

Perpetual Credit Income Trust
(Expected ASX Code: PCI)

March 2019

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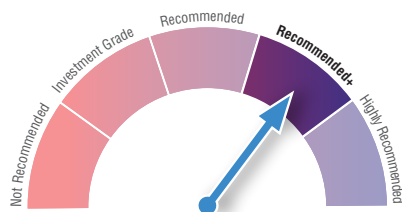
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Perpetual Credit Income Trust

(Expected ASX Code: PCI)

Note: This report is based on information and PDS provided by the Manager as at March 2019.

Rating



Key Investment Information

Name of LIT	Perpetual Credit Income Trust
Manager	Perpetual Investment Management Limited
Investment Type	LIT
ASX Code	PCI
ASX Listing Date	10 May 2019
Offer Open	25 March 2019
Offer Close	18 April 2019
Offer Price	A\$1.10
Min Offer Raise	A\$150m
Max Offer Raise	A\$400m
Oversubscriptions	A\$40m
Day 1 NTA	A\$1.10
Market Capitalisation	Subject to raise
Target Distribution	RBA Cash Rate plus 3.25% p.a. (net of fees)
Benchmark	RBA Cash Rate
FX Exposure	Fully hedged to AUD
Management Costs	0.88%
Performance Fee	None

Fees Commentary

Total Management Costs of 0.88% is competitive relative to global and domestic high yield peers. We also acknowledge that investors are benefitting by the Manager incurring all issue costs.

Portfolio Characteristics & Limits

Number of assets	50-100
Investment Grade Range	30-100%
Sub-Investment Grade Range	0-70%
Perpetual Loan Fund Range	0-70%
AUD Denominated Assets	70-100%
Non-AUD Denominated Assets	0-30%
Collateralised Debt Obligations	Prohibited
Expected Average Maturity	3-5 years

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW

The Perpetual Credit Income Trust ('the Trust' or PCI) is proposed to list on the ASX in May 2019 and is seeking to raise between a minimum A\$150m and a maximum \$400m (with the ability to accept \$40m in oversubscriptions). The Trust will be managed by Perpetual Investment Management Limited (the 'Manager') and its highly experienced eight person specialist credit and fixed income team led by Michael Korber. The Trust is based on an unconstrained credit strategy that seeks to generate stable monthly income at a target level equivalent to RBA Cash Rate plus 3.25% p.a. (net of fees), the equivalent of 4.75% p.a. currently. The Manager will endeavour to do so through a flexible investment strategy that allows active portfolio positioning in order to focus on the most attractive credit and fixed income opportunity set focused on Australian securities and offshore securities issued by global participants in the Australian market. The Trust is managed similarly to the Perpetual Pure Credit Alpha Fund, which has consistently delivered on its performance objective and generally been top decile performance within the unconstrained / diversified credit global peer group average since its inception in February 2012. While the unconstrained nature of the strategy may, on the surface, appear to introduce greater risk, the intention is quite the contrary - it is designed to mitigate risk and be conducive to a more consistent income profile over time with limited downside risk. The Perpetual Credit and Fixed Income team are pioneers in Australian Credit with Michael Korber launching one of the first Australian corporate bond funds in Australia in 1997. The team is highly experienced across the credit and fixed income asset class spectrum, has a long tenure of investing together and is well resourced. The portfolio will be diversified by asset type, issuers, credit quality, maturities, country of issuance and capital structure and will be based on a 'core/plus' strategy, with at least 30% investment grade and a maximum 70% in high yield and loans. The portfolio is constructed based on a long-standing, rigorous and repeatable fundamental investment approach, that ultimately seeks to understand the financial strength of debt issuers.

INVESTOR SUITABILITY

The Trust is seeking to pay a stable and consistent monthly distribution and to do so with a strong emphasis on capital preservation and downside risk mitigation. We note that historically the Pure Credit Alpha Fund, which has a very similar strategy and returns objective, has delivered strongly on effectively the same objective since inception. The unconstrained nature of the investment strategy tied with active portfolio positioning with respect to the most attractive opportunity sets across a broad range of credit and fixed income assets and up and down the credit spectrum and capital structure positions the Trust as a one-stop fixed income solution for debt and credit instruments for Australian retail investors. Further, it represents a key point of difference with a number of fixed income and credit LITs that have been issued on the ASX over the last 12-months, which are intentionally specialist strategies. More broadly, the Trust has the ability to fill a gap in many portfolios, with Australian retail investors being heavily underweight the fixed income asset class, and hence provide diversification benefits. In the current environment, we also note that the asset class is not subject to the political risk of equities (potential abolition of franking credits for zero and low tax rate investors) and property (potential abolition of negative gearing).

RECOMMENDATION

IIR ascribes a "**RECOMMENDED PLUS**" rating to the Perpetual Credit Income Trust. IIR has conviction in the Manager's ability to at least achieve the stated investment objectives over the foreseeable future. This is based on a comprehensive, proven and repeatable investment process, a highly qualified investment team, strong risk-management processes, and a long-term track-record of generating alpha (partly by mitigating downside risks in less benign market environments). We believe the investment processes, with a strong emphasis on downside risk mitigation, accords well with the investment objective of stable and consistent income.

SWOT ANALYSIS

Strengths

- ◆ The Perpetual Credit and Fixed Income team are pioneers in Australian Credit with Michael Korber launching one of the first Australian corporate bond funds in Australia in 1997 and a number of the senior team members having investing together for two decades. The team is highly experienced across the credit market spectrum, with specialist skills in origination, structuring, execution of deals, loan syndication, portfolio construction and credit risk management.
- ◆ The over-arching competitive advantage underlying Perpetual's Credit and Fixed Income strategies is the team's active investment management approach aims to identify the most attractive investment opportunities across the full spectrum of credit and fixed income assets to deliver superior risk adjusted returns.
- ◆ The Manager places a strong emphasis on capital preservation and downside risk mitigation through its fundamental investment processes. Historically, it has been during less benign market environments where the Manager has recorded lower drawdowns, lower volatility and lower defaults than the market in general. We note that the Pure Credit Alpha strategy has recorded only four months of negative (net) returns over a 83 month track record and a maximum drawdown of 0.28%.
- ◆ The Manager will bear all IPO costs so day one net asset value will be the same as the issue price.

Weakness

- ◆ The team is highly experienced and stable but there is key person risk in the form of Michael Korber. While Michael has substantial longevity in the market, we understand Michael is fully committed to the business, and has not indicated any intention to transition out of the business in the near to medium term. Furthermore, Michael is closely supported by Anne Moal in High Yield and Loans, and by Vivek Prabhu, Greg Stock and Thomas Choi in Investment Grade.
- ◆ While acknowledging the 'semi-global' nature of the mandate, the reality remains the strategy will lack the diversification characteristics of a true global mandate by sector, geography and credit risk spectrum. This is more a feature than a weakness per se of the Trust.

Opportunities

- ◆ The income component of many domestic investors' portfolios is often heavily domestic focused and with a significant equity (hybrid) component. The Trust's investment strategy provides the means to earn potentially similar returns but diversify by asset class, credit market conditions, investment names and sector.
- ◆ Recent surveys of Australian investors have highlighted uncertainty in taxation and superannuation policy as a current concern around investments in equities and property. Fixed income and credit investments do not receive the tax benefits that some other investments receive, such as dividend imputation for shares or negative gearing for investment properties. There is currently lower political risk associated with fixed income and credit investments, presenting sector rotation opportunities.
- ◆ Low yields in cash investments is also a commonly cited concern about the current investment environment in Australia. For investors with such concerns, fixed income and credit investments having the potential to offer attractive incremental spreads on a risk-adjusted basis when managed by an adept and proven investment manager.

