

# PERPETUAL CREDIT INCOME TRUST

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17 March 2020

Perpetual 

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# PORTFOLIO MANAGERS



**MICHAEL KORBER**  
Head of Credit & Fixed Income

Portfolio Manager:  
Perpetual Credit Income Trust  
Perpetual Pure Credit Alpha

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37 years experience, 14 years at Perpetual



**ANNE MOAL**  
Senior High Yield Analyst

Portfolio Manager:  
Perpetual Loan Fund

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23 years experience, 5 years at Perpetual

# AGENDA

| Portfolio Manager Update

| Key Performance Data

| Questions

# PERPETUAL CREDIT INCOME TRUST (ASX: PCI)

## Investment Objective

- To provide investors with **monthly income** by investing in a diversified pool of credit and fixed income assets.

## Target Return

- Total return of RBA Cash Rate plus 3.25%** per annum (net of fees) through the economic cycle<sup>1</sup>.

## Investment guidelines

- 50 to 100 assets

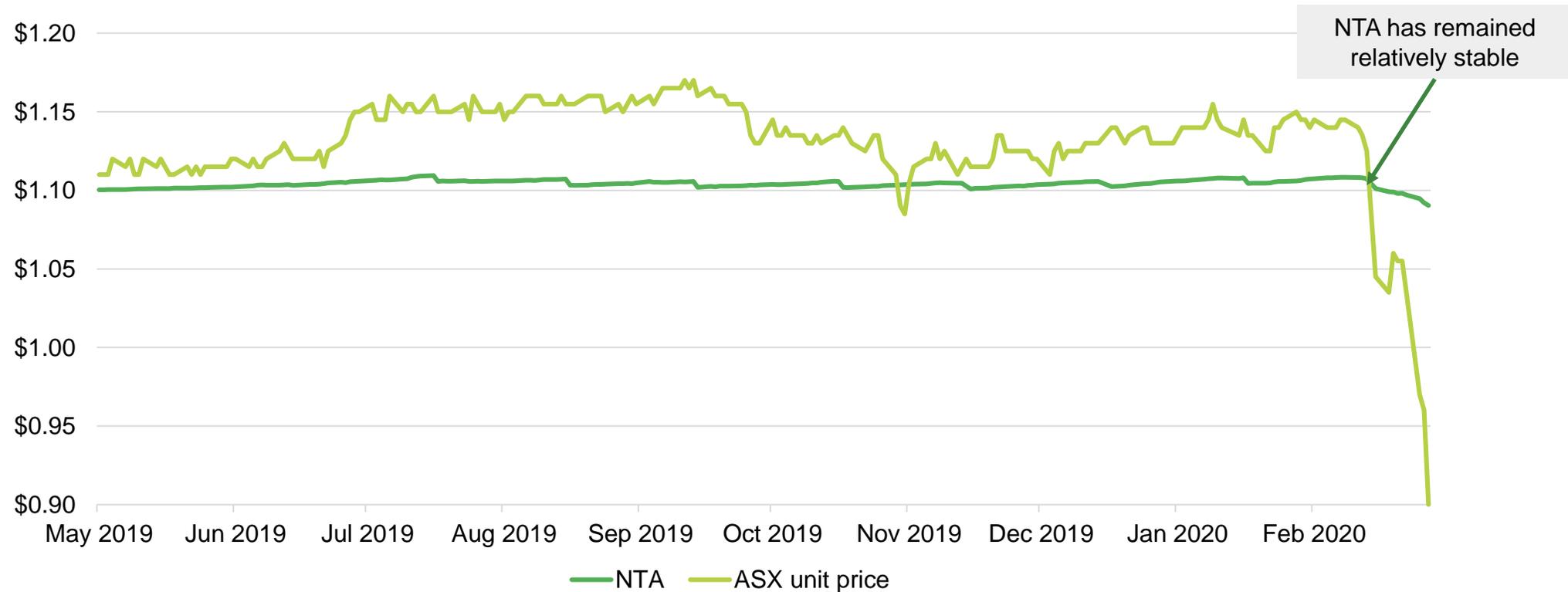
|            |  |
|------------|--|
| 30% - 100% | Investment grade assets<br>Maximum issuer limit 15%                |
| 0% - 70%   | Unrated or sub-investment grade assets<br>Maximum issuer limit 10% |
| 70% - 100% | Assets denominated in AUD  |
| 0% - 30%   | Assets denominated in foreign currencies <sup>2</sup>              |
| 0% - 70%   | Perpetual Loan Fund  |

<sup>1</sup> This is a target only and may not be achieved.

