AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Perpetual Credit Income Trust (ASX: PCI)

Review

4 September 2024

INDEPENDENT INVESTMENT RESEARCH

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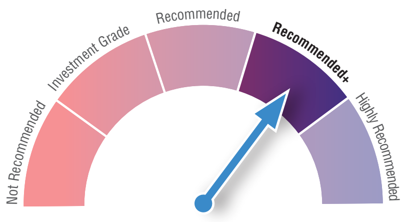
Note: This report is based on information provided by Perpetual Asset Management as at 30 June 2024.

Rating



Key Investment Information (as at 31 July 2024)	
ASX Code:	PCI
Unit Price ($):	$1.12
NAV per Unit ($):	$1.11
Market Cap ($m):	$516.9m
Units on Issue (m)	461.5
Target Distribution	RBA Cash Rate + 3.25% p.a.
Distribution Frequency:	Monthly
Structure:	Listed Investment Trust (LIT)
Responsible Entity	Perpetual Trust Services Limited
Investment Manager:	Perpetual Investment Management Limited
IIR Investment Classification	Fixed Income
Fees:	
Management Fee (p.a.), including GST	0.72%
Responsible Entity Fee	0.03%-0.05%
Recoverable Expenses	0.11%
MER FY24	0.89%
Performance Fee	na

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.

PRODUCT SUMMARY

Perpetual Credit Income Trust (ASX: PCI) ("PCI" or the "Trust") is a listed investment trust (LIT) designed to provide investors with regular monthly income through an actively managed portfolio of diversified credit exposures by asset type, issuers, credit quality, maturities, and capital structure. Listed in May 2019, the Trust is managed by Perpetual Investment Management Limited (the "Manager") and its highly experienced nine person specialist credit and fixed income team led by Michael Korber. PCI is based on a 'core/plus' strategy, with a core of at least 30% investment grade and a maximum 70% in high yield and loans.

PCI utilises an unconstrained credit strategy that seeks to generate a monthly income of RBA Cash Rate + 3.25% p.a. (net of fees), the equivalent of 7.6% p.a. based on the RBA Cash Rate of 4.35% as at the date of this report. The Manager endeavours to do so through a flexible investment approach that allows active portfolio positioning in order to focus on the most attractive credit and fixed income opportunity set of Australian securities and securities issued by global participants in the Australian market. 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. As at 30 June 2024, 47.6% of the portfolio was invested in Australian corporate loans through the Perpetual Loan Fund, and circa 20% in securitised issuances including RMBS, CMBS and ABS. With respect to credit ratings, 36% of the Portfolio was invested in Investment Grade, 17% in high yield, and 42.4% in non-rated securities. As is evident from the changes in the portfolio over time, the portfolio is actively managed with the Manager rotating the portfolio to attractive risk-adjusted opportunities identified including secondary market transactions, with capital preservation being front of mind for the Manager. The Trust has consistently met or exceeded its return target of the RBA cash rate + 3.25% p.a., net of fees and expenses, with the Manager providing a diversified portfolio of credit exposure across sectors, security types and credit rating spectrum to achieve the target return.

INVESTOR SUITABILITY

The Trust seeks to pay a consistent monthly distribution and to do so with a strong emphasis on capital preservation and downside risk mitigation. We note that PCI has delivered on its objectives consistently since inception. The unconstrained nature of the investment strategy coupled 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 reliable domestic fixed income solution for Australian retail investors. PCI invests in areas where Perpetual has had a long presence and developed a competitive edge such as the Australian corporate loan segment and securitised credit. PCI's diversified portfolio represents a point of difference to fixed income and credit LITs on the ASX, which are intentionally specialist strategies.

RECOMMENDATION

Independent Investment Research (IIR) has maintained a **Recommended Plus** rating for Perpetual Credit Income Trust (ASX: PCI). PCI provides a differentiated investment offering in the domestic fixed income LIT market, through an actively managed exposure to a diversified portfolio of credit securities to deliver a monthly income stream to investors. Investors benefit from the significant experience of the investment team in credit and fixed income markets with senior members of the team having experienced numerous market cycles. The Trust has consistently achieved its target return since listing with the investors benefiting from the predominantly floating rate exposure in an increased interest rate environment. While the portfolio is exposed to securities across the credit rating spectrum, we consider the Trust to be at the lower-end of the risk spectrum when compared to its LIT peers given it's investment grade exposure and the nature of the direct lending exposure, which is focused on higher quality companies. The recent capital raising will benefit investors through increased diversification in the portfolio and improved liquidity.

