

ASX:PCI

PERPETUAL CREDIT INCOME TRUST

Investment insights webinar

The end of the four decade bond bull market – and where to invest now that interest rates are rising

19 May 2022

Perpetual 

IMPORTANT NOTE

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PRESENTERS



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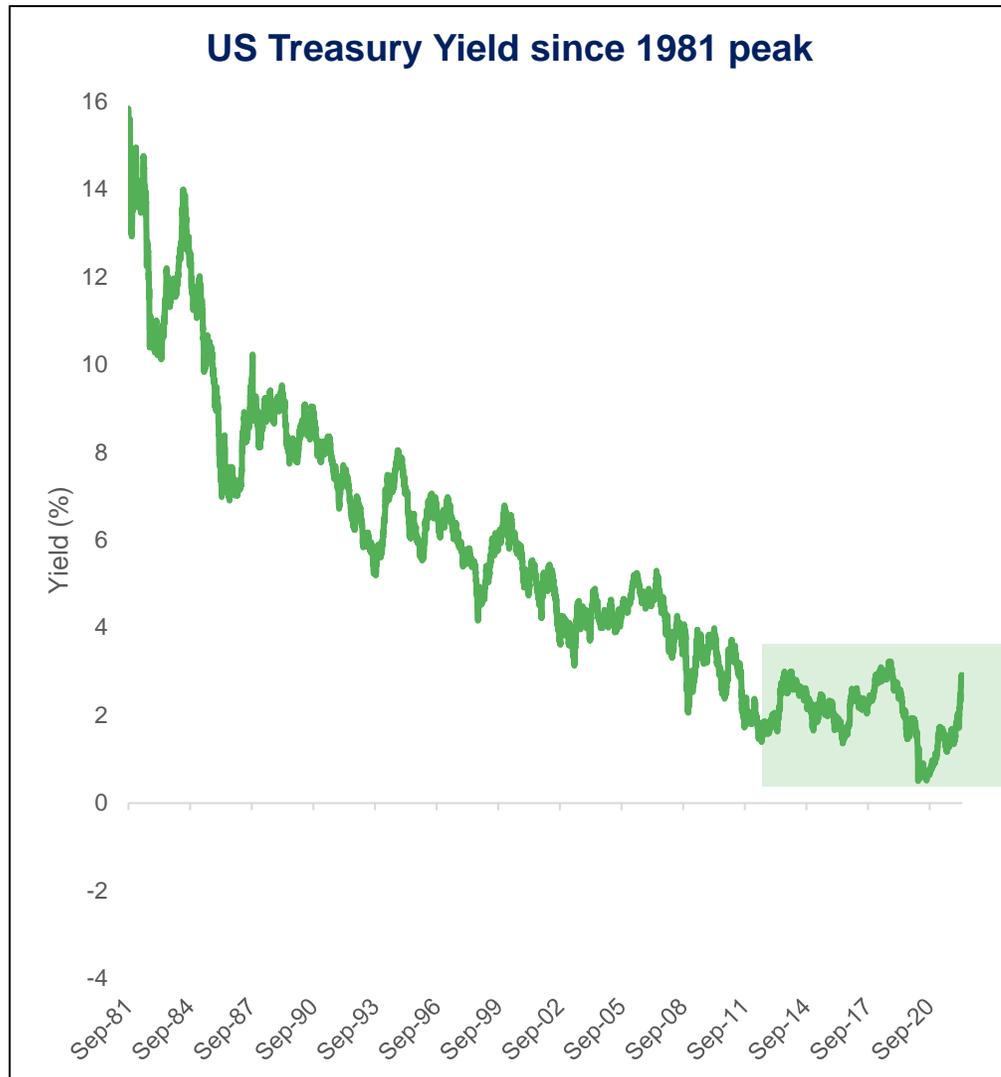
Managing Director, Credit and
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High Yield Analyst

THE FOUR DECADE BOND BULL MARKET ENDING?



- Our thoughts on the market:
 - Inflation has really taken a grip of markets through the pandemic
 - Whilst some is transitory we are cognisant of some structurally higher inflation due to de-carbonisation, de-globalisation, geopolitical risk and ageing populations
 - Central banks are raising interest rates and this is positive for the reference rates that floating rate credit re-sets to
 - Credit spreads have also been widening and this provides more attractive investment opportunities and potential returns from credit assets.