Threats

- ◆ By the very nature of the strategy, the Trust's portfolio also comprises non-investment grade bonds. Non-investment grade bonds tend to have a higher probability of default and this risk tends to cluster around specific events and/or economic environments.
- ◆ A significant deterioration in corporate balance sheets and in the global economic environment. This may result in significant mark-to-market losses in the portfolio and NAV depreciation risk. We note that this may not actually result in any realised losses.
- ◆ Share price to NAV risk is inherent in all LICs / LITs. That said, we have been encouraged by the recent performance of similar strategies that have remained at a slight premium to NAV.

PRODUCT OVERVIEW

The Trust will hold a diversified and actively managed portfolio of credit and fixed income assets issued by Australian entities and global issuers which participate in the Australian market. The Trust can invest up to 100% of the portfolio in investment grade assets with a minimum exposure to these assets of 30% of the portfolio. The Trust can also invest up to 70% of the portfolio in unrated or sub-investment grade assets. Typical investments will include corporate bonds, floating rate notes, securitised assets and private debt (e.g. corporate loans). Exposure to corporate loans will predominantly be gained through the Perpetual Loan Fund. The Trust's maximum exposure to the Perpetual Loan Fund is capped at 70% of the Portfolio.

The portfolio limits are intentionally wide, not for the purpose of potentially pushing up against these allocation limits, rather to permit a truly unconstrained strategy. This is designed to enable the Manager to focus on the most attractive opportunity sets across a full cycle with the express purpose of generating consistent income and minimising capital risk.

The Perpetual Credit Income Trust is in effect an extension of that and an amplification of what Perpetual has been doing with the Pure Credit Alpha strategy since March 2012. The strategy was established by Michael Korber following the GFC with the express purpose of generating a smooth and attractive (relative to risk) returns profile. With the arrival of Anne Moal in 2014, in the position of Senior High Yield Analyst, the team became more active in investments in the high yield segment. The key distinction with the Trust is there is an amplification of the high yield segment.

The permissible assets of the Trust are the same as that of the Pure Credit Alpha strategy. However, the allocations have a slightly broader range. As Pure Credit Alpha is an unlisted managed fund and has internal redemptions, liquidity is generated by the underlying assets directly. To ensure prudent management of this, the Pure Credit Alpha fund has a minimum 50% allocation to investment grade debt instruments. With the Trust, one of the advantages of the liquidity being provided by the market rather than the underlying assets is that it can hold more than 15% or so less liquid assets in the portfolio. Reflecting this flexibility, the minimum holding of investment grade assets has been lowered to 30% to facilitate a truly unconstrained credit and fixed income mandate.

While there is substantial flexibility in the mandate of the Trust, Perpetual does not typically manage portfolios hard up against limits. Rather, the limits serve as a range that can be used. While the underlying assets between the two strategies are expected to be quite similar, it is expected that the Pure Credit Alpha strategy will retain a greater focus on trading to generate total returns, whereas within the Trust, the ability to take a higher coupon focus by moving up the risk spectrum provides a greater ability to generate a more predictable income based return pattern. Additionally, the 'captive' capital aspect of the Trust facilitates greater tactical asset allocation flexibility relative to the Pure Credit Alpha fund.

The investment process focuses on quality and value, and the Manager has a proven track record of generating high levels of income from credit and fixed income assets. The active management of the Trust, combined with the flexibility of the investment strategy, means that the composition of the Trust's portfolio can change as market conditions change to target the most attractive credit and fixed income investments on a risk adjusted basis.

The Manager has a highly experienced and stable investment team. The senior members of the team have been investing together for two decades and possess specialist skills in credit and fixed income investing including lending to companies and institutions; origination, structuring, negotiating and execution of deals; loan syndication, portfolio construction and credit risk management.

The Offer has been deliberately hard capped at a maximum of A\$440 million to ensure capacity constraints are not close to being breached. The Manager notes that the best deals are often capacity constrained.

It is anticipated that it will take a number of months for the total funds to be invested in a way that is a true representation of the best available opportunities. Initially the funds are likely to be largely invested in investment grade instruments, given the liquidity of this segment. To facilitate the process, the Perpetual Group will warehouse up to \$30-50 million in pre-purchased loans prior to the ASX listing. Consequently, on day one of the listing, the Manager is not subjected to delays in deploying capital.

The Manager seeks to generate stable monthly income at a target level equivalent to RBA Cash Rate plus 3.25% p.a. (net of fees), the equivalent of 4.75% p.a. currently. We expect returns to be largely in the form of income and it is the Manager's intention that income will

be paid on a monthly basis. As an LIT, all income earned in the form of coupons paid on the underlying debt instruments and capital gains / losses on the disposal of debt investments will be passed through to investors. NAV changes will be a function of changes in the market value of the debt instruments held in the portfolio.

With respect to capacity constraints, the Manager formally monitors capacity in all strategies to ensure that the size of assets managed does not negatively impact its ability to meet investment objectives. In the case of Pure Credit Alpha, \$1bn has been suggested as an FUM figure where the Manager would consider ongoing market dynamics, and its ability to achieve the targeted investment objective. This would also include a consideration of whether the strategy required a soft closure.

We note the Pure Credit Alpha Fund currently has FUM of \$632 million. We are confident the Manager would act in the best interest of investors in both the Trust and the Pure Credit Alpha Fund should identified capacity constraints be approached some time in the future. We also note that the Manager has purposely capped the maximum offer amount in the Trust for this very purpose.

The Perpetual Group has committed to paying for the Establishment Costs at the time of the initial public offering. This means that Units in the Trust are expected to trade at a price not less than the subscription price at listing. Since the Trust is listed on the ASX it will have the advantage of transparency with a daily security price.

In terms of fees, the Manager anticipates the Trust incurring Management Costs of 0.88% p.a. There are no performance fees. The management fee is competitive relative to global and domestic peers. Additionally, investors gain from the fact that the Manager will incur all listing costs.

MANAGEMENT GROUP PROFILE

The Manager is a part of the Perpetual Group, which has been in operation for over 130 years, and its services are offered through the Perpetual Group's fund management business, Perpetual Investments. Perpetual Investments is one of Australia's leading investment managers, with more than \$27.7 billion in funds under management as at 31 December 2018.

The Perpetual Credit and Fixed Income team accounts for approximately \$7.1 billion in FUM of the \$27.7 billion in AUM that Perpetual Investments manages. Perpetual Investments is synonymous with Australian equities, but has a very large fixed income business as well and one that has grown steadily over time in terms of FUM based on a strong track record and a clear alignment of interest with investors.

The growth of the Perpetual Credit and Fixed Income team in terms of strategies and FUM has mirrored the growth in the Australian domiciled credit market. Michael Korber commenced in the Australian credit and fixed income markets in 1998 with Macquarie Funds Management. He established investment processes to invest in, at that time, the nascent credit market in Australia (largely government or semi-government debt). As the type of debt instruments began to grow and the market develop, so too did the investment processes and strategies. This included building a disciplined investment process in higher risk credit designed to extract the potential alpha in the segment but mitigating the inherently greater risk.

In 2004, Michael, along with two other ex Macquarie investment team members (Vivek Prabhu and Greg Stock), joined Perpetual Investment Management Limited where they continued to evolve investment processes, partly in-line with the continued growth and diversification of the Australian domiciled market. The team possibly represented the first credit focused fixed income team in Australia, as well as having a heritage that goes back longer in the Australian market than most other teams.

The ongoing development of the market in Australia progressively permitted more diversified portfolios with assets across the credit spectrum. To capitalise on this development, Perpetual launched the Diversified Income Fund in October, with a target return of the Bloomberg AusBond Bank Bill Index plus 200 points.

Following the GFC, Michael was given a challenge to build a product from the ground up utilising the best opportunity set in the asset class in a risk-controlled way. A process was developed that ignored competing products and conventional wisdoms. In particular, using the experience gained during the GFC, the Pure Credit Alpha strategy was established in 2012 based on an unconstrained credit strategy. While an unconstrained credit strategy is popular today, it was substantially less so back in 2012.