SWOT

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. 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 aimed at identifying the most attractive investment opportunities across the full spectrum of credit and fixed income assets to deliver attractive 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.
- The Trust uses an independent third party to mark the corporate loans to market. While this may result in NAV volatility, it provides transparency as to the value of the portfolio at any given time if a seller was required to be found.
- The strategy has performed credibly since its inception, delivering enhanced income with low return volatility. The discount in unit price has narrowed in recent periods, providing additional return to investors.
- The LIT structure provides the ability for the Manager to take advantage of less liquid opportunities given they do not have to manage the portfolio for redemptions while investors benefit from liquidity provided in the secondary market.

Weaknesses

- The team is highly experienced and relatively stable, however there will always be key person risk in the form of Michael Korber. Michael is closely supported by the senior team members, Vivek Prabhu, Greg Stock and Thomas Choi, however Michael's absence from the team would be notable.
- While acknowledging the 'semi-global' nature of the mandate, the reality remains the strategy lacks 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

- In both corporate loans and securitised issuances, Perpetual has long standing market presence and developed advantageous access networks. Both the loan and the securitised portfolios are managed by senior members of the Credit and Fixed Income Team with direct oversight by Michael Korber. PCI presents unique opportunities for investors to gain access to market segments typically only open to institutional investors or specialised managers.
- 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 across security types, credit quality, issuers and sectors.
- For investors seeking an enhanced yield, fixed income and credit investments have the potential to offer stable and attractive incremental spreads on a risk-adjusted basis when managed by an adept and proven investment manager.

Threats

- The Trust's portfolio includes non-investment grade securities. Non-investment grade securities 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 may result in mark-to-market losses in the portfolio and NAV depreciation risk. We note that this may not actually result in any realised losses.

- Market price to NAV risk is inherent in all closed-ended listed managed investments. Trading at a discount can provide attractive opportunities, however if the Trust trades at a discount for a prolonged period of time this can be a drawback for investors looking to exit from the strategy.

PRODUCT OVERVIEW

The Trust invests in 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). The Trust's exposure to corporate loans is predominantly through investing in the Perpetual Loan Fund, with exposure to the Perpetual Loan Fund capped at 70% of the Portfolio. The Trust can invest in the Perpetual Securitised Credit Fund (established in December 2022) subject to a maximum limit of 5% the portfolio. We note that both these funds are internal funds.

The portfolio limits are intentionally wide to permit an unconstrained strategy. This is designed to enable the Manager to focus on the most attractive opportunity sets across a full cycle with the purpose of generating consistent income and minimising capital risk.

Portfolio Parameters	
Rating Bands	**Portfolio Exposure**
Investment Grade	30%-100%
Unrated or Sub-investment Grade	0%-70%
Assets denominated in AUD	70%-100%
Assets denominated in foreign currency	0%-30%
Perpetual Loan Fund	0%-70%
Perpetual Securitised Credit Fund	<5%

PCI is in effect an extension and an amplification of what Perpetual has been doing with the Pure Credit Alpha (PCA) strategy since March 2012. The PCA strategy was established by Michael Korber following the GFC with the express purpose of generating a smooth and attractive (relative to risk) return profile. The team became more active in investments in the high yield segment in 2014. The key distinction with the Trust is there is an amplification of the high yield segment and an focus on stable and enhanced yield.

The investment process focuses on quality and value. The Manager has a proven track record of generating enhanced 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 relatively stable investment team. The senior members of the team possess specialist skills in credit and fixed income investing including lending to companies and institutions; origination, structuring, negotiating and execution of deals and syndicate loans, in managing funds the team is highly experienced in market assessment, security selection, portfolio construction and credit risk management.

The Manager seeks to generate monthly income at a target level of RBA Cash Rate plus 3.25% p.a. (net of fees), the equivalent of 7.6% p.a. based on the RBA Cash Rate of 4.35% as at the date of this report. We expect returns to be largely in the form of income. As a 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. The Trust marks the corporate loans to market which may result in NAV volatility however does not necessarily mean capital losses will be realised.

The Trust pays the Manager a fee of 0.72% p.a (including GST). There are no performance fees. The management fee is competitive relative to global and domestic peers.

Capital Raising

On 9 July 2024, the Trust announced a placement to wholesale investors at an issue price of $1.10 per unit (equivalent to the NAV per unit of the Trust on 5 July 2024 and represented a 4.8% discount to the Trust's closing market price on 8 July 2024. The Trust also announced a Unit Purchase Plan (UPP), in which eligible unitholders can acquire up to A$30,000 of fully paid ordinary units without incurring brokerage or other transaction costs at $1.10 per unit.

The Trust raised a total of $93 million through the capital raising issuing a total of 84.6 million units. $66.2 million was raised through with placement to wholesale investors raised and $26.8 million was raised through the UPP. The proceeds will be used to pursue additional investments in line with the Trust's investment strategy and mandate.