<sup>2</sup> Foreign currencies are typically hedged back to the Australia dollar. As at 13 March 2020, foreign currency exposures were hedged to Australian dollar floating rate.

# ELEVATED MARKET VOLATILITY DUE TO UNCERTAINTY OF CORONAVIRUS (COVID-19)

PRIOR TO 29 FEBRUARY 2020, PCI WAS TRADING AT AN AVERAGE PREMIUM TO NET TANGIBLE ASSETS (NTA) OF 2.83% SINCE LISTING



The maintenance of a relatively stable NTA reflects that the credit and fixed income assets held in PCI have shown limited decline in their underlying valuation.

# POTENTIAL RISKS OF COVID-19 ON THE PORTFOLIO

## Potential risks

### Market and economic risks:

- Supply chain issues as people are not able to perform their usual activities in some countries and goods are neither manufactured nor distributed as usual.
- Demand concern as social isolation is expanding
- Industry specific shocks to education, tourism and energy sectors.

### Liquidity risk

- Risk that PCI will be unable to sell out of its investments at full market value

### Credit risk

- Credit spreads continue to widen

## Portfolio management and position as at 13 March 2020

- Diversified portfolio of credit and fixed income securities across issuers, sectors, asset types.
- Invest in securities from companies with strong balance sheets.
- Investing in the higher parts of the capital structure where value is better retained than at the bottom of the capital structure
- Typically, the maximum allocation to an issuer is ~2%
- Portfolio has less than 5% exposure to education, tourism and energy sectors
- Closed end structure of a Listed Investment Trust (i.e. no applications and redemptions) means the Manager is not a forced seller
- Portfolio weighted average life is ~4.5 years, which is short and less sensitive to credit spread movements than longer dated securities
- Portfolio is well diversified across different type of credit securities, sectors and corporates
- Detailed fundamental credit analysis undertaken for each security held

# POTENTIAL RISKS OF COVID-19 ON THE PORTFOLIO

## Potential Risks

### Interest rate risk

- In March, RBA cut rates to 0.50% continuing the “lower for longer” interest rate environment
- On 16 March 2020, US Federal Reserve cut rates to near zero
- Longer-term assets are generally more impacted by interest rate risk than short-term assets. The further the duration is from zero, the higher the sensitivity to a change in interest rates

### Distribution risk

- The Trust’s ability to pay a distribution is contingent on the income it receives from its investments
- Concern on future earnings may impact distributions
- If interest rates go down, payment of distributable income may also decrease

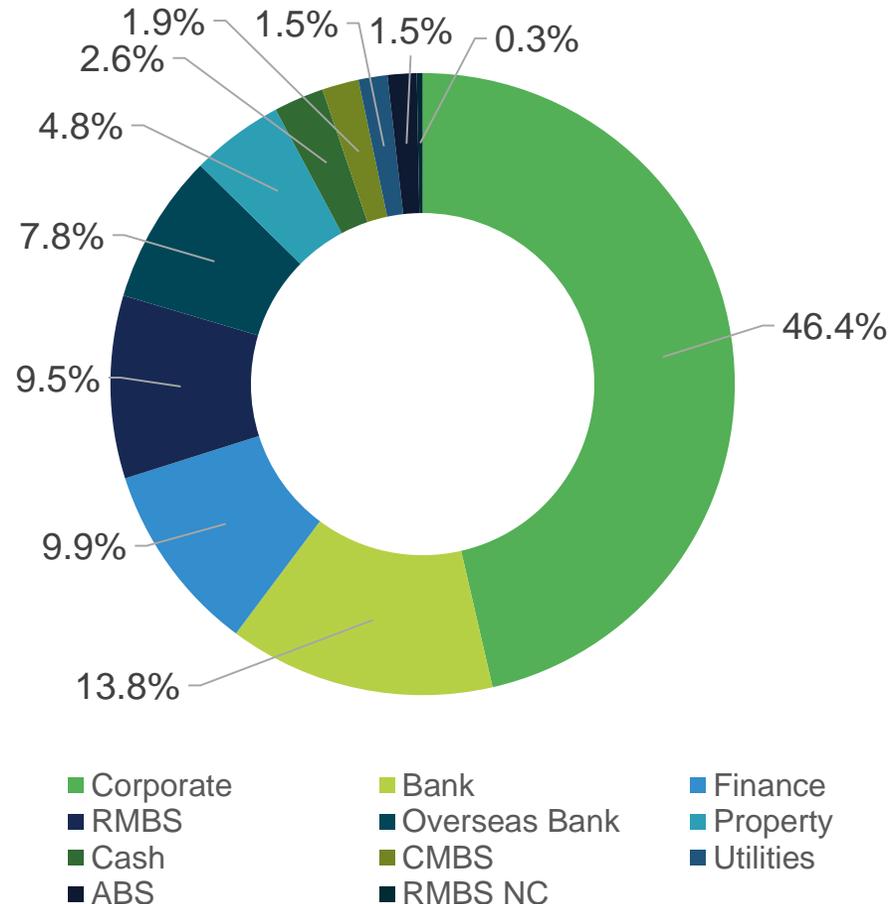
## Portfolio management and position as at 13 March 2020

