Perpetual Private

PERPETUAL INCOME OPPORTUNITIES FUND

Fund Update – 30 September 2024

FUND FACTS

Benchmark:	Bloomberg Ausbond Bank Bill Index +2% p.a.^
Inception Date[1]:	March 2008
Size of Fund:	$240 million
APIR:	PER0436AU
Management Fee*:	0.5% as at 30 June 2023
Buy/Sell spread:	0.00% / 0.00% as at 15 March 2023
Liquidity:	Quarterly withdrawals subject to restrictions, refer to PDS
Distribution Frequency:	Quarterly
Risk Level[2]:	5 – Medium to High

**Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.*

INVESTMENT OBJECTIVE

To provide consistent income through investment in a diversified portfolio of corporate strategies, asset backed strategies and other investments consistent with the fund's investment approach.

To outperform the Bloomberg Ausbond Bank Bill Index over rolling three-year periods by 2% per annum.

STRATEGY

Build a diversified portfolio that includes specialist credit and absolute return investments.

Subject our investment opportunities to detailed research, screening them for expected return, risk, downside protection properties and portfolio fit.

Select the highest ranked investment managers that have passed our Quality Filters.

MARKET OPPORTUNITY

Both Australian and global banks are currently under pressure to reduce their loan books. This is driving the opportunity for the Perpetual Income Opportunities Fund to invest in strategies that conduct institutional grade direct lending to high quality companies and real estate assets that require capital.

A common trait of the lending opportunity is that lending is senior in the capital structure and secured against assets. We have identified and built material investments in three key credit sectors, specifically infrastructure debt, senior bank loans and commercial mortgages.

NET PERFORMANCE

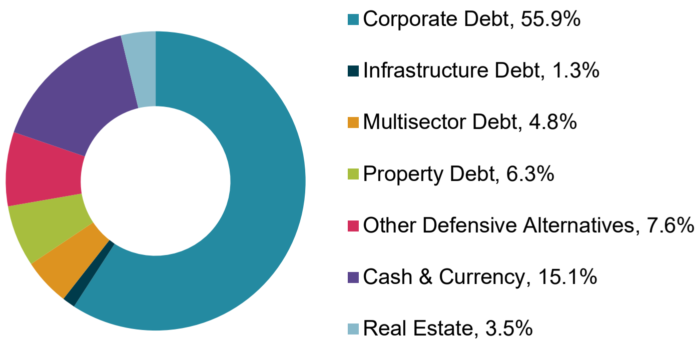
As at September 2024

NET RETURNS[3]	1M%	3M%	1Y%	3Y% (p.a.)	5Y% (p.a.)	INCEPTION % (p.a.)
Total return	0.1%	1.3%	4.4%	5.0%	4.2%	4.4%
Growth return	-1.3%	-0.2%	-0.9%	-1.0%	-0.1%	-0.1%
Distribution return	1.5%	1.5%	5.3%	6.0%	4.3%	4.5%
Benchmark	0.5%	1.6%	6.5%	4.3%	3.1%	3.9%
Excess Returns	-0.4%	-0.3%	-2.1%	0.7%	1.1%	0.6%

Source: State Street. Past performance is not indicative of future performance.

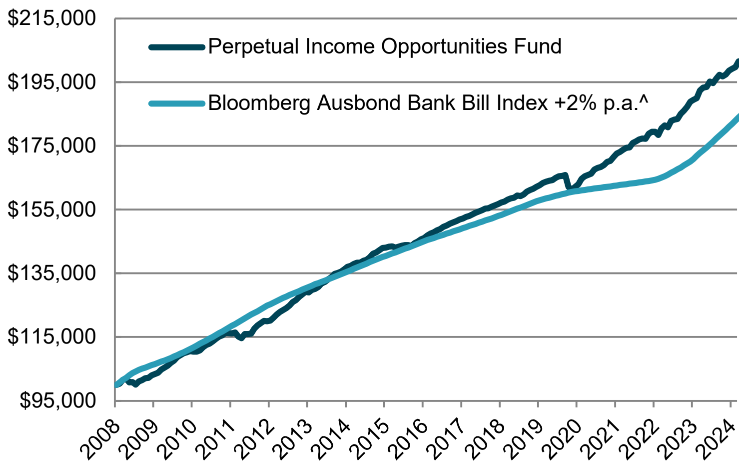
SECTOR ASSET ALLOCATION

As at September 2024



Source: State Street, PPIRT.

GROWTH OF $100,000 SINCE INCEPTION (NET OF FEES)[5]



Source: State Street. Past performance is not indicative of future performance

OBSERVATIONS

Market sentiment remained broadly positive in Q3 2024, with demand outstripping the supply of private credit. M&A activity in the corporate sector remained sluggish and thus was not conducive to private credit formation. We estimate that 90% of private debt activity is still refinancing existing deals as opposed to the growth of new credit opportunities. This strong market technical meant that credit spreads in the private credit space continued to compress while increased leverage by private companies remained well supported.