This is the first capital raising undertaken since listing, with the Trust taking advantage of the market price trading at a slight premium to NAV and the NAV trading back at IPO levels. We view the capital raising as a positive for investors with the issue of new units increasing the liquidity of the Trust without being dilutive for those investors that invested at the IPO.

INVESTMENT MANAGER

The Manager is a part of the Perpetual Group, which has been in operation for over 130 years, with its services offered through the Perpetual Group's fund management business, Perpetual Asset Management. Perpetual Group had $215 billion AUM as at 30 June 2024 across its six asset manager boutiques.

Perpetual Asset Management 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 an experienced and stable investment team, strong track record and a clear alignment of interest with investors. Fixed Income (across both domestic and US boutiques of Perpetual Group) accounted for $21.5 billion in AUM as at 30 June 2024, $10.5 billion of which was attributed to Australia.

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 developed, 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 the Manager where they continued to evolve investment processes, partly in-line with the continued growth and diversification of the Australian 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.

In May 2024, Perpetual Group announced that it will become a standalone asset management business, following the separation and sale of its Corporate Trust and Wealth Management businesses. Perpetual Group has entered into a Scheme Implementation Deed with an affiliate of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") who will acquire 100% of the two businesses via a Scheme of Arrangement (Scheme). The Scheme is subject to a Perpetual shareholder vote (amongst other conditions). A Scheme Meeting is currently expected to held in January 2025 with implementation shortly thereafter following satisfaction of conditions We do not expect the sale to impact the investment team however there is always the potential for disruption when there are changes to a group structure.

Perpetual Group AUM by Asset Class (as at 30 June 2024)	
Asset Class	**AUM (AUD$b)**
Equities:	169.9
Australia	*29.4*
Global	*68.8*
UK	*6.3*
US	*54.9*
Europe	*1.1*
Emerging Markets	*9.4*
Fixed Income:	21.5
Australia	*10.5*
US	*11.0*
Multi Asset	9.0
Other	0.8
Total ex Cash	**201.1**
Cash	13.9
Total	**215.0**

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 senior team members are highly experienced, with an average of 19 years industry experience in the credit markets.

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

Vivek Prabhu (Head of Fixed Income) focuses on managing floating rate strategies, and manages the Diversified Income Fund, ESG Credit Income Fund, and Credit Income Fund. Vivek also acts as deputy to Michael in overseeing the team. Greg Stock (Head of Credit Research and Senior Portfolio Manager) focuses on managing fixed rate strategies in areas such as Active Fixed Interest, Dynamic Fixed Income, and Exact Market Return strategy and is the back up Portfolio Manager for the Trust. Thomas Choi (Senior Portfolio Manager) is responsible for cash management, High Grade Floating Rate portfolios and the Securitised Credit Fund with a focus on RMBS and ABS, which the Manager is very active in, providing a solid contribution to the PCI portfolio. Michael Murphy (Portfolio Manager & Senior High Yield Analyst) is focused on high yield securities and manages the Perpetual Loan Fund which is also a stable and considerable contributor to the PCI portfolio. The team is further supported by three analysts and a dedicated dealer.

The senior team has been very stable, with the exception of the departure of Anne Moal (Head of Corporate High Yield) in 2022, whose responsibilities has been distributed amongst the remaining senior team. Departures at the analyst level since the PCI launch included two analysts and one senior dealer, all of which have been subsequently replaced with new hires.

Investment Team				
Name	**Position**	**Responsibility**	**Industry Experience (years)**	**Years at Perpetual**
Michael Korber	Managing Director Credit & Fixed Income	Pure Credit Alpha, PCI	42	19
Vivek Prabhu	Head of Fixed Income	Diversified Income Fund; ESG Credit Income Fund.	31	19
Greg Stock	Head of Credit Research & Senior Portfolio Manager	Active Fixed Interest; Dynamic Fixed Income; Exact Market Return	31	19
Michael Murphy	Senior High Yield Analyst, Portfolio Manager	Loan Fund	11	5

Investment Team				
Thomas Choi	Senior Portfolio Manager	High Grade Floating Rate, Cash Management, Securitised Credit Fund	22	16
Simon Poidevin	Senior Credit Analyst	General	14	2
Lydia Yin	Credit Analyst	General	2	2
Benjamin Chan	Credit and Private Debt Analyst	Private Debt	10	2
Di Zhu	Dealer	Dealing, Relative Value	6	1
Average			**18.8**	**9.3**

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 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. The portfolio starts on the basis of a strong investment grade portfolio with the Manager opportunistically investing in higher yielding opportunities as they arise. The team 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.