- Aim to build a portfolio in which overall interest rate exposure is floating and duration is relatively short.
- Portfolio has average life of ~4.5 years, interest rate duration of ~19 days and includes floating rate assets.
- Interest payment on a floating rate asset will typically move up or down as market interest rates move up or down.
- Focus on investing in companies who have a good balance sheet, predictable cash flow and quality and capable management
- Continuing to collect a running yield on the portfolio

The Manager is comfortable that the diversified portfolio of credit and fixed income assets will be resilient through the current market conditions caused by the uncertainty surrounding COVID-19.

# PORTFOLIO REMAINS CONSERVATIVELY POSITIONED

## SECTOR ALLOCATION



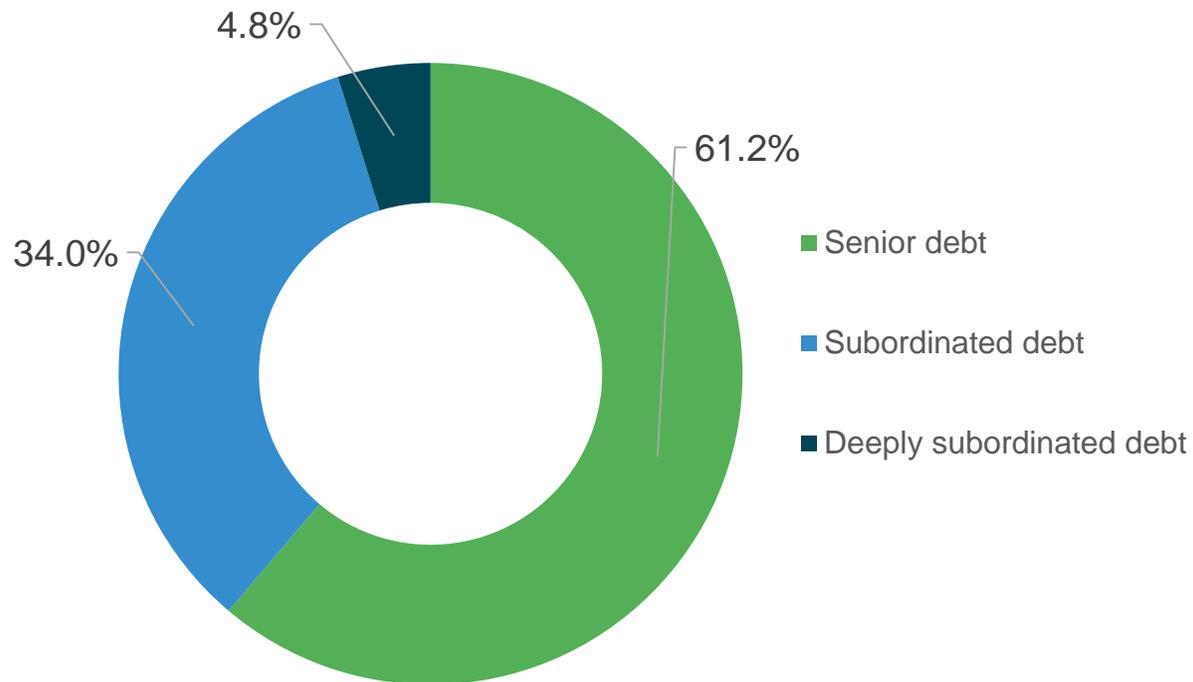
## Portfolio position as at 13 March 2020