The strategy entailed having a very broad opportunity set with the ability to invest across all sectors, up and down the capital structure, ratings spectrum and maturities. Rather than being forced to adopt significant high coupon risk to generate returns, the intention was to generate returns by assessing risk well, avoid drawdowns and being active in managing individual securities and allocations between sectors.

Whilst the opportunity set is unconstrained, it is not without rules, with more than 50% of the portfolio required to be investment grade debt. Further, it must be well diversified (typically hold 100-150 individual securities), such that if the team gets a credit call wrong it will not have a major impact on the portfolio. This is one means by which to maximise returns yet control risk. The average maturity life has been kept short (3-5 years) to minimise term premium risk. The benchmark in the sector is floating rate, so it is not taking embedded duration risk, and while approximately 40% of the assets of the Pure Credit Alpha strategy are fixed rate assets, interest rate and currency risk are hedged out asset by asset.

The risk management strategy reflects the underlying ethos at Perpetual that fixed income is a defensive asset, with capital stability, liquidity and regular predictable income being critical as part of overall return to investors. Furthermore, the PM Michael Korber strongly advocated for minimum redemption terms (minimum one month redemption notice period) in the Pure Credit Alpha strategy, which was deemed as highly appropriate and in the best interest of investors given the strategy's ability to invest in less liquid segments of the market. While this was not initially well accepted by the market, through time, engaging with investors has changed it from a headwind to an advantage due to the benefits for the strategy.

The Pure Credit Alpha strategy has an objective of RBA Cash Rate + 300-500 basis points (gross) and has consistently delivered over time. We also note that key members of the investment team have a material amount of their personal wealth invested in the strategy, creating a strong alignment of interest with investors.

The Manager has sought to focus on any area in which it had a competitive advantage based on skillset. The team has invested in Australian credit for a long time, with the universe being Australian domiciled issuers and global issuers which participate in the Australian market, and direct adjacencies to that in some markets. There is also a substantial focus on global relative value, as most issuers have curves in multiple currencies with multiple maturities. As an increase in credit spreads will often lead to dislocation, the strategy will trade in an effort to realise relative value. When there is opportunity the strategy may have up to 20-25% of the portfolio in non AUD securities. However, this is more of an arbitrage driven strategy, rather than the Manager investing in entirely unrelated bonds in the US, for example.

As noted, investments in corporate loans will be predominantly by way of the Perpetual Loan Fund. The rationale is that such loans are generally documentation heavy and do not trade frequently. As such, it is more effective to invest collectively across the strategies via one investment vehicle, rather than splitting such investments into parcels across multiple investment strategies.

Over the course of the last 12-months, or so, there have been four fixed income and credit focused LITs list on the ASX. Specifically, the NB Global Corporate Income Trust (NBI), the MCP Master Income Trust (MXT), the Gryphon Capital Income Trust (GCI), and the Qualitas Real Estate Income Fund (QRI). All four have been reviewed by IIR. Each of these trusts has a different specialist investment strategy, namely global high yield, corporate loans, and Residential Mortgage Backed Securities and Asset Backed Securities, and secured commercial real estate loans, respectively.

Perpetual Credit and Fixed Income by FUM

Strategy	FUM \$M	% of Total
Cash	832	12
Enhanced Cash	2,595	36
Fixed / Dynamic	803	11
Income Style	2,261	32
Unconstrained Credit	632	9
Total	7,123	100%

What differentiates the Manager with respect to these four vehicles is it uses a whole-of-universe investment approach. It will seek to identify those segments of the market during particular points in the cycle where it perceives attractive value. Conversely though, it is also limited as to how much return it can seek from any given segment without taking undue risk. Again, the Manager's view is there is always opportunity in the market but the opportunity is shifting.

INVESTMENT TEAM

The team members are pioneers in Australian Credit with Michael Korber launching one of the first Australian corporate bond funds in Australia in 1997. The team is highly experienced, with an average of 22 years industry experience in the credit markets, and highly stable, with the senior portfolio managers having invested together at Perpetual for close to two decades, with no departures.

The team is structured to focus on the broad universe but structured with different people with different specialities looking at different points in the market. Amongst the team, there are specialist skills in leveraged and acquisition finance, corporate finance, corporate and institutional lending, loan syndication and portfolio credit risk management.

Anne Moal focuses on High Yield investments including corporate bonds and loans and has two analysts assisting her in that segment. Carol Yuan focuses on general analytical work, with specific experience in Asian markets, whilst Michael Murphy is focused on high yield securities. Thomas Choi is responsible for cash management portfolios and is largely focused on ABS and RMBS, which the Manager is very active in, providing a small but solid contributor to the portfolio. Greg Stock focuses on managing fixed rate strategies while Vivek Prabhu is focused on managing floating rate strategies. Michael, Vivek, and Greg have a long heritage of working together, having worked as a team at Macquarie Funds Management. Another distinguishing feature of how portfolios are constructed is represented by JP Bae who is a specialist market analyst and dealer and focuses on global relative value. Every time the team intends on doing a trade a full global relative value analysis is conducted on the particular entity and space.

The strategy is managed with a disciplined team-based approach, in which a collaborative decision-making process is balanced by individual accountability for portfolio recommendations. While the strategy's portfolio managers are ultimately responsible for making buy and sell decisions, the team's individual analysts have primary responsibility for identifying investment ideas and carrying out all aspects of the research process. As such, the team has an organisational structure through which it seeks to maximise the potential contributions of its research personnel while incorporating the perspectives of the portfolio managers and traders.

While the analysts work in teams and each investment decision is subject to committee review, the analyst is at the heart of the selection recommendation process and there is a high degree of visibility and accountability.

The key members of the investment team are detailed below.

- ◆ **Michael Korber, Head of Credit & Fixed Income.** Michael has over 37 years' experience, having been involved in credit markets since their inception in Australia. Unlike most credit portfolio managers in this market, Michael has a background in lending and banking, understanding credit in its purest form. His time in markets and reputation makes him one of Australia's most experienced credit investors. Since joining Perpetual in 2004, he has built the Credit and Fixed Income business to over \$7 billion in funds under management. Previously he was the first Head of Credit at Macquarie Funds Management where he built its business from inception to over \$7 billion in funds under management. Prior to this he spent seven years as Divisional Director in Corporate Banking and four years as 2IC to the Head of Macquarie Bank Credit and earlier, he had spent five years as a Credit Analyst with Westpac Corporate Banking.
- ◆ **Anne Moal, PM / Senior High Yield Analyst.** Anne is an experienced credit markets specialist, having worked for 22 years in credit and fixed income markets in research, origination and trading roles. Anne joined the Credit and Fixed Income asset management team at Perpetual Investments. Anne is the portfolio manager of the Perpetual Loan Fund with a focus on higher yielding income opportunities. Before joining Perpetual in 2014, Anne worked for 10 years at Deutsche Bank, Global Markets division

in Sydney where she held various roles, including origination and underwriting of sub-investment grade debt, Head of the Distressed Product Group, Australia and Head of Credit Research. She has also held roles with major institutions in London, including Deutsche Bank, Bankers Trust International, Banque Nationale De Paris and Credit Lyonnais. Anne is a Graduate of the Australian Institute of Company Directors and holds a Master in Management from Rouen Business School (France) majoring in Finance.