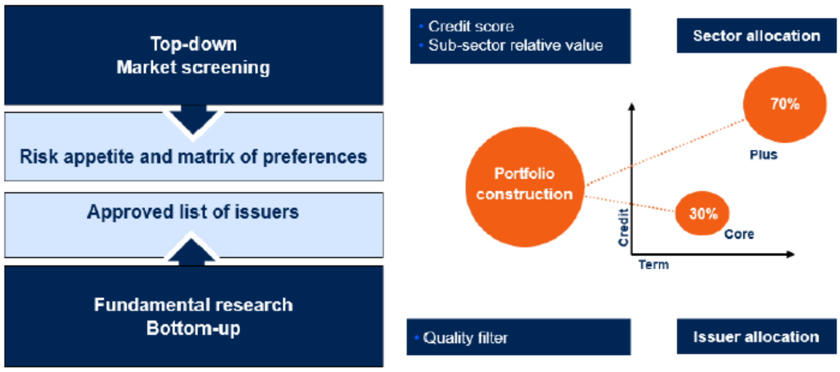
The unconstrained active approach is a key point of difference to other mandates. The investment process is designed to ensure the portfolio does not comprise high risk holdings that would otherwise not justify inclusion. Every position is taken on the basis of high conviction, rather than potentially 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.

Additionally, as the structure of the portfolio is relatively short dated, floating rate, and with a focus on quality issuers, the returns profile has been relatively smooth even during periods of volatility. We note that a part of the team 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, the mining downturn in 2015-16 and the global pandemic. 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 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.

Investment Process



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.

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 three-to-six-month period. 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 indicators are classified under four broad headings: valuation, growth, 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.

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 for over two decades and has allowed the Manager to position the portfolio to mitigate impending downside risks. Equally importantly, the process has enabled the Manager to take advantage of wider spreads in the market during periods of a more positive outlook.

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.

The active overlay strategy is generally implemented at the margin and at times of valuation extremes. 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.

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 asymmetrical risk 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 equity analysts and their research to complement and provide any further insight on common issuers.

The Manager uses a quality filter to identify issuers of sufficient quality to be considered for inclusion in the portfolio. The quality filter is designed to identify issuers and assets 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.

Relative Value Analysis

A relative value analysis is conducted for both the "core" and "plus" components of the portfolio. For the core (investment grade) component of the portfolio, the analysis is undertaken to determine where there is good relative value and highlight where there are excessive risks. The analysis is completed across three main risk dimensions; 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 Manager'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.

In relation to the plus component of the portfolio, the relative value process is considered after the bottom-up fundamental research. The team ensures that they understand all the risks and structural features of sub-investment grade or unrated capital instruments before benchmarking their relative value and making sure that they are satisfied with pricing.

Active Interest Rate Management

The investment team aims to build a portfolio in which overall interest rate exposure is floating rate, with the Manager using interest rate hedging to offset the impact of any fixed rate holdings. 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 assets of the Perpetual Credit and Fixed Income team. The Perpetual Loan Fund allows for efficient management of loan assets, ensuring a fair and diversified exposure to loan investments across the team's portfolios. Loans selected for investment in the Perpetual Loan Fund undergo the Manager's rigorous credit research review and due diligence process.

The Trust's exposure to corporate loan assets is made predominately through the Perpetual Loan Fund. Michael Murphy manages the Loan Fund portfolio, with Michael Korber as the back-up Portfolio Manager and maintains oversight.

The Fund focuses on large, quality Australian corporates with significant market share, economic moats and recurring revenues that are resilient to economic downturns. The due-diligence process is usually longer as a result and may require a number of meetings with arrangers and corporates. The research will delve into:

- The issuer's operational activities and the competitive landscape;
- The sector and company's key drivers;
- The sector and company's key risks and how they are mitigated;
- An in-depth review of the financials and credit metrics;
- Key metrics projections;
- A valuation of the collateral (which may be the business value of the issuer);
- A detailed review of the capital structure;
- A review of management, board and owners; and
- A detailed review of the instrument (structural features).

Securitised Credit

PCI invests in securitised credit assets including RMBS, ABS, CMBS and other structured credit products. Led by Thomas Choi, the securitised team focuses on building a diversified portfolio of assets covering different forms of collateral across senior tranche, senior mezzanine, junior mezzanine and equity assets.

The team leverages its depth and experience to be close to the local market to capture domestic opportunities and aims to generate 3.5% to 5.5% annualised return above the RBA cash rate through cycle.