- Portfolio includes 86 holdings across 64 issuers
- Issuance by corporations including:
  - Investment grade and sub-investment grade / unrated corporate bonds and floating rate notes e.g. Aurizon, Bluescope, Coles, Downer, Next DC, Zenith Pacific
  - Private debt and senior secured loans e.g. MYOB, Leap / Infotrack
- Issuance by Australian banks (no ASX listed hybrid securities)
- Issuance by financial corporations and global banks such as IAG, Suncorp, Barclays
- ABS, CMBS and RMBS derived from real assets – motor vehicles, commercial real estate and residential property

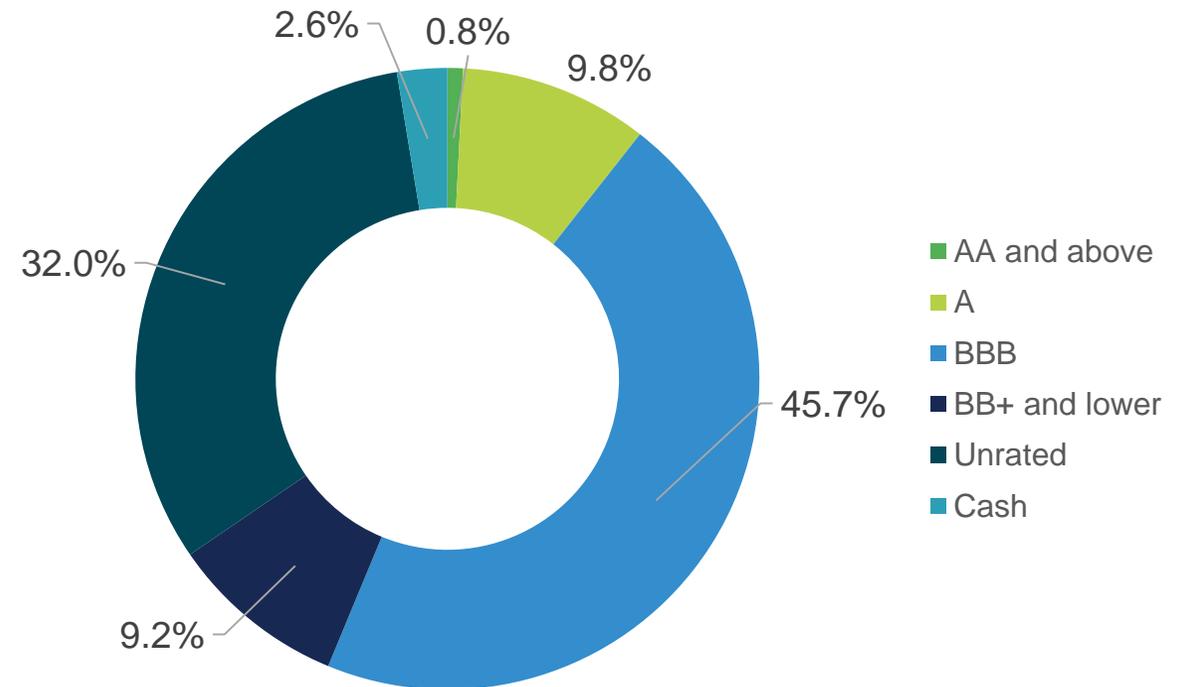
# PORTFOLIO REMAINS CONSERVATIVELY POSITIONED