- ◆ **Vivek Prabhu, Head of Fixed Income.** Joining Perpetual in 2004, Vivek has over 25 years of experience spanning accounting, auditing, governance, risk management and investments. He has managed currency, global bond and credit portfolios and manages the teams Income strategies (Credit Income Fund / Diversified Income Fund) and has also previously managed Enhanced Cash and Exact Market Cash portfolios. In 2015 he was selected for Perpetual's Talent Program. Previously, Vivek spent almost 8 years at Macquarie Bank including as assistant portfolio manager, compliance manager funds management group and internal audit. Prior to this, he was with Coopers & Lybrand (PwC) in their audit division. Vivek has previously been a member of the FINSIA Funds and Asset Management Industry Council and a member of the AFR CFO Capital Awards judging panel.
- ◆ **Greg Stock, Head of Credit Research.** Greg has over 26 years of experience in accounting, auditing and risk management, institutional dealing/broking and investment management. He has researched and analysed credit markets on both the buy side and sell side, for over 12 years and through two cycles. Greg started at Perpetual in 2004, previously working at Macquarie Funds Management. Greg has been managing portfolios for 12 years. He is currently the portfolio manager for the Perpetual Active Fixed Interest Fund, Perpetual Dynamic Fixed Income Fund and the Perpetual Exact Market Cash strategy. Greg has a broad research role including coverage of the banking and financial sectors and selective other sectors and issuers. He is also the delegated credit authority. Prior to joining Perpetual, he had a similar role in Macquarie Investment Management.
- ◆ **Thomas Choi, PM / Credit Analyst.** Thomas has over 16 years' experience and has been a member of Perpetual's Credit and Fixed Income team since May 2010. Thomas is the portfolio manager for the High Grade Treasury Fund and is also responsible for the analysis of RMBS and REITs. Prior to joining the Credit and Fixed Income team Thomas worked within the Perpetual Research and Analytics Team where he was responsible for supporting the Credit and Fixed Income team, provision of investment analytics such as attribution and portfolio analysis, and the active asset allocation process for Perpetual's balanced funds. Prior to joining Perpetual, Thomas worked in a number of investment roles including time at the hedge fund manager Prodigal where he was an Investment Analyst, and CMC Markets where he was a dealer on the trading desk.
- ◆ **JP Bae, Market Analyst / Dealer.** JP joined Perpetual in July 2010. He has over 15 years of experience in the financial services industry and is currently responsible for relative value analysis and short-end trades. JP previously worked as an Investment Manager at Zurich Investment Management responsible for overseeing portfolio management of Zurich's balance sheet assets and sub-advised portfolios across all asset classes, as well as managing relationships with external fund managers. Prior to this, JP held various investment roles at MLC including a Senior Investment Policy Analyst responsible for managing investment menus across MLC platforms and running of the Platform Investment Committee. JP holds a Bachelor of Arts with Honours in Business and Management and completed a Master of Applied Finance at Macquarie University.
- ◆ **Carol Yuan, Credit Analyst.** Carol joined Perpetual in 2017 and is an experienced research analyst and credit investor, with experience in Asian credit markets. Carol has a background in researching both investment-grade and high-yield companies. Carol previously worked at Aberdeen Asset Management in Sydney and Singapore as a Credit Research Analyst. Prior to this Carol worked at AllianceBernstein Australia. Carol holds a Bachelor of Commerce and Masters of Economics with Distinction, and is a CFA Charterholder.
- ◆ **Michael Murphy, High Yield Analyst.** Michael joined Perpetual in 2018 as a High Yield Analyst focusing on the high yield and private debt markets. Having previously worked as an Investment Associate at Metrics Credit Partners, Michael is responsible for covering leveraged finance and corporate private debt. Prior to this, he was an Associate Credit Analyst at Morningstar and before that, a Credit Risk Analyst at Commonwealth Bank. Michael has a Bachelor of Engineering (1st class honours) and Bachelor of Economics from the University of Adelaide, along with a Master of Philosophy (Economics) from the University of Oxford.

Key Investment Personnel		
Name, Position	Focus	Experience (yrs)
Michael Korber, Head of Credit & Fixed Income	PM: Perpetual Credit Income Trust; Perpetual Pure Credit Alpha Fund	37 years experience, 14 years at Perpetual
Anne Moal, PM / Senior High Yield Analyst	PM: Perpetual Loan Fund	22 years experience, 4 years at Perpetual
Vivek Prabhu, Head of Fixed Income	PM: Diversified Income Fund; Credit Income Fund	25 years experience, 14 years at Perpetual
Greg Stock, Head of Credit Research	PM: Active Fixed Interest; Dynamic Fixed Income; Exact Market Cash	26 years experience, 14 years at Perpetual
Thomas Choi, PM / Credit Analyst	PM: High Grade Treasury; Cash Management	16 years experience, 10 years at Perpetual
Carol Yuan, Credit Analyst	General	10 years experience, 1.5 years at Perpetual
JP Bae, Market Analyst / Dealer	Relative value analysis, dealing	15 years experience, 8 years at Perpetual
Michael Murphy, High Yield Analyst	High yield analysis	6 years experience, Joined Perpetual October 2018

INVESTMENT PROCESS

Investment Philosophy

The unconstrained and very active investment mandate is designed to provide a broad opportunity set. By actively positioning the portfolio in relation to credit spreads (market-wide, sectoral, security specific), maturity buckets and across the entire capital spectrum the Manager seeks to capitalise upon the most attractive risk-return credit and fixed income investments with the express purpose of generating consistent returns over time with a strong focus on capital preservation. The 'captive' capital structure of a listed investment trust facilitates this flexibility, in particular by allowing greater flexibility to invest in less liquid high yield instruments where the Manager deems this appropriate.

From a portfolio allocation perspective, capital is allocated based on conviction that both the credit and price is attractive, rather than according to predefined targeted bands of portfolio holdings. In effect, the portfolio starts from a position of being 100% allocated to investment grade investments. Each analyst effectively 'bids' for an allocation of this capital by presenting investment ideas to the PM Michael Korber. The portfolio starts on the basis of a strong investment grade portfolio with the Manager opportunistically investing in higher yielding opportunities as they arise. Investments further up the risk spectrum typically incorporate greater cyclicity - either over- or under-compensating for the additional risk over time. Perpetual manages this over the cycle by actively moving in and out of such investments with the purpose of ensuring an attractive and consistent return pattern.

The unconstrained active approach is a key point of difference to constrained mandates. It is designed to ensure the portfolio does not comprise high risk holdings that would otherwise not justify inclusion. Every position is taken on the basis of high conviction, rather than potentially taken on account of forcibly having to fulfil defined portfolio bands. The hallmark of what the Manager does is its whole-of-universe approach and being active in where it takes risk. This is designed to generate a relatively consistent return stream over time.

Historically, the investment strategy has delivered on this consistent returns objective, as evident by the performance of the Pure Credit Alpha Fund. Furthermore, the attribution of returns highlights a broad breadth of positive contributions from portfolio holdings. Generally, the top 10 contributors to returns has not been markedly greater than their proportionate holding in the fund, and vice versa with respect to the worst 10 contributors. As such, returns have not been generated by the Manager chasing returns from a relative small number of investments, rather every position has been contributing relatively evenly, with overall returns generated by a lot of small, consistent investment decisions.

Additionally, as the structure of the portfolio is relatively short dated, floating rate, and with a focus on senior debt in the capital structure, the returns profile has been relatively smooth even during periods of volatility. We would note that a part of the team and process have been working this way effectively from the mid 1990s, and have experienced every major downturn since that time, notably the Asia crisis, the tech bubble, the GFC and the mining downturn in 2015-16. The Manager notes that these events often created attractive relative opportunities, with the same corporate entity experiencing markedly different curve changes within different

jurisdictions. This is how the Manager understands and actions 'unconstrained', specifically a mental map of opportunities, rather than constructing a set of rules and then populating the portfolio according to that.