WHAT WE ARE SEEING IN THE MARKET

Our outlook on credit markets is slightly negative:

- Key headwinds for markets – slowing economic growth, elevated inflation and accelerating monetary tightening
- With much uncertainty ahead, investors hold elevated levels of cash while price makers remain selective in adding to their trading books of inventories.
- Recent supply into the market and new deals in the pipeline have put pressure on fragile demand conditions

Security / indices	Yield (%)*
Australia Benchmark Bond - 10 Year	3.54
Bloomberg AusBond Composite (0+Y)	3.39
RBA Target Cash Rate	0.35

* Source: Factset. As at 4 May 2022

HOW WE ARE POSITIONED IN THIS ENVIRONMENT

Rising inflation and potential for further interest rate increases

- We believe floating rate exposures can provide better protection against inflation than fixed rate assets.
- PCI is likely to benefit from rising interest rates as the interest payment received from underlying assets will increase

Property and financial sectors are more sensitive to monetary policy changes

- We are heavily weighted towards and specialise in investing in Australian corporate credit across various sectors such as resources, consumer discretionary, utilities, software and services, healthcare and transportation.
- We adjust allocations to different credit sectors as there may be differing levels of support or momentum among financial, securitised and corporate spreads.

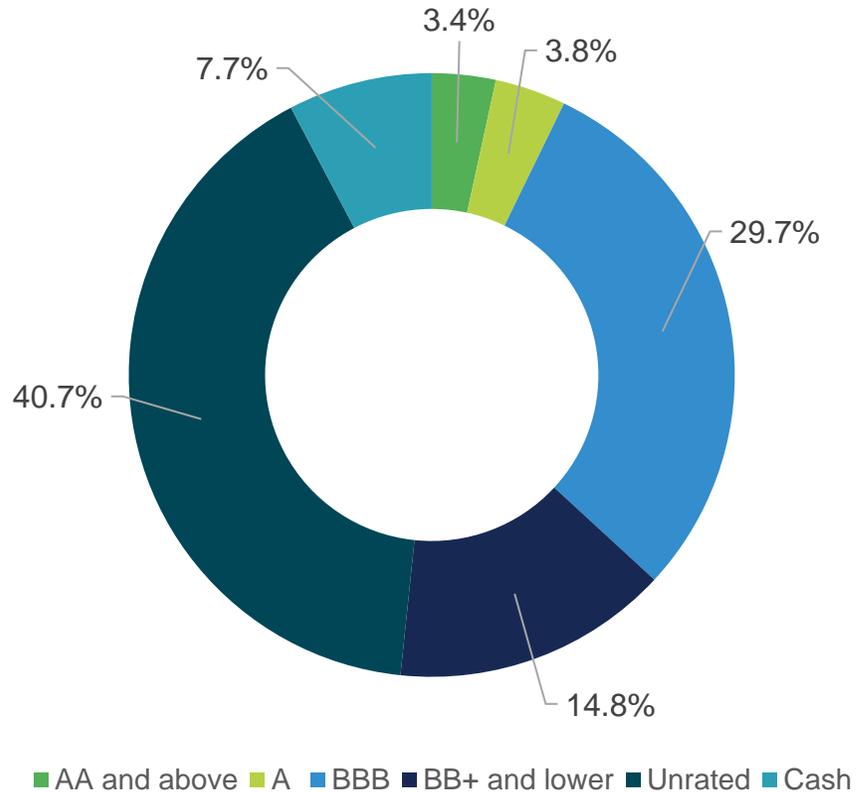
Credit spreads may continue to widen amidst volatility and negative outlook on markets

- Portfolio weighted average life is 3.0 years - PCI maintains short duration which means it is less sensitive to credit spread movements.
- PCI's income return is offsetting widening credit and swap spreads
- We aim to identify issuers that are quality companies with strong balance sheets, recurring earnings and cash flows that meet their debt requirements
- Actively managed and diversification with 118 assets across 92 issuers in the portfolio
- We are well positioned to capitalise on potential buying opportunities as a result of credit spread widening.