## AS AT 29 FEBRUARY 2020

### SENIORITY BREAKDOWN



### RATINGS BREAKDOWN

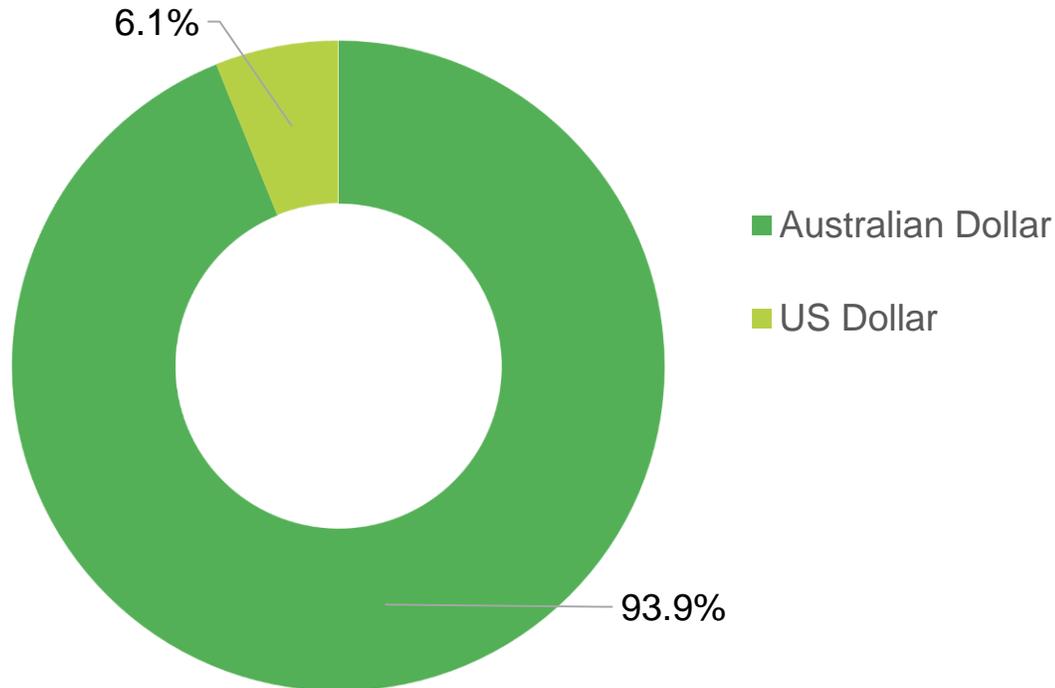


As at 13 March 2020, 58.8% of the portfolio was in investment grade securities (BBB and above).