Investment Strategy

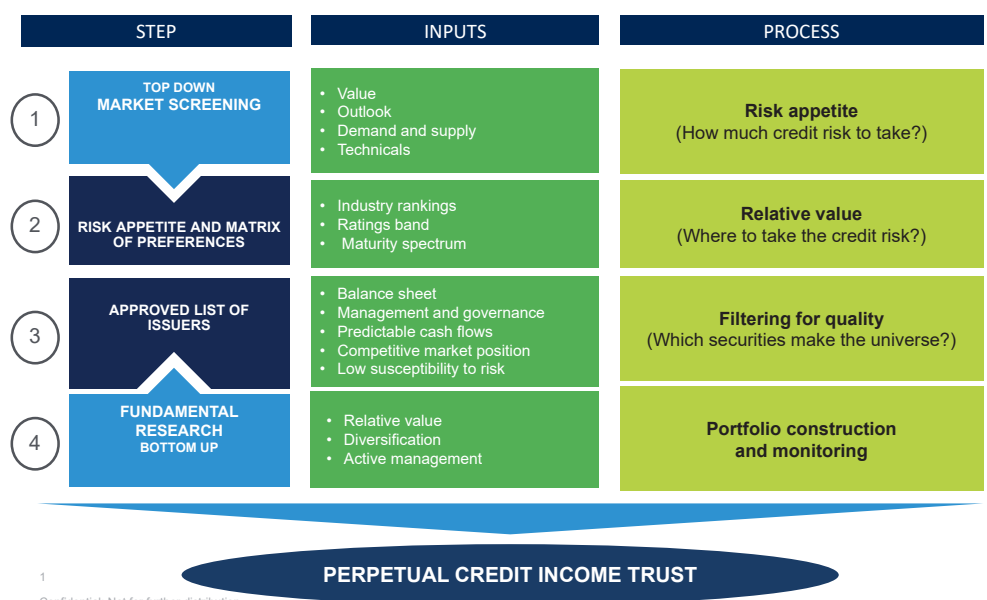
The Trust will hold an actively managed portfolio of credit and fixed income assets issued by Australian and offshore issuers. The Manager has an unconstrained investment strategy, with the ability to invest in a broad range of debt and debt-like assets and across the credit spectrum and the capital structure. The Manager aims to find relative value in investments, buying the most attractive assets on a risk adjusted basis at any point in time while diversifying across issuers.

The Trust's broad investment ranges are designed to allow for flexibility throughout economic cycles and the active management process of the investment team. The Trust can invest 30%-100% of the portfolio in investment grade assets with an issuer limit of 15% of the portfolio. The Trust can also invest 0-70% of the portfolio in sub-investment grade or unrated assets with an issuer limit of 10% of the portfolio. The priority is to construct a well-diversified portfolio and it is expected the Trust will typically hold 50-100 assets. The Trust may obtain exposure to unrated assets through an investment in the Perpetual Loan Fund, which invests in a pool of corporate loans. The Trust's maximum exposure to the Perpetual Loan Fund is capped at 70% of the Portfolio.

The Manager will typically hedge foreign currency exposures to the Australian dollar and may use derivatives to hedge interest rate risk and credit risk. Derivative positions may also be used to take advantage of market opportunities. Derivatives may result in leverage, however there is a maximum leverage limit of 15%. Borrowing for gearing purposes is not permitted.

Investment Process

The Manager's investment process combines a proven top down credit scoring process with extensive bottom up fundamental research and active asset selection. This process seeks to maximise returns from the Trust's broad investment universe while maintaining capital stability.



Top Down Market Screening

The aim of the top-down market screening process is to identify how much exposure to credit risk the Manager is willing to take. Screening is implemented by the investment team completing a proprietary credit scoring process and sub-sector relative value analysis..

Credit Scoring Process

The proprietary credit scoring process is comprehensive and has been implemented over the long term. It seeks to be forward looking by assessing the balance of risk and returns over a 3 to 6 month time line. The process helps to determine the investment team's appetite for

risk by assessing the factors that are likely to cause changes in the outlook of credit markets. This includes the likelihood of a change in the risk outlook and direction of credit spreads.

The investment team performs a thorough analysis of fundamental and market conditions to identify how much credit risk to take. These are classified under four broad headings; value, outlook, demand and supply, and technical factors.

The process identifies and quantifies how the environment is currently influencing the absolute value of credit and how the risks and valuations are likely to change in the short to medium term. It represents the core tool as to how much risk the investment team wants to adopt. It does not provide a guide as to which securities to select, rather a sense of the direction of markets and the direction in which to point the portfolio from a risk perspective.

The credit score typically ranges from -4 to +4. The score will have a direct impact on how the Investment Team will actively position the Portfolio to take advantage of expected changes in margins, that is:

- Increasing credit exposure when margins are likely to contract, and;
- Decreasing credit exposure when margins are expected to expand.

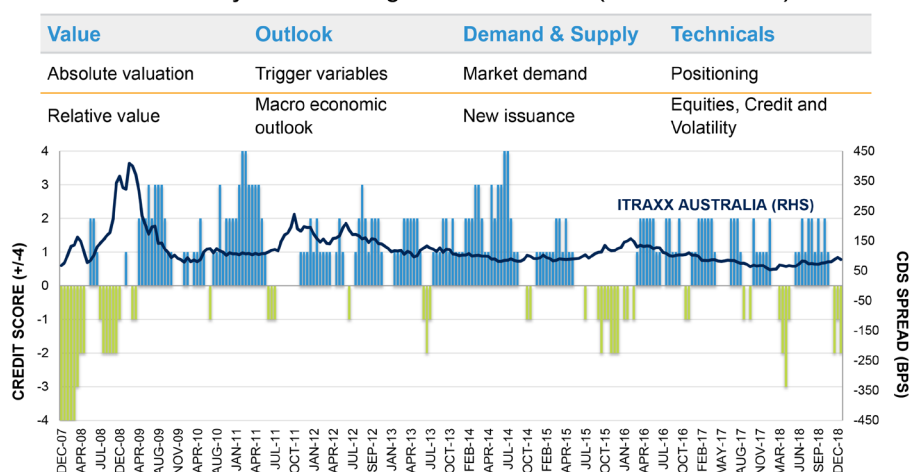
The chart below provides a history of the credit scoring process over the past decade compared to the Markit iTraxx Australia Index (a proxy for the performance of the credit market). Where the bars are above zero, the market outlook is positive, and vice versa. It represents the base upon which the Manager starts its investment process. Where the Manager believes the outlook is for increasing levels of risk, with spreads widening, then the Manager will action that outlook by investing more conservatively. For example, by way of shorter duration instruments, being more senior in the capital structure or having a greater allocation to cash.

This process has been running since 2007 and has been highly effective. For example, strong sustained negative scores preceded the GFC and similarly, negative scores were observed in 2015 in the lead up to the major sell-off in spreads in late 2015 when spreads generally doubled. This allowed the Manager to position the portfolio to mitigate impending downside risks. Equally importantly, the score has typically flipped into positive territory at the right time, enabling the Manager to take advantage of wider spreads in the market.

1

TOP DOWN
MARKET
SCREENING

Assess factors likely to cause changes in credit markets (3-6 month outlook)



Macro Views - Active Overlay

The credit scoring process described above is also utilised by the team to engage in an active overlay strategy using credit indices to efficiently and rapidly implement positive or negative views through index trades. Where there has been a material change in spreads, a manager does not necessarily have an opportunity to action an investment position immediately as liquidity can dry up to a degree. In situations such as this, the Manager may either seek to protect the portfolio or adopt more risk through credit indices, for example sell protection on iTraxx Europe Crossover and CDX North America IG indices.

Where there are moments of significant volatility, the Manager may use the strategy as one way of either protecting or getting set in portfolios. It was a strategy effectively utilised during the significant credit spread expansion in 2016 and more recently during the pre-Christmas 2018 period where the Manager took a small position in the iTraxx Europe Crossover index at that point in time when spreads had increased materially and it was viewed as a more effective way of increasing risk versus buying individual securities.

The active overlay strategy is generally implemented at the margin and at times of valuation extremes and it is deemed as an effective and cost efficient means in which to take a position quickly. It is also limited to 15% of the portfolio and subject to a gearing limit, as the Manager will not necessarily have the cash to back the derivative positions in full.

