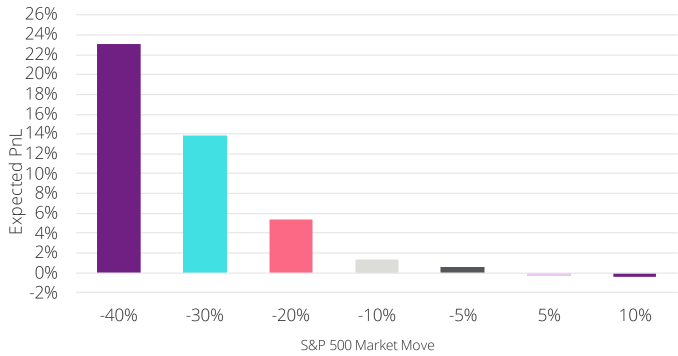
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.08
Spread Duration (Yrs)	2.57
Portfolio Yield (%)	6.76
Average Credit Quality	A-

Source: Perennial Value Management. As at 30 April 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

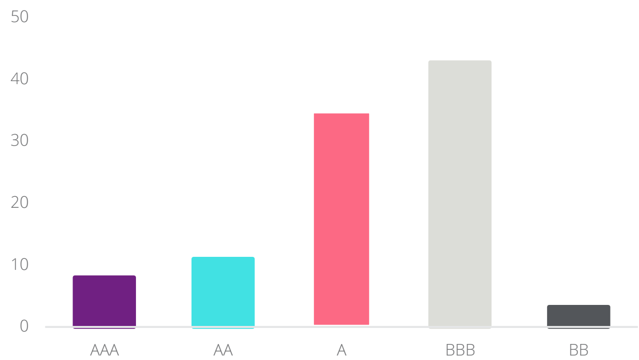


The chart provides the total expected portfolio PnL given a high velocity move in the S&P500.

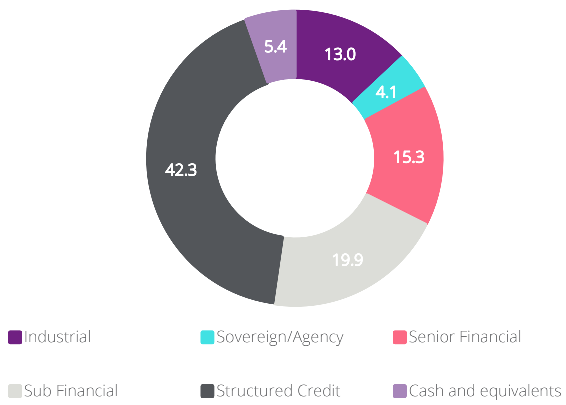
Source: Perennial Value Management. As at 31 March 2024.

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 strategy's strong performance was driven by coupon income with support from credit spreads, even as other risk assets struggled to maintain the momentum of recent months. Overlay performance somewhat tempered performance overall, though this remains positive for the quarter.

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 returned to more normal levels in April.

The Option Strategy saw good reactivity through the most volatile days of April, as gains on both the Shoulder and Tail components of the Protection Strategy outweighed the modest drag from the PutWrite strategy. As mentioned previously, we have kept PutWrite notional at conservative levels given the risk / reward on offer, and elevated equity valuations. Whilst markets were much calmer by the end of the month, the protection profile of the Option Strategy remains strong.

Trust Activity

The Fund selectively engaged in new issuance, but also continued to seek trades that optimise future income potential, taking advantage of higher base rates. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained over the coming months.

For the first time in many months a PutWrite position was closed out in April at a loss, though the loss was very modest. On the other hand, the jump in short-tenor option prices through the month provided an opportunity to roll into new PutWrite positions at attractive levels.

Outlook

The shifting outlook for interest rates impacted risk assets in April. Reality is dawning that the conditions necessary to allow cuts to start are taking longer to eventuate, largely courtesy of stubborn services inflation. Risk asset market performance is, however, still negating the tightening impulse of higher interest rates on financial conditions. Because of this, there is concern that current higher valuations (for example in US equities) may be unsustainable without rate relief. We are less concerned about this in credit markets though. Particularly in the local market, we now view spreads as fair after the tightening seen over the last few months. Spreads have largely returned to average levels in Australia, whereas in some non-AUD markets they have tightened noticeably. This has further highlighted the attractiveness of local corporate bonds from both fundamental and valuation perspectives.

Hotter-than-expected inflation data for Australia upended the interest rate outlook. We have been saying all year that underlying economic strength, high immigration, low unemployment, and hard-to-tame services inflation would be a difficult combination around which to ease monetary policy. Thus, the RBA was right to maintain a high degree of flexibility at its last meeting, not ruling out any future course of action. We retain our view that the most likely path for interest rates locally will be no change this year. Looking further into the future, however, the question of when cuts are likely to eventuate is more uncertain given the elongated path inflation is following towards the RBA target range. We still believe in an upcoming easing cycle as opposed to a continuation of the tightening cycle, but we readily concede that this view is more finely balanced now. From the perspective of credit markets this outlook is advantageous: A macro environment that requires higher interest rates for longer means greater medium-term certainty of income.

We have noted in recent months that credit markets seem to be looking through geopolitical tensions and short-term market noise. Despite this, we remain wary of geopolitical risks that are likely to play our 'slowly and then suddenly'. A range of challenges sit outside both the macroeconomic and geopolitical spheres as well, and how all these various considerations interact is likely to move more firmly into market consciousness over the coming months. For example, a growing refinancing wall is one challenge for which elevated interest rates pose a distinct risk. The US election is another event that will be influenced by changing interest rates. Capital may become constrained as this refinancing wave gathers pace, while US election uncertainties may reduce market risk appetite. Thus, we cannot rule out some spread widening as the current economic cycle matures. Ironically, capital is plentiful for issuers right now, and this is another factor that may in itself act as a brake on spread tightening as issuers take advantage of current conditions.

We retain the view that the investment grade segment of the credit market is well placed to navigate near-term challenges, with strong coupon income set to remain the foundation of the return profile for some time to come.

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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Signatory of:

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