The Perpetual Securitised Credit Fund was established in December 2022, and remains an internal fund. The Fund was created to hold the securitised assets of PCI, however PCI exposure to the Fund was capped at 5% for regulatory reasons. As such, the majority of the securitised investments are held directly by PCI. The Fund currently has one warehouse facility with the Manager potentially seeking to diversify the Fund.

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 focused on the high end of the capital structure.

The Core component of the portfolio is composed of investment grade assets, being the less risky component. The Plus component of the portfolio is the sub-investment grade and high yield opportunities which are considered more risky assets. As a portfolio moves further up the risk spectrum, the Plus component of the portfolio increases. The Core component anchors the portfolio providing liquidity and capital stability.

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 capital 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.

The Trust has some broad parameters in which it follows, tabled below. 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, mitigating embedded duration risk.

Investment Guidelines	
Rating Bands	**Portfolio Exposure**
Investment Grade	30%-100%
Unrated or Sub-investment Grade	0%-70%
Assets denominated in AUD	70%-100%
Assets denominated in foreign currency	0%-30%
Perpetual Loan Fund	0%-70%
Perpetual Securitised Credit Fund	<5%

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 instruments 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.

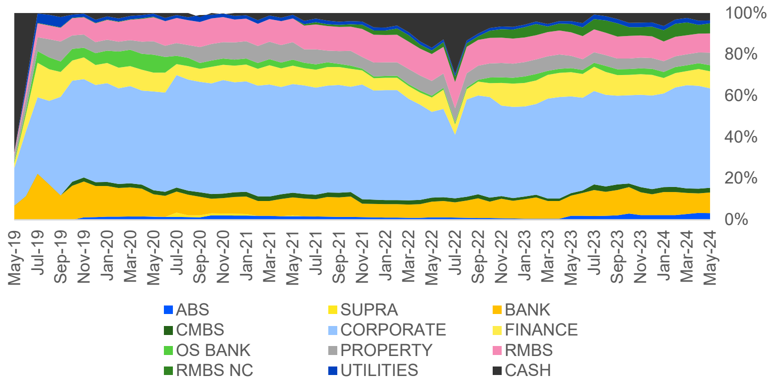
As previously noted, the team is highly experienced, with many members managing money during every major downturn over the last twenty years, or so. This experience has led to a refinement in process, but also provides us with confidence in the Manager's qualitative sense of judgement to best mitigate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

PORTFOLIO

The portfolio is actively managed with the Manager positioning the portfolio to what it deems to be the most attractive risk-adjusted opportunities across a broad spectrum of credit risks and security types.

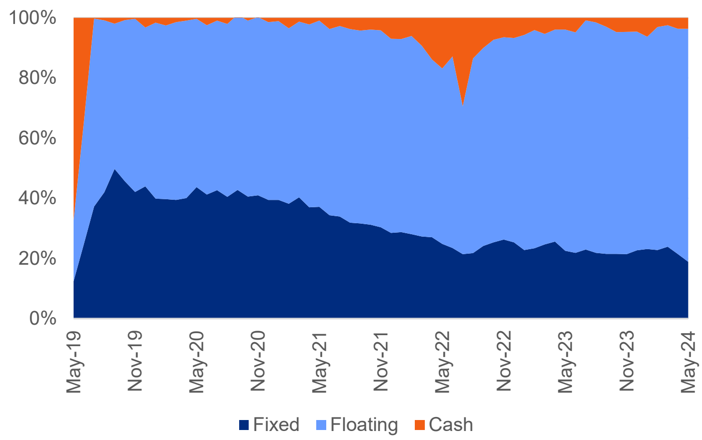
The largest exposure of the portfolio has been loans to Australian corporates, mainly through its investments in the Perpetual Loan Fund (11%-47%). The portfolio also has a considerable exposure (6%-22%) to securitised credit (RMBS, CMBS and ABS), including investments in the Perpetual Securitised Credit Fund (capped at 5%). RMBS exposure is typically focused on Prime RMBS, however the Manager will allocate to Non-Conforming RMBS where attractive opportunities arise. The Trust has remained largely invested with the Manager seeking to keep capital deployed to generate a return for investors. Cash increased in the second and third quarter of 2022 as the Manager repositioned the portfolio for the post-pandemic recovery. Cash was deployed relatively quickly which has meant there has been little impact from cash drag on returns.