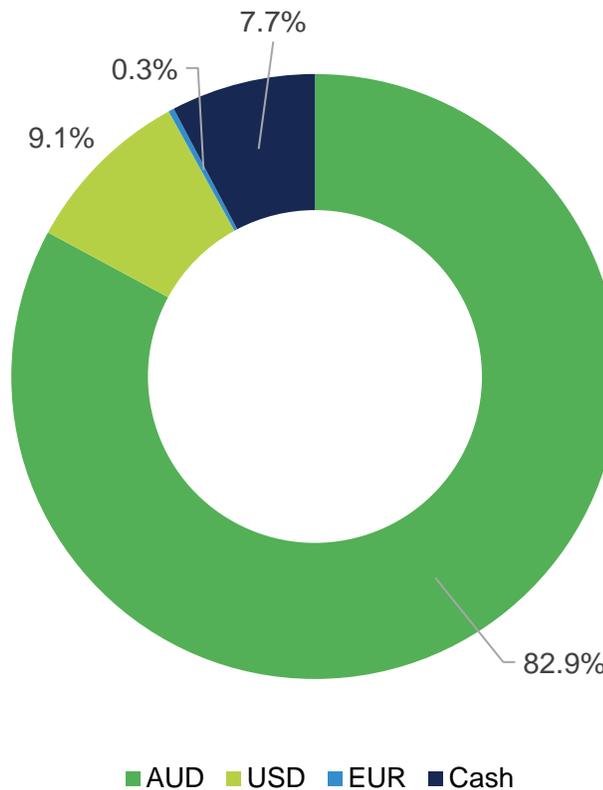
PORTFOLIO COMPOSITION

AS AT 30 APRIL 2022

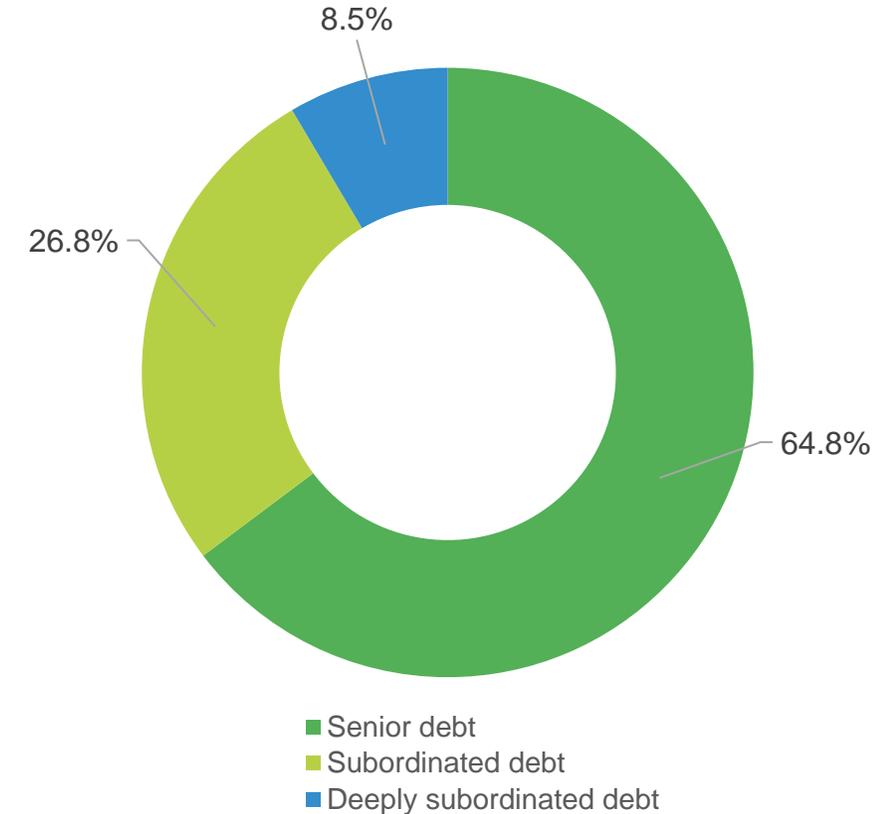
Breakdown by credit rating



Breakdown by currency



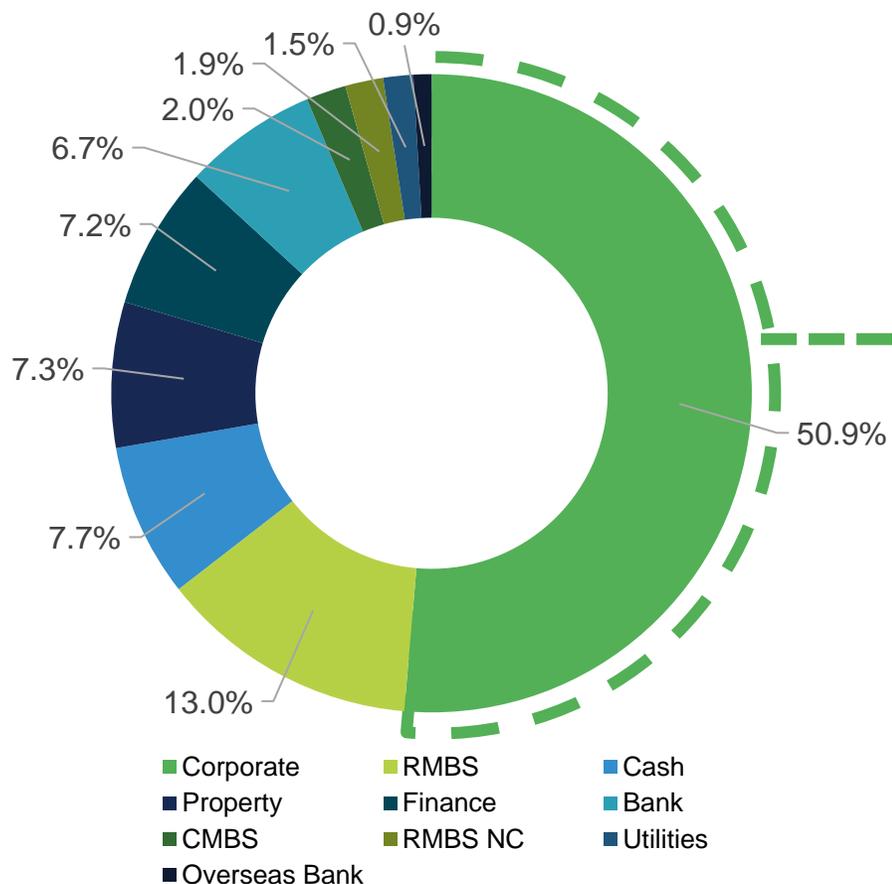
Breakdown by seniority



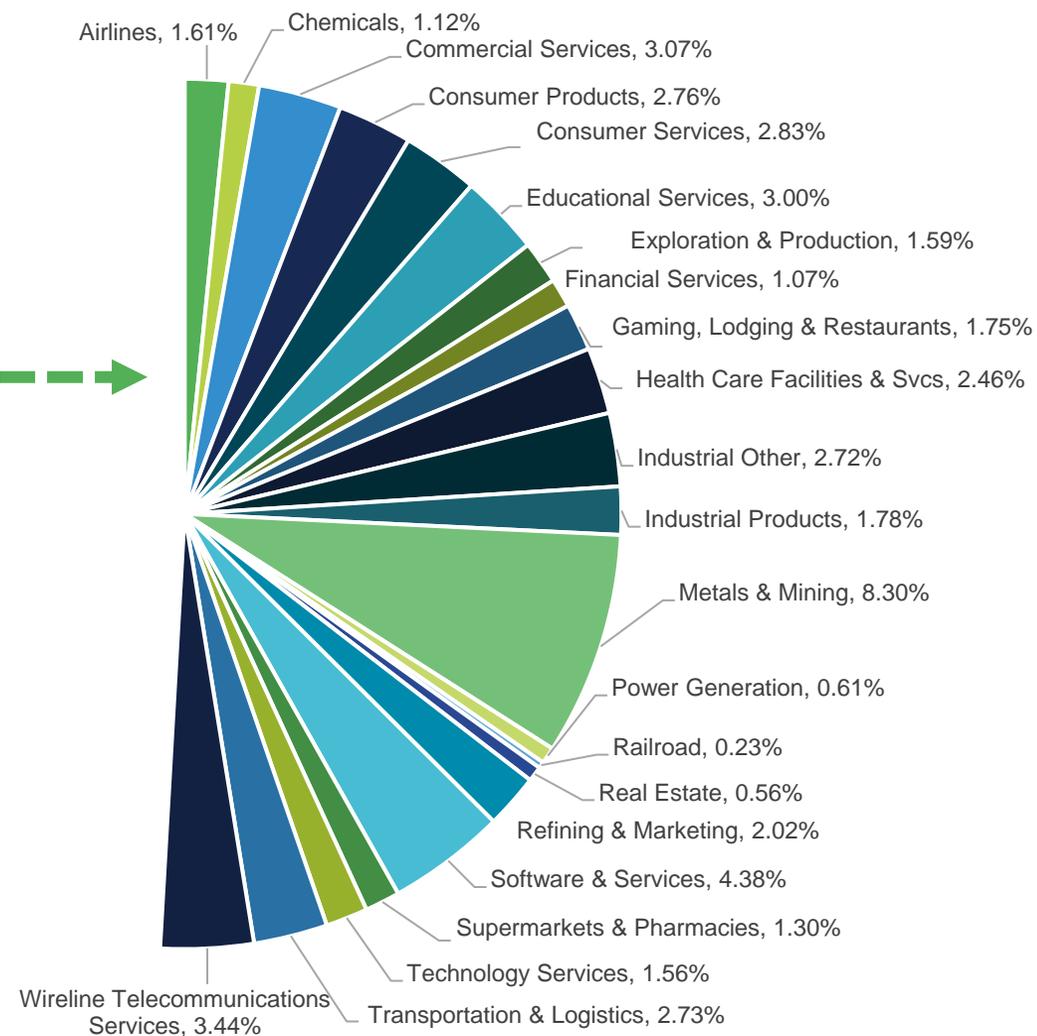
PORTFOLIO COMPOSITION

AS AT 30 APRIL 2022

Sector allocation



Breakdown by corporate sector



CASE STUDY – SCF GROUP

HIGH YIELD DEBT EXAMPLE

- **SCF Group** engages in the handling of containers through a network of depots across Australia. Revenue is primarily generated on a contracted lease basis and their fleet of containers are designed specifically for the required application of the end user.
- **Loan features:** unrated, senior secured, floating rate with a 3 year term.
- What we liked:
 - **Positive industry outlook** with exposure to broad range of end markets.
 - **Sound competitive position** with significant market share and differentiated offering as premium provider.
 - **Revenue visibility** with majority of revenue underpinned by term contracts and extensions.
 - **Diversified customer base** of primarily blue chip customers with longstanding relationships.
 - **Strong cashflow generation** sees sound debt service coverage.