Relative Value

The relative value analysis is conducted in order to determine where there is good relative value and highlight where there are excessive risks. The analysis is completed across three main risk segments; industry sectors, maturities and rating bands to determine the most attractive segments of the market. In determining relative value it is also important to price liquidity appropriately, this is particularly relevant to sub-investment grade and unrated assets. The Investment Team's relative value process seeks to ensure adequate compensation is provided for assets which may be less liquid.

The detailed process is conducted on a fortnightly basis and, again, it is a process the team has followed for many years now. Having that discipline means that if markets do become volatile the Manager has an investment perspective in which it has greater confidence in and a greater confidence in which to act.

Ratings Band	Maturity Bucket	Industry Group
<ul style="list-style-type: none"> Investment grade AAA, AA, A, and BBB. Sub-investment grade and unrated. Short end, mid curve and long end. 	<ul style="list-style-type: none"> Investment grade AAA, AA, A, and BBB. Sub-investment grade and unrated. Short end, mid curve and long end. 	<ul style="list-style-type: none"> Investment grade AAA, AA, A, and BBB. Sub-investment grade and unrated. Short end, mid curve and long end.

Bottom-up Fundamental Research

The Manager conducts a full due diligence on each security in the portfolio, with each security assigned to a particular analyst facilitating a sense of ownership and accountability. The aim of completing fundamental research is for the Investment Team to screen issuers for credit quality to determine approved issuers for potential investment. Given the risk implicit in credit (100% downside yet a defined, contracted upside), the Investment Team are conscious of the need to avoid risks that would impact the creditworthiness of assets. In essence, the process is designed to identify the things that could go wrong with an issuer and assessing, in such a situation, the likelihood the Manager would not get its capital back.

The credit review process encompasses the team's proprietary research and is complemented with external inputs to ensure robust analysis. The proprietary research incorporates the investment team, and individual analyst, views and research and includes the impact of any issuer or investor updates. The research aims to identify downside risk. An advantage for the team is the access to Perpetual's Equities Analysts and their research to complement and provide any further insight on common issuers.

The fundamental research process is designed to identify issuers and assets of sufficient quality which have: a good balance sheet; predictable cash flows; hold a competitive market position; have a quality, capable management and governance structure; and have low susceptibility to the potential impact of regulatory changes, political risk, litigation risk and other types of event risk. Conversely, the research seeks to screen out issuers with poor credit quality or susceptibility to downside shock.

Sub-Investment Grade and Unrated Assets

The Trust is able to take exposures in sub-investment grade and unrated assets, such as loans, corporate bonds and asset backed securities, to a maximum of 70% of the Portfolio. While this is a high maximum, we do not anticipate the Manager will go anywhere near approaching this maximum. While acknowledging the variations in the two strategies, we note that over the life of the Pure Credit Alpha fund, the strategy has averaged approximately 65% exposure to investment grade instruments. We do, however expect the Trust to have a slightly lower proportion of investment grade assets than the Pure Credit Alpha fund.

Unrated assets can be a valuable source of income and differentiation for the strategy. The Manager will typically seek assets that provide high coupons, capital stability and an attractive breakeven. The structure of the high yield debt instrument is important to achieving these objectives. The Manager will almost invariably focus at the top of the capital structure, believing that investing at the right point in the capital structure is supportive of the delivery of regular income.

The due-diligence process is more intensive for sub-investment grade and non-rated assets and may require a number of meetings with arrangers and borrowers. The Manager's approach for each investment is to undertake extensive, fundamental and robust research to screen issuers for acceptable credit quality and includes: capital structure review; in-depth financial analysis and modelling; understanding of market position and sector trends; valuation of business (including distressed valuation); board and management review; and legal documentation review. The investment team monitors exposures to sub-investment grade and unrated assets closely. Financial information is reviewed regularly.

Anne Moal is the PM / Senior High Yield Analyst primarily responsible for sourcing and assessing investments in the sub-investment grade and unrated space. Anne participated in distressed debt trading in Australia in the early 2000's and has been involved in both local high yield and distressed debt markets. Anne provides a depth of knowledge and experience on sectors, industries, structures and liquidity in the domestic sub-investment grade and unrated space.

The investment team has extensive experience in managing default risk. When considering making an investment in sub-investment grade or unrated assets, the investment team may look to enhance the structural position of the investment and access the safest part of the capital structure, such as a senior secured instrument (typical of a leveraged loan).

Active Interest Rate Management

The investment team aims to build a portfolio in which overall interest rate exposure is floating rate. However, the Manager may take tactical active interest rate positions to add value by tilting portfolio exposure to interest rate risk when the investment team's processes suggest the bond market is mispriced relative to fundamentals. These positions are limited to +/- 1 year of duration.

The Perpetual Loan Fund

The Perpetual Loan Fund is an internal fund which is used to manage the Loan portfolio for Perpetual Investments. The Perpetual Loan Fund allows for efficient management of loan assets, ensuring a fair and diversified exposure to loan investments across Perpetual Investments' portfolios. Loans selected for investment in the Perpetual Loan Fund undergo Perpetual's rigorous Credit Research review and due diligence process. The Trust proposes to invest in the Perpetual Loan Fund to gain exposure to corporate loan assets.

Anne Moal is the Portfolio Manager for the Fund and as such, ultimate investment responsibility for this Fund rests with Anne. Michael Korber acts as the back-up Portfolio Manager for the Fund.

In order to reduce the time for the Trust to obtain exposure to corporate loans, Perpetual has agreed to assist the Manager in building an inventory of corporate loan assets in the Perpetual Loan Fund. Subject to loan availability, Perpetual intends to acquire units in the Perpetual Loan Fund prior to listing of the Trust. This would increase the size of the Perpetual Loan Fund and enable it to acquire additional loans.

After listing of the Trust, Perpetual Ltd intends to sell its entire unit holding in the Perpetual Loan Fund to the Trust on arm's length terms. With respect to the Perpetual Loan Fund, please note that this vehicle has only recently been set up to allow for the efficient management of loan assets across the Trust and other Perpetual funds which can hold loans. Historically, these funds have held loans directly.

Target Portfolio Construction

The Trust's active management approach aims to deliver a portfolio diversified across asset types, sectors, ratings, maturities, markets and the capital structure. The Trust will invest in credit and fixed income assets directly and indirectly, through the Perpetual Loan Fund, using active asset allocation. The Portfolio will include a mix of investment grade, sub-investment grade and unrated assets. The Manager intends that investments in sub-investment grade and unrated assets will be focussed on the high end of the capital structure. The Manager

intends to achieve its target portfolio construction within three months of the Trust listing on the ASX.

Asset Type	Credit Quality	Country / Issuer Limits
<ul style="list-style-type: none"> • Corporate Bonds, • Private Loans, • Asset Backed Securities, • Hybrid Securities, • Convertibles 	<ul style="list-style-type: none"> • Investment Grade Debt: 30-100%; • Sub-investment grade/non-rated debt: 0-70% • Collateralised Debt Obligations are prohibited 	<ul style="list-style-type: none"> • No country limit, typically Australian exposure. • Foreign currency exposure will be hedged back to the AUD. • Investment grade issuer limit: 15%. • Sub-investment grade issuer limit: 10% • AUD Denominated Asset limit: 70-100%. • Non-AUD Denominated Asset limit: 0-30%
Diversified across credit and fixed income asset types	Diversified across ratings and the capital structure	Diversified across issuers and countries

Using the disciplined investment process of the Manager, the Trust will typically be invested in 50 to 100 assets. The broad investment mandate provides flexibility to allocate assets to the most attractive investment opportunities on a risk-adjusted basis at any point in time.

The liquidity of the portfolio, particularly the investment grade component, facilitates the active implementation of the portfolio. Should opportunities emerge, the Manager can easily trade select existing holdings in order to take advantage of what are assessed as more attractive risk-return opportunities.