Historic Sector Exposure



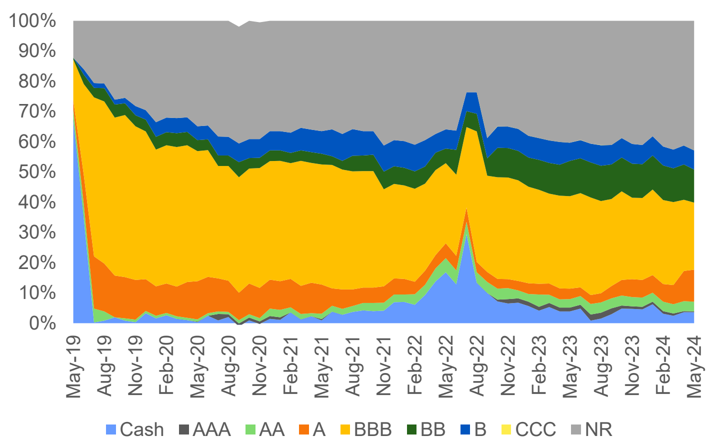
The Trust invests in both floating and fixed rate credits, however interest rate risks is managed through active overlay hedging to manage duration risk. The portfolio's interest rate duration has remained very low (circa 0.1 years) since its inception. The Trust would only take a modest duration tilt when conviction is high, and is unlikely to take significant duration risk.

Fixed vs. Floating Rate Exposure



The Trust will have exposure to Investment Grade and Non-Investment Grade securities. A minimum of 30% of the portfolio is invested in Investment Grade securities. Since becoming fully invested to 31 May 2024, exposure to Investment Grade securities has ranged from 35% to 74%. The Trust will have considerable exposure to Unrated issuers, many of which are loans to Australian corporates through the Perpetual Loan Fund. As part of the investment process, an internal rating is assigned to each investment in the Portfolio. The exposure to Unrated securities has ranged from 12% to 43% since the listing of PCI.

Credit Rating Exposure



The Portfolio is diversified with over 100 securities across a large number of issuers (circa 80). The Manager places a high focus on issuer quality and actively repositioning the portfolio over time to ensure capital preservation and provide improved returns. We have provided an annual snapshot of the portfolio below to highlight the active management of the portfolio.

Portfolio Allocation & Characteristics

Characteristics	30 June 2019	30 June 2020	30 June 2021	30 June 2022	30 June 2023	30 June 2024
Number of Securities	58	102	119	107	126	122
Number of Issuers	50	74	85	75	82	84
Perpetual Loan Fund	11.4%	19.7%	30.1%	40.7%	45.7%	47.6%
Securitised Credit	3.9%	15.3%	16.0%	18.2%	18.5%	19.5%
Prime RMBS	3.9%	12.0%	11.5%	12.9%	11.2%	9.3%
Non-Prime RMBS	0.0%	0.0%	0.7%	2.3%	4.3%	4.8%
Domestic Exposure	87.9%	83.9%	92.8%	95.4%	95.9%	97.1%
Running Yield (p.a.)	2.8%	4.0%	3.4%	4.7%	7.7%	7.9%
Weighted Average Life (Year)	3.2	4.4	3.9	2.2	3.0	2.7
Interest Rate Duration (Year)	0.14	0.04	0.09	0.08	0.08	0.12

Some of the key points with regards to the portfolio allocation include:

Asset Allocation - During periods of market dislocation, such as post global-pandemic period during 2022, the Manager refocused the portfolio with higher cash and less risky assets with a significant decline in exposure to non-rated securities. Higher levels of cash when the market environment is uncertain provides the Manager with a higher level of liquidity and opportunity to capture market dislocations when they arise. In recent years the Manager has positioned the portfolio to ensure a higher margin of safety by investing in quality issuers and refraining from investing in sectors facing structural headwind (e.g. property developers, SMEs), and transactions where risks are not sufficiently compensated (e.g. tier 1 Banks). While exposure to Non-Conforming RMBS has increased the Manager applies rigorous stress testing to ensure associated risks are well compensated for by a wide interest rate margin.

Competitive Advantage – The Trust has stable and considerable investments in Australian corporate credit through the Perpetual Loan Fund and securitised credit. In both areas Perpetual has a long standing market presence and developed advantageous access networks. Both the loan and the securitised portfolios are directly managed by senior team members with direct oversight by Michael Korber. These are unique benefits for the Trust investors as the Manager captures opportunities utilising its advantage in market networks and exercises its due diligence to ensure transactions are structured and investments are selected with strong alignments to the Trust's objectives.