 - **Documentation** was more lender friendly compared to US Term Loan B style deals we were seeing at the time.



PERPETUAL CREDIT INCOME TRUST (ASX: PCI)

DISTRIBUTION

Annual distribution return was 3.7% which is above PCI's target return of RBA Cash Rate + 3.25% (net of fees) through the economic cycle[^].

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FYTD
FY2020	0.40	0.40	0.39	0.37	0.36	0.37	0.37	0.35	0.33	0.30	0.31	0.30	4.26
FY2021	0.32	0.32	0.30	0.31	0.28	0.30	0.30	0.27	0.30	0.29	0.33	0.32	3.63
FY2022	0.32	0.32	0.31	0.32	0.31	0.35	0.35	0.36	0.41	0.39	-	-	3.43

INVESTMENT PERFORMANCE

AS AT 30 APRIL 2022	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEP P.A.
PCI Investment Portfolio* Returns net of operating expenses	0.1%	0.2%	0.6%	2.4%	-	-	3.4%
RBA Cash Rate	0.0%	0.0%	0.0%	0.0%	-	-	0.4%
Excess Returns	0.1%	0.1%	0.5%	2.4%	-	-	3.1%
Distribution Return	0.4%	1.1%	2.0%	3.7%	-	-	3.5%

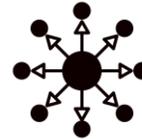
* Investment returns, net of management costs have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management costs) and assuming reinvestment of distributions on the ex-date. Distribution return has been calculated based on the PCI 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.

THE INVESTMENT OPPORTUNITY WITH PERPETUAL CREDIT INCOME TRUST (ASX: PCI)



MONTHLY INCOME

PCI targets a total return of RBA Cash Rate plus 3.25% (net of fees) through the economic cycle¹. It intends to pay distributions monthly.



DIVERSIFICATION

Typically 50 – 100 assets in the portfolio across the broad spectrum of credit and fixed income assets.



SPECIALISTS IN AUSTRALIAN CORPORATE CREDIT

We focus on Australian issuers given our local presence, ability to meet borrowers and manage credit risk for the portfolio.



DEFENSIVE CHARACTERISTICS

Credit and fixed income assets are defensive as they provide a combination of capital stability, liquidity and regular income.



FLOATING RATE EXPOSURE

We seek to minimise interest rate risk by investing in floating rate notes. Investments in fixed rate corporate bonds will typically be hedged to a floating rate.²



LIQUIDITY

PCI is listed on the ASX which provides investors with liquidity and transparency

¹ This is a target only and may not be achieved.

² "Floating rate" means that interest rates of the assets re-set in line with rising or falling market interest rates.

Q & A

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