# MOST OF THE PORTFOLIO IS AUSTRALIAN DOMICILED

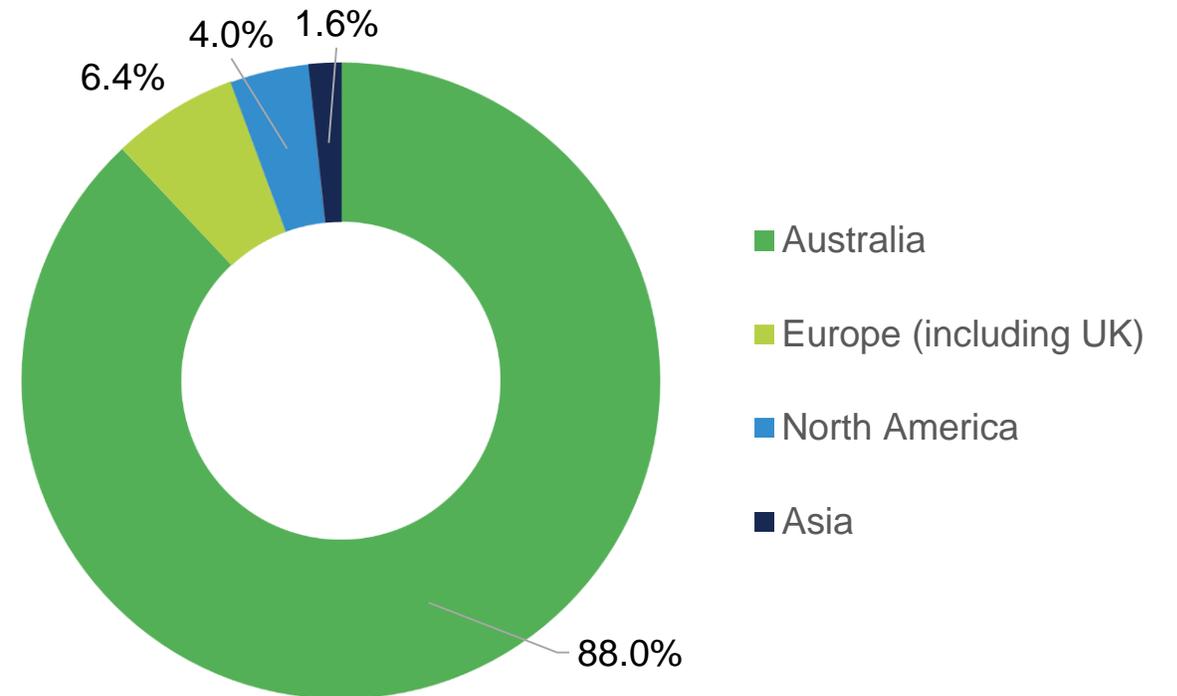
AS AT 29 FEBRUARY 2020

## CURRENCY BREAKDOWN



Non-Australian dollar exposures are hedged to the Australian dollar.

## GEOGRAPHIC BREAKDOWN



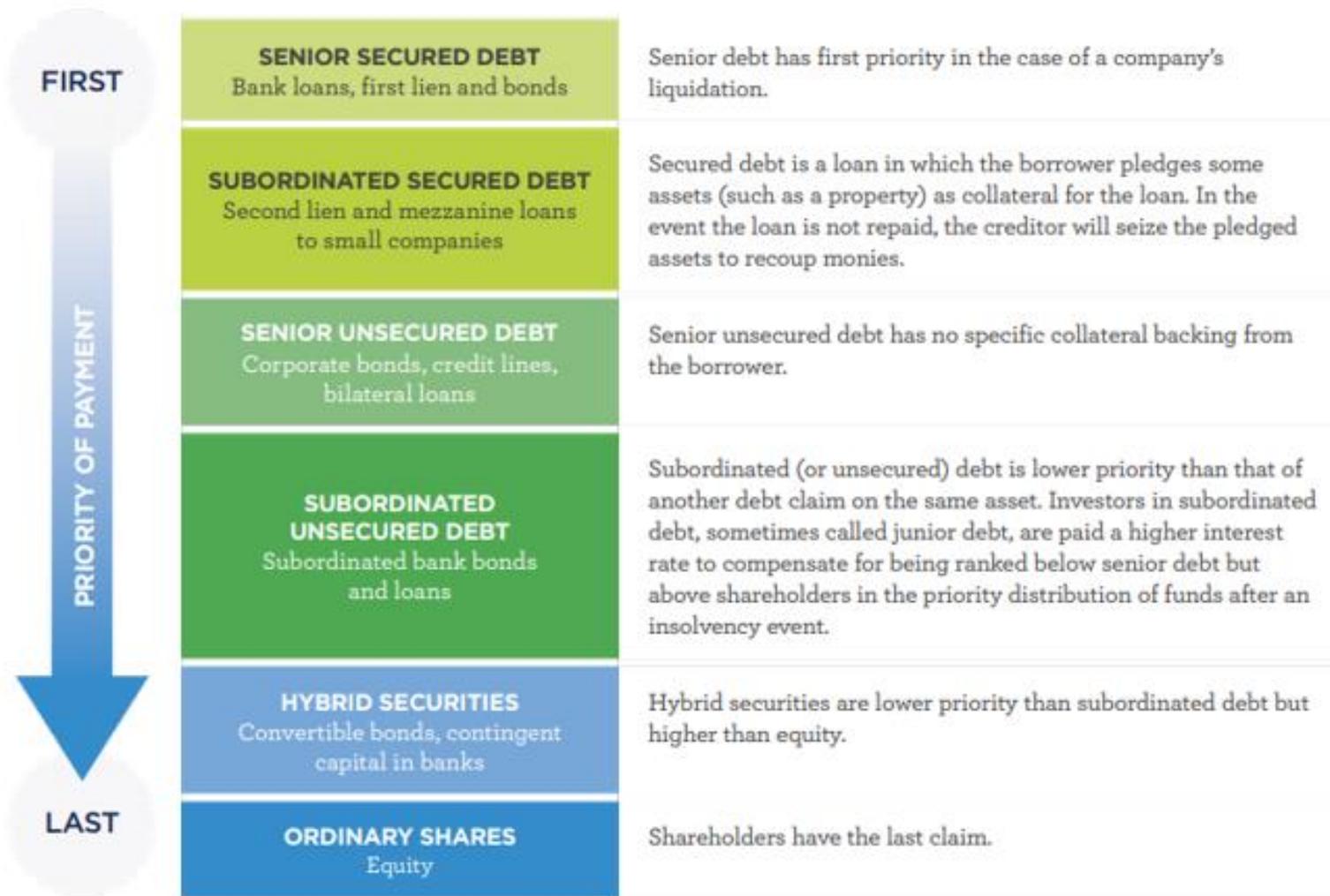
As at 13 March 2020, 87.4% of the portfolio was domiciled in Australia, 8.1% in Europe, 2.9% in North America and 1.6% in Asia.