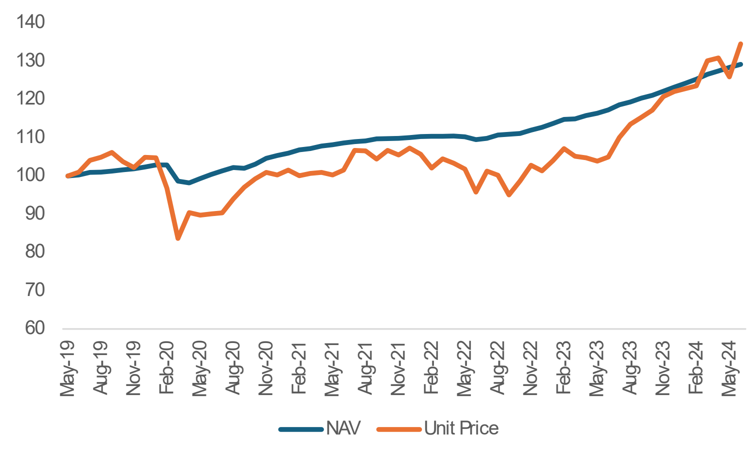
Diversification - Diversification in the portfolio has increased as the Trust has grown with an increased number of bond holdings and issuers. The portfolio is highly diversified with regards to sectors, security types, and credit rating spectrum.

PERFORMANCE ANALYTICS

The below takes a look at the performance of the PCI NAV and unit price since listing to 30 June 2024. The Trust is designed to provide a monthly income stream and preserve capital with the objective of the Trust to deliver a distribution yield of RBA Cash Rate + 3.25% p.a.

The Trust has delivered on its objectives to date. As can be seen by the cumulative total return chart below, there has been little volatility in the NAV. One of the features of the closed-ended structures of LITs is the unit price may dislocate from the NAV which has resulted in volatility in the unit price even though the NAV has experienced low levels of volatility.

PCI Cumulative Total Return



Tabled below is the performance of PCI's portfolio and unit price over the five years to 30 June 2024. The performance metrics of domestic equities and Australian Investment Grade and High Yield Bonds have been included to highlight the differentiated return profile of the PCI portfolio compared to other asset classes. Over the 12-months to 30 June 2024, PCI's portfolio delivered attractive risk-adjusted returns when compared to other asset classes with the portfolio delivering equity like returns with very low levels of volatility, facilitated by increased interest rates. PCI's portfolio also delivered higher returns than both Australian Corporate and High Yield bonds over the one, three and five-year periods.

The PCI portfolio returns have had a low to moderate positive correlation to the domestic equity market providing diversification benefits to an investor's broader portfolio with the portfolio also providing a differentiated risk/return profile to Australian Investment Grade and High Yield bonds. Unlike publicly traded corporate bonds which are largely fixed rate securities, corporate loans, RMBS and ABS are floating rate and therefore investors have benefited from the increased interest rates without the capital volatility when compared to corporate bonds.

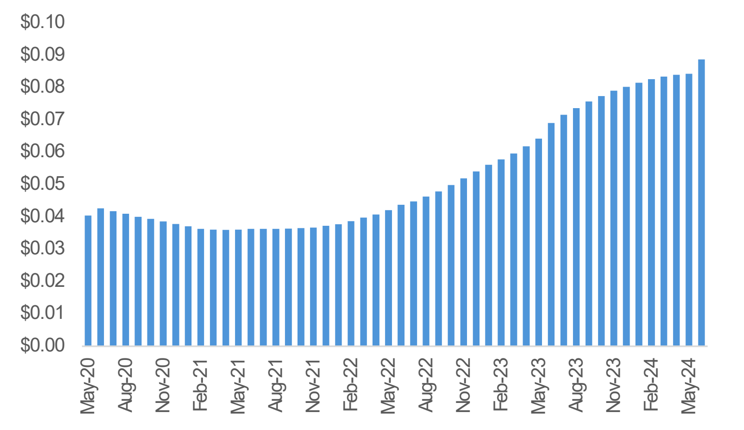
Performance Metrics (as at 30 June 2024)

	NAV	Unit Price	S&P/ASX 200 Acc. Index	S&P Australia Investment Grade Corporate Bond Index (TR)	S&P Australia High Yield Corporate Bond Index (TR)
Cumulative Total Return:					
1 year	10.2%	28.2%	12.9%	6.6%	9.0%
3 year (p.a.)	5.9%	9.8%	6.4%	0.0%	2.6%
5 year (p.a.)	5.2%	5.9%	7.3%	1.5%	-3.0%
Standard Deviation:					
1 year	0.6%	9.6%	11.5%	3.5%	2.6%
3 year (p.a.)	1.4%	10.6%	13.6%	4.6%	4.8%
5 year (p.a.)	2.5%	12.0%	16.4%	4.2%	12.6%
Correlation with S&P/ASX 200 Acc. Index:					
1 year	0.65	0.19	1.00	0.93	0.63
3 year (p.a.)	0.34	0.59	1.00	0.47	0.43
5 year (p.a.)	0.64	0.69	1.00	0.43	0.05

