Perennial Yield Plus Conservative Trust

Monthly Report May 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception^ (%)
Perennial Yield Plus Conservative Trust (Net)	0.4	1.6	6.3	6.6	1.8
RBA Cash Rate Total Return Index	0.4	1.1	4.0	4.3	2.5
Value Added	**0.0**	**0.5**	**2.3**	**2.3**	**-0.7**

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

Overview

Buy-the-dip played out again in May, with most equity markets recovering from April's losses. US 10-years declined by 18 bps as economic data softened, whilst the VIX declined towards recent lows. The market is increasingly pricing a benign no-landing scenario where inflation is tamed and economic growth and corporate profits remain healthy, despite the risk of lingering inflation.

The Trust gained 0.39% for the month, net of fees, driven by the Core Income strategy. High coupon receipts and some narrowing of credit spreads drove gains. Portfolio positioning and cash levels are reflective of an expectation that momentum in investment grade credit markets can be maintained over the coming months

The Option Strategy dragged 0.2% as markets recovered, following small gains in April. Put Write notional has also been kept low, given the low premiums available.

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, Mark Mitchell
Justin Tyler

Trust FUM
AUD $31.0 million

Distribution Frequency
Quarterly

Minimum Initial Investment
$50,000

Trust Inception Date
June 2021

Fees
0.6% p.a.

APIR Code
WPC3204AU

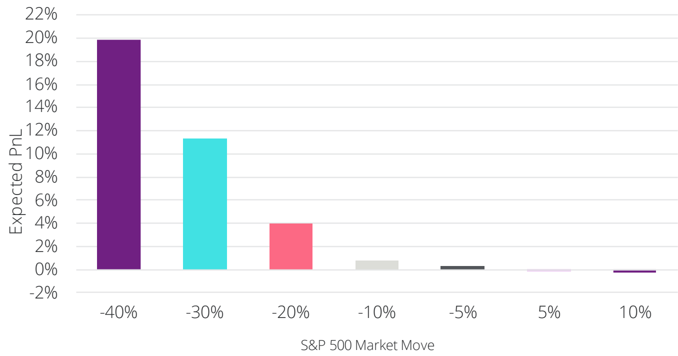
Expense Recovery
Capped at 0.1% p.a.

Portfolio Characteristics	
Modified Duration (Yrs)	0.28
Spread Duration (Yrs)	2.54
Portfolio Yield (%)	6.80
Average Credit Quality	A-

Source: Perennial Value Management. As at 31 May 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

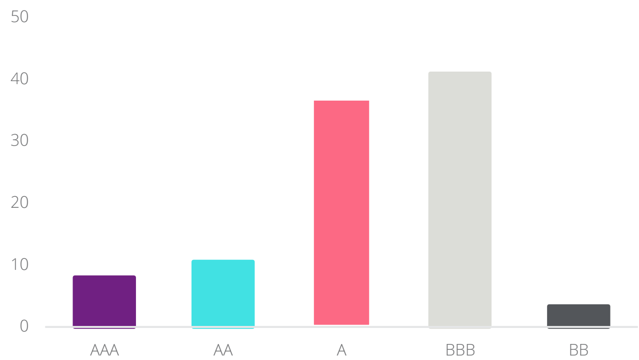


The chart provides the total expected portfolio PnL given a high velocity move in the S&P500.

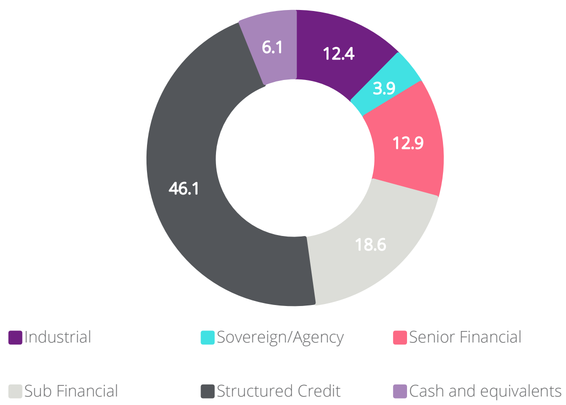
Source: Perennial Value Management. As at 31 May 2024.

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 had another month of strong returns, where the primary performance driver was coupon income, while credit spreads also contributed positively. Overlay positions were neutral for the month.

The overall tone in credit remains constructive, supported by a solid technical picture. Demand for investment grade bonds has been strong all year, and new issuance markets have capitalised with good volumes at reasonable prices.

After showing small gains in April, the Option Strategy gave back two months worth of decay in May, as markets recovered. The larger part of this drag came from the Shoulder sleeve, which had also driven gains in the prior month. The Put Write sleeve offered a small offset, though notional exposure has been kept low. As a result of this overall expected Option Strategy profit in a market drawdown remains high.

Implied volatility and option premiums finished the month at recent, and historical, lows. Whilst this backdrop isn't supportive of the Put Write, if we see a continuation of this theme next month it will support the Protection rolls taking place then.

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.

Two Put Write tranches were unwound profitably during May, with re-initiation taking place later in the month on days when equity markets were softer. Given the prevailing backdrop of low option premiums, we are taking a tactical approach to deploying the Put Write, and doing so on smaller notional than normal.

Outlook

Economic data generally disappointed in May, reviving hopes that the US easing cycle will begin this year. Conditions necessary to allow cuts to start are taking longer to eventuate, but last month it became evident that negative surprises were being treated as positive from the perspective of future interest rate levels. However, because of generally high valuations across risk assets, we remain of the view that markets may have already priced much of the purported easing cycle, leaving investors vulnerable to a "sell the fact" scenario once rates begin to moderate. We are less concerned about credit markets, however, where we view spreads as tight but fair.

Geopolitical uncertainty remains an unpredictable wildcard. But even here, several factors have snubbed the accepted wisdom about how these events might impact markets. For example, oil prices were weak again in May despite the lingering threat of supply issues and aggression from Ukraine attacking Russian terrestrial energy infrastructure. Competing regional blocs are finding less and less common ground, coinciding with a deterioration in trust among nations, especially those subject to Western sanctions. These restrictions of access to global financial networks are drawing the excluded few closer together as they seek to circumvent these roadblocks with their own networks. Rising trade disputes represent another frontier of challenge in the geopolitical sphere with implications for economic activity.

Indian elections were held in May, with the scope (encompassing more than 800m people) and duration (run over four weeks) creating some localised financial volatility. Results suggest Prime Minister Modi will win a third term despite a weaker than expected showing for his party. Meanwhile, an early election has been called in the UK, where the main issues of debate are immigration, the UK's relationship with the EU and the performance of the ruling Conservative Party which is polling poorly. When it comes to elections this year, all roads still lead to the United States in November, where the Republican candidate is now a convicted felon. And there are still five months until polling day!

The Australian Federal Budget was handed down, headlined by a second surplus in as many years, while promising relief for households without adding to the inflationary impulse. Reactions were mixed, but absent from the document was any meaningful reform, save for a prior announced redistribution of tax cuts. We view these as being neither inflationary or disinflationary in the short term, and the Budget overall doing little to tame underlying cost-of-living pressures.

We have noted in recent months that credit markets seem to be looking through the 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 in itself provide a brake on spread tightening as issuers take advantage of the conditions. We retain 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