# DYNAMIC INVESTMENT STRATEGY AND A BROAD MANDATE

## DIVERSIFICATION ACROSS ASSET TYPE, CREDIT QUALITY, MATURITIES, COUNTRIES AND ISSUERS

| Corporate bonds and floating rate notes   |  | Issued by banks  | Issued by financial corporations   | Issued by property trusts and infrastructure groups  |
|---|--|--|--|--|
| Non-investment grade  | Investment grade   |  |  |  |
| <br><b>N E X T D C</b><br><br><br>I-MED Radiology Network<br><small>Comprehensive care. Uncompromising quality.</small> | <br><b>BLUESCOPE</b><br><br><b>Downer</b><br><small>Relationships creating success</small><br><br><b>coles</b><br><br><b>AURIZON.</b> | <br><b>nab</b><br><br><b>BOQ</b><br><br><b>Westpac</b><br><br><b>Bendigo and Adelaide Bank</b> | <br><b>iag</b><br><br><b>SUNCORP</b><br><br><b>BARCLAYS</b> | <br><b>GPT</b><br><br><b>VICINITY CENTRES</b><br><br><b>Dampier Bunbury Pipeline</b> |

# TYPICAL CAPITAL STRUCTURE OF A COMPANY



Focus on assets that provide:

- High coupons
- Capital stability

Over 60% of the portfolio is held in senior debt as at 13 March 2020.

PCI has a diversified allocation to loans and bonds with high quality borrowers spread across sectors

# KEY PERFORMANCE DATA

## AS AT 29 FEBRUARY 2020

### DISTRIBUTIONS CPU

| AS AT 29<br>FEBRUARY<br>2020 | JUL  | AUG  | SEP  | OCT  | NOV  | DEC  | JAN  | FEB  | MAR | APR | MAY | JUN  | FYTD |
|------------------------------|------|------|------|------|------|------|------|------|-----|-----|-----|------|------|
| FY2019                       | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | 0.09 | 0.09 |
| FY2020                       | 0.40 | 0.40 | 0.39 | 0.37 | 0.36 | 0.37 | 0.37 | 0.35 | -   | -   | -   | -    | 3.02 |

Distributions are stated as cents per unit and have been rounded to two decimal places. Detailed distribution announcements are available on the PCI website and are stated in Australian dollars rather than cents per unit.

### INVESTMENT PERFORMANCE

| AS AT 29 FEBRUARY 2020  | 1 MTH | 3 MTHS | 6 MTHS | 1 YR P.A. | 3 YRS P.A. | 5 YRS P.A. | SINCE INCEP |
|---|-------|--------|--------|-----------|------------|------------|-------------|
| PCI Investment portfolio<br>Returns net of operating expenses | 0.0%  | 1.0%   | 1.8%   | -         | -          | -          | 3.0%        |
| RBA Cash Rate   | 0.1%  | 0.2%   | 0.4%   | -         | -          | -          | 0.8%        |
| Excess returns  | 0.0%  | 0.8%   | 1.4%   | -         | -          | -          | 2.2%        |
| Distribution return   | 0.3%  | 1.0%   | 2.0%   | -         | -          | -          | 2.9%        |

Investment returns, net of management costs have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management costs) and assuming reinvestment of distributions on the ex-date. Distribution return has been calculated based on the PCI investment portfolio return less the growth of NTA. Past performance is not indicative of future performance. Since inception return is from allotment on 8 May 2019. Investment return and index return may not sum to excess return due to rounding. A full month of performance is not available for May 2019 as the Trust launched mid-month.