Default rates, while marginally higher, are still below the long-term average. Outside of an exogenous shock, we believe the private credit markets will continue to remain healthy. The interest rate cuts by the ECB and US Fed are broadly supportive of this trend. Falling interest rate costs are a net positive for corporate earnings and thus accretive to credit quality. However, given investor demand, we will likely see increased leverage by companies that can service ongoing interest payments.

Within the broadly syndicated loan space, there has been continued lender-on-lender violence as distressed investors continue to maximise returns at the expense of senior and subordinated lenders. We have not seen this type of behaviour in private credit markets yet, as the typical deal structure provides existing lenders with significant control, and the private nature of the deals introduces information asymmetry.

Asset-backed finance has continued to grow as an asset class as banks have pulled back due to higher capital requirements. These areas have historically been the largest component of bank balance sheets, but institutions have continued to cede market share as regulatory capital costs have affected the profitability of these segments. Compared to corporate lending, asset-backed finance remains less popular due to complexity, and thus spread compression has not had the same level of impact on this sector.

We are less constructive on some segments of private credit given tighter spreads but are quite positive on asset-backed finance. We are currently exploring specific opportunities in structured credit and asset-backed finance but are maintaining our underwriting discipline given the complexity within the space. Within corporate loans, we are reviewing opportunities in mid-market lending but note that allocations will be made on an opportunistic basis.

HOLDING INFORMATION

As at September 2024

TOP 10 EXPOSURES[4]	ASSET CLASS	SUB-ASSET CLASS	WEIGHT
CVC Global Yield	Corporate Strategies	Corporate Debt	19.7%
Kapstream Private Investment Fund	Asset-Backed Strategies	Diversified Credit	5.6%
Perpetual Credit Income Fund	Corporate Strategies	Multisector Debt	4.8%
Clearmatch Insurance Premium Funding	Corporate Strategies	Other Defensive Alternatives	4.6%
Pemberton European Strategic Credit Opportunities Fund II	Corporate Strategies	Corporate Debt	4.4%
Invesco Credit Partners Fund II	Corporate Strategies	Corporate Debt	4.0%
Blackstone Corporate Funding EUR Fund	Corporate Strategies	Corporate Debt	3.7%
Nuveen Asia Pacific Cities Fund	Asset-Backed Strategies	Real Estate	3.5%
Pemberton European Strategic Credit Opportunities Fund	Corporate Strategies	Corporate Debt	3.2%
ICG Longbow UK Real Estate Debt Investments V	Asset-Backed Strategies	Property Debt	2.4%
Total Top 10 Holdings			**55.8%**

CASH LEVEL & LEVERAGE	WEIGHT
Cash (AUD)[5]	11.56%
Leverage Ratio[6]	1.23
Maturity Profile: As at 30 September 2024 the Fund has no direct gearing liabilities. Liabilities are generally paid within 30 days of the invoice date.	

Source: State Street, PPIRT

INVESTMENT CHARACTERISTICS

As at September 2024

SECTOR	GEOGRAPHIC LOCATION		MARKET TYPE[7]		
	ONSHORE	OFFSHORE	LISTED	TRADED	PRIVATE
Asset-Backed Strategies	33%	67%	0%	0%	100%
Corporate Strategies	15%	85%	0%	13%	87%
Other Defensive Alternatives	0%	100%	0%	0%	100%
Total	18%	82%	0%	10%	90%
FX Hedge Level	94%				

Source: State Street, PPIRT

1) Fund commenced in March 2008 with performance reporting from 30 June 2008 once the fund had made an investment. The fund was opened to external investors in June 2009. 2) Negative annual returns expected in 4 to less than 6 years over any 20 year period. 3) Total returns have been calculated using exit prices after taking into account Perpetual's ongoing fees and assuming reinvestment of distributions (where applicable). No allowance has been made for contribution fees, withdrawal fees or taxation. 4) Top 10 externally managed exposures. 5) The difference between 'Cash (AUD)' and 'Cash & Currency' (as per the sector asset allocation pie chart) represents offshore currencies held for transactional purposes. 6) The leverage ratio is provided as required by ASIC Regulatory Guide 240. Please note that this is look-through leverage of the Fund based on the leverage of the underlying absolute return managers. The Fund itself will not borrow or apply gearing in the ordinary course of business. 7) Market type data is estimation only, provided by the Perpetual Private research team.

^ The fund's benchmark from inception to 31/05/2023 was the Bloomberg Australian Bank Bill Index + 1% pa. Effective from 01/06/2023, the benchmark has been changed to the Bloomberg Australian Bank Bill Index + 2% pa. Historical performance captures the prior benchmark until the effective date of the new benchmark being implemented.

MORE INFORMATION

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