Given the very active mandate, it is not practicable to provide an indication of portfolio composition. However, what we can say is that the weighted average duration of the strategy will typically be relatively short (between 3-5 years), such that the portfolio is not expected to have large sensitivity to changes in credit margins. The portfolio will be diversified by the number of issuers, credit quality tier, and by industry and debt instrument. While the Manager invests in fixed rate instruments, interest rate risk will largely be hedged, such that in effect the portfolio is expected to be predominantly floating rate exposure, and thereby mitigating embedded duration risk.

Sell Discipline

To ensure gains are retained the Manager applies a sell discipline. If a bond is assessed to have reached full value the Manager will divest the holding and rotate into another investment. Additionally, if the Manager is anticipating a deterioration in core results or an industry downturn it will typically divest relevant names. Unexpected management changes, and the like, are also typically viewed as a red-flag and cause to potentially divest.

Risk Management

The key risk with respect to debt instrument investing is credit risk and the potential for price erosion that can result from deterioration in the credit standing of an issuer. The team carries out in-depth upfront credit analysis, but once a credit is purchased it monitors the credit on an ongoing basis. Accordingly, the team seeks to obtain an early warning on developments that could act as catalysts for credit deterioration by monitoring relevant data (key financial drivers, commodity prices, stock prices, regulatory developments, ASX releases, financial results relative to their models, press releases, and management's commentary).

Quantitative systems and tools are important to managing the team's portfolios. A proprietary quantitative risk control tool is used to compare portfolio risk characteristics. The team utilises its risk measurement tool to monitor relevant characteristics including spread exposures, industry diversification, duration, maturity, coupon profile, and credit quality. The output from the risk management process is integral to portfolio construction, with the team seeking to ensure portfolios are structured with the desired levels of absolute risk as well as risk relative to the benchmark index.

These analyses are performed to seek to identify/avoid unintended risk and efficiently use risk on return-generating tilts, thereby improving risk-adjusted return. The analysis findings are conveyed and discussed with team members on a regular and ad hoc basis.

As previously noted, the team is highly experienced, with many members managing money during every major downturn over the last twenty years, or so. This experience led to a refinement in process, but also provides us with confidence in the Manager's qualitative sense of judgement to best mitigate and capitalise on opportunities during such periods.

PERFORMANCE ANALYTICS

The Trust's investment strategy is new, and as such, there is no existing performance history. However, to demonstrate the investment team's proven track record deploying the same investment philosophy and process this section assesses the net performance (after fees) of the Perpetual Pure Credit Alpha Fund when compared to the RBA Cash Rate.

As noted, however, while the Perpetual Credit Income Trust and Perpetual Pure Credit Alpha Fund will be based on the same investment philosophy and process, be managed by the same team and have very similar return targets, the Trust will intentionally be based on broader investment guidelines, specifically, the ability to invest in a higher degree of high yield sub-investment grade debt and loans versus the Perpetual Pure Credit Alpha Fund.

While an investor may reasonably ask that by having greater flexibility with respect to high yield and loans, would it not be appropriate that the Trust have a higher returns target than the Pure Credit Alpha Fund? The Manager's response, which we agree with, is that the greater flexibility, by providing a broader opportunity set, is designed to allow Perpetual to generate returns in a more consistent manner than the Pure Credit Alpha strategy rather than elevate risk, per se.

The Pure Credit Alpha strategy, by high holding in investment grade debt, is more dependent upon trading returns to generate income and such returns tend to more cyclical. With the Trust's ability to have a greater degree of high yield coupon payments, it is the Manager's expectation that the Trust will generate a comparatively smoother returns pattern versus what has historically been the very low volatility returns of Pure Credit Alpha. In essence, the captive capital structure of the LIT lends itself to generating consistent monthly distributions.

The differences between the two strategies are presented below.

Strategy	Perpetual Credit Income Trust	Perpetual Pure Credit Alpha Fund
Investment Guidelines	Investment Grade Debt: 30-100%; Sub-investment grade/non-rated debt: 0-70%; Borrowing for gearing purposes is not allowed. CDOs prohibited. AUD denominated assets: 70-100%. Non-AUD denominated assets: 0-30%	Investment grade debt: 50-100%; Sub-investment grade/non-rated debt: 0-50%; Equity: 0-15%; Illiquid assets: 0-18%; Borrowing allowed, gearing level: 0-50%
Exposure to the Perpetual Loan Fund	Up to 70%	Up to 18%
Estimated Management Costs	0.88%	1.00% as at 30 June 2018
Structure	A Trust to be listed on the ASX, Units can be bought and sold through the ASX.	An unlisted managed investment scheme with monthly redemptions processed by the Manager.

The historic returns of Pure Credit Alpha are presented below with the key points discussed below. In summary however, we believe the investment strategy has successfully delivered on the four key investor motivations for investing in the asset class. Specifically, it has provided a regular and reliable income stream, it has provided strong returns relative to its risk profile, initial capital has been preserved, and the strategy has provided broader portfolio diversification benefits.

- ◆ On a rolling 12-month basis, the Manager has met or exceeded the target performance range on approximately 89% of the 71 rolling 12-month monthly periods from inception to 28 February 2019. Given investors have the flexibility to control exit timing, the Manager has delivered strongly on the performance objective of the investment strategy.
- ◆ The maximum drawdown (net performance) is -0.28%, there have been only two monthly periods of negative returns and the strategy has recorded a standard deviation of 1.45% p.a. On all counts of risk and the preservation of capital, the Manager has performed remarkably well in this regard and in a manner consistent with the often cited defensive characteristics of the fixed income and credit asset class. Furthermore, we note the low correlation with Australian equities, specifically 0.16 relative to the S&P/ASX 300 Accumulation Index.
- ◆ Risk-adjusted (net) returns have been strong, with the strategy generating a sharpe ratio of 4.6 from inception to 28 February 2019.

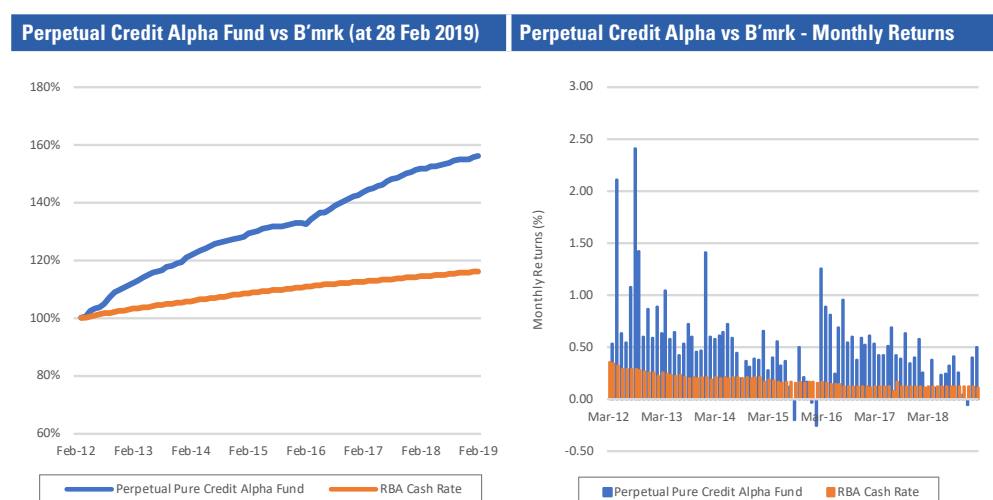
With the broader credit cycle always in mind, the key to credit investing is to select securities which are expected to experience credit improvements (positive credit migration) while avoiding securities expected to experience credit deterioration (negative credit migration). While this is easier said than done, the latter is more important due to the natural skew of

credit returns. In other words, the probability of negative credit migration tends to be greater than positive credit migration, with the price impact of a downgrade being more significant than the price impact of an upgrade due to the skew in risk (i.e. greater risk differential migrating B to CCC than migrating from B to BB).