- Excess returns over the RBA Cash rate since inception
- Designed to provide monthly income to investors
- Distributions in line with the Trust's target return<sup>1</sup> objective of the RBA Cash Rate plus 3.25% p.a. (net of fees) through the economic cycle.
- Annualised financial year to date distribution rate is 4.16%.<sup>2</sup>

<sup>1</sup> This is a target only and may not be achieved

<sup>2</sup> Based on NTA per unit as at 30 June 2019. Past performance is not indicative of future performance

# KEY PERFORMANCE DATA

## AS AT 29 FEBRUARY 2020

### TOTAL UNITHOLDER RETURN

| AS AT 29 FEBRUARY 2020  | 1 MTH | 3 MTHS | 6 MTHS | 1 YR P.A. | 3 YRS P.A. | 5 YRS P.A. | SINCE INCEP |
|-------------------------|-------|--------|--------|-----------|------------|------------|-------------|
| Total unitholder return | -7.6% | -5.4%  | -7.7%  | -         | -          | -          | -2.4%       |
| RBA Cash Rate           | 0.1%  | 0.2%   | 0.4%   | -         | -          | -          | 0.7%        |
| Excess returns          | -7.7% | -5.5%  | -8.1%  | -         | -          | -          | -3.1%       |
| Distribution return     | 0.3%  | 0.9%   | 1.8%   | -         | -          | -          | 2.6%        |

Total unitholder return - ASX unit price performance with reinvestment of distributions has been calculated on the growth of the ASX unit price and assumes reinvestment of distributions on the ex-date. Distribution return has been calculated based on the total unitholder return less the growth in the ASX unit price over the period. Past performance is not indicative of future performance. Since inception return is from listing on 14 May 2019, initial price used is the subscription price of \$1.10. Unitholder return and index return may not sum to excess return due to rounding.

Total unitholder return reflects the movement in the unit price on the ASX and assumes reinvestment of distributions. The total unitholder return has fallen due to market volatility.

# CONTINUING TO KEEP INVESTORS INFORMED

## AVAILABLE ON THE COMPANY WEBSITE



Investments  
**MONTHLY INVESTMENT UPDATE JANUARY 2020**  
by Perpetual Investments | 20/02/2020  
The Perpetual Credit Income Trust (ASX:PCI) returned 0.5% in January providing excess returns of 0.5% above the RBA cash rate return of 0.1%.



**THE RELEVANCE OF FIXED INCOME**  
by Perpetual Investments | 27/10/2019  
In this short video Adam Curtis, Perpetual Investments discusses the relevance of Fixed Income as part of a well-diversified portfolio and the important role it can play for investors seeking a degree of predictability in a climate of some uncertainty.



Investments  
**GOOD RETURNS WITHOUT THE VOLATILITY**  
by Perpetual Investments | 16/05/2019  
In this short video, Senior High Yield Analyst, Anne Moal, talks to Livewire about (ASX:PCI) telling investors "if you're looking for good fixed-income investment, credit is a great place to go because you have diversity."



Investments  
**PERPETUAL CREDIT INCOME TRUST COMMENCES TRADING ON THE ASX**  
by Perpetual Investments | 14/05/2019  
The Perpetual Credit Income Trust reached an important milestone, officially commencing trading on the Australian Securities Exchange under the ticker code PCI.



Investments  
**EXPAND YOUR FIXED INCOME UNIVERSE**  
by Perpetual Investments | 10/05/2019  
Michael Korber, Head of Credit and Fixed Income, features in a short interview on Livewire, explaining why having an investment style that seeks opportunities within the broadest possible universe, provides diversification while at the same time helps to manage risk during any point in a market cycle.



Perpetual Income Investments  
**A NEW WAY FOR YOU TO MEET YOUR INCOME NEEDS**  
by Perpetual Investments | 27/03/2019  
Perpetual Investments' Michael Korber says Australians are underinvested in fixed income assets when it comes to the defensive part of their portfolios. Here he talks about the new Perpetual Credit Income Trust - a new way to access credit and fixed income assets



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