The mitigation of downside risks is arguably the most impressive aspect of the Manager's track-record. This is in no small part attributable to the Manager's tendency to quickly exit investments where the fundamental investment thesis is showing signs of not playing out as expected. Additionally, the internal liquidity of the portfolio, with an average maturity of three to four years, has served as a strong risk mitigant.

Perpetual Credit Alpha Fund (as at 28 Feb 2019)						
	1 year	2 year	3 year	5 year	Inception	Std Dev
Perpetual Pure Credit Alpha Fund	2.9%	4.3%	5.7%	5.1%	6.6%	1.4%
RBA Cash Rate	1.5%	1.5%	1.6%	1.9%	2.2%	0.2%
Excess	1.4%	2.8%	4.1%	3.3%	4.4%	1.2%

* Net performance (after fees). Total returns shown for the fund have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. Inception date: 1 March 2012.



COMPARATIVE ANALYSIS

Based on available data, IIR has undertaken a comparative fee analysis on the Trust to determine competitiveness in this regard. The analysis encompasses European domiciled UCITS (Undertakings for Collective Investment in Transferable Securities) funds for both the high yield and corporate investment grade strategies. While the Trust is based on a diversified credit mandate, from an investment process perspective the workload is more akin to that of a high yield mandate more so than an investment grade mandate. As such, we believe the high yield peer group to be the most appropriate point of comparison. In this regard, we have considered what we deem to be the most directly comparable Australian based funds in the market, specifically the Bentham High Yield Fund and the AB Global High Income Fund. All data relates to management fees only as opposed to total costs, as generally referred to as a total expense ratio. The UCITS fee data is presented in the table below. We note the Bentham High Yield Fund and the AB Global High Income Fund charge a management fee of 0.79% p.a., 0.95% p.a. and 0.85% p.a., respectively.

Comparative Management Fee Analysis - UCITS funds		
	USD High Yield	USD Corp Investment Grade
Average Inst. Fee	0.61	0.45
Average Retail Fee	1.15	0.91
Median Inst. Fee	0.60	0.45
Median Retail Fee	1.10	0.80

The table below details ASX listed LITs with various debt and fixed income mandates.

Comparative Fee Analysis - ASX Listed LITs			
	ASX Code	MER	Performance Fee
Gryphon Capital Income Trust	GCI	0.88-0.96	n/a
MCP Master Income Trust	MXT	0.60*	Possibly *
NB Corporate Income Trust	NBI	0.85	n/a
Qualitas Real Estate Income Fund	QRI	2.375	20.5%**
Perpetual Credit Income Trust	PCI	0.88	n/a

* The MER of 60 bps is based on the current MXT portfolio allocations and FUM level. Fees are not charged at the MXT level, rather at the underlying wholesale fund level (investors do not incur a double layer of fees). The base MER may vary over time based on the portfolio allocation to the underlying wholesale funds. Similarly, for any given portfolio allocation, the MER may decline based on FUM growth, and vice versa. Two of the three current underlying wholesale funds, representing 40% of the MXT portfolio, charge performance fees. As part of the MER, the Manager also levies what is referred to as an "investor Equalisation Expense". ** 20.5% of performance (incl GST) above a cumulative net return of 8% p.a over rolling three year periods.

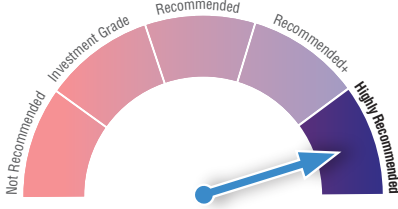
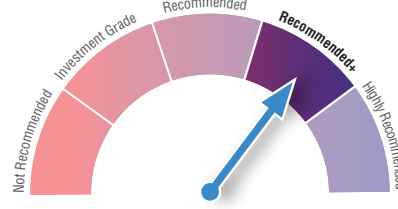
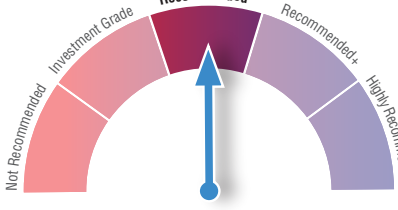
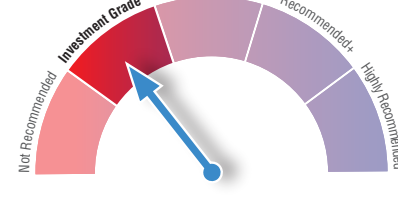
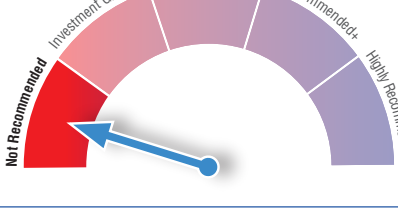
The key point to note is that by charging a management fee of 88 basis points p.a., the Trust compares favourably to both its domestic peers as well as the international peer group (for retail investors), including the investment grade segment. We also note that the latter is, on average, approximately 20 basis points below the high yield peer group, which we believe partly reflects the larger investment teams generally required for non-investment grade credit analysis.

More specific to the strategy, we note the Trust has a slightly lower MER relative to the Pure Credit Alpha Fund (1.00% p.a.). The Pure Credit Alpha Fund is not a widely-distributed product, being distributed narrowly to high net worth individuals and family offices. Such investors are typically very mindful of investment costs. The solid and consistent FUM growth in the Pure Credit Alpha Fund suggests to us that such investors perceive value in a stable investment team with no departures and one that has a 20-year proven track record in an asset class that has an asymmetry of downside risks. The resilience of the portfolio has been highlighted during periods of elevated market risk. As the Manager notes, to invest effectively in fixed income and credit a manager must be prepared to spend time and reject the large majority of deals, participating only in one out of three or four, on average. This is an expensive process.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

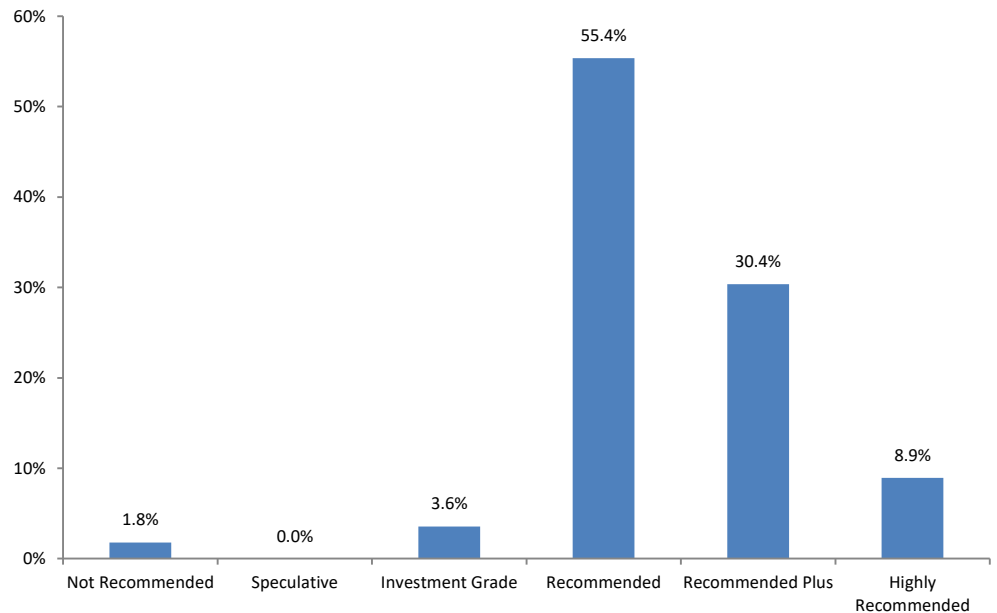
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above
 <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>	
Recommended +	79–83
 <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>	
Recommended	70–79
 <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>	
Investment Grade	60–70
 <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>	
Not Recommended	<60
 <p>This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>	

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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