Distributions

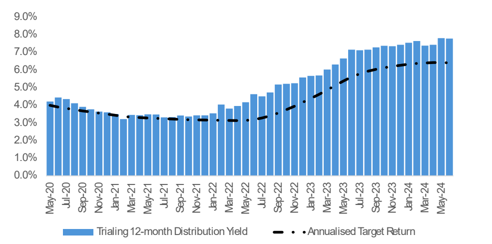
PCI returns are designed to be predominantly income in nature. The Trust pays a monthly distribution with the distribution reflecting net income received by the portfolio. The predominately floating rate & domestic nature of the underlying investments sees the Trust's distribution varying with the base rate, being the RBA Cash Rate. Unitholders have benefited from the increasing interest rate environment with distributions increasing as the RBA Cash Rate has increased, as is shown by the rolling 12-month distributions paid in the below chart.

Rolling 12-month Distribution Amount

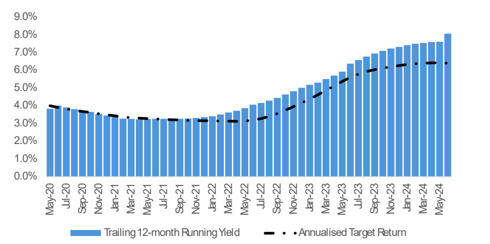


The Trust has delivered a distribution and running yield above the target distribution yield since becoming fully invested shortly after the listing. The changes in the income received by the portfolio lags interest rate increases so we have annualised the target distribution yield below to provide a more accurate profile of the returns of the Trust compared to the target yield.

Trailing 12-month Distribution Yield



Trailing 12-month Running Yield

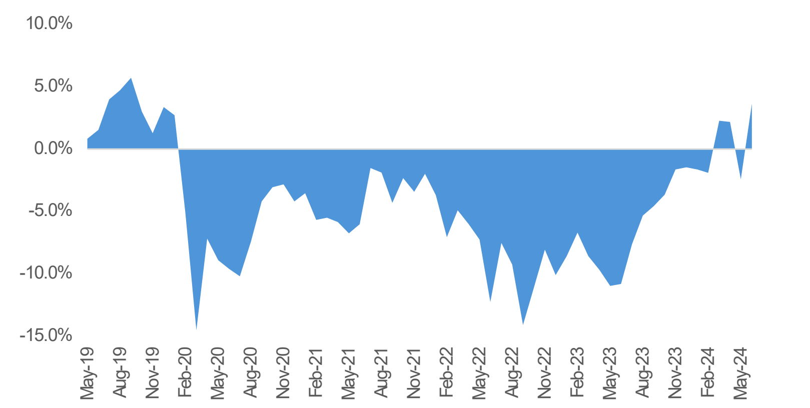


Premium/Discount

The Trust traded at a discount for a prolonged period of time post the COVID market dislocation. Since mid-2023, the discount has been narrowing with the Trust trading at a premium in recent months. Demand for the Trust has improved as the distribution yield has improved over this period, with the Trust currently providing an attractive risk-adjusted return.

Discounts have been associated with low yields and economic uncertainty. Discounts have provided the opportunity for investors to take advantage of the unit price volatility and generate an enhanced yield and a capital return as the return has improved and economic uncertainty subsided.

Historic Premium/Discount to NAV (month-end data)



PEER COMPARISON

The below provides a comparison of the key features and performance of the fixed income LITs on the domestic market. With the IPO of Pengana Global Private Credit Trust in June 2024, there are currently 7 fixed income LITs on the ASX, all of which provide a different investment offering to investors.

Compared to its LIT peers, PCI is uniquely positioned in that it has an unconstrained mandate and can invest across a broad credit spectrum. The Trust invests across the credit rating spectrum, with exposure to both investment grade and sub-investment grade securities differing depending on the market conditions and the opportunities identified. We note that while a number of the corporate loan exposures are unrated, the Manager tends to focus on quality, cash flow generating companies and not speculative pre-earnings companies. While predominantly Australian focused, PCI does invest globally.

ASX Fixed Income LIT Key Features

LIC/LIT	Code	Market Cap ($m)*	Underlying Investments	Credit Quality	Distribution Frequency	Target Distribution (p.a.)
Gryphon Capital Income Trust	GCI	$681.2	RMBS & ABS	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.5%
KKR Credit Income Trust	KKC	$758.0	Corporate High Yield Bonds, traded loans and Private Credit	Sub-Investment Grade	Monthly	8.1%**
Metrics Income Opportunities Trust	MOT	$732.1	Corporate Loans	Sub-Investment Grade	Monthly	7.0%
Metrics Master Income Trust	MXT	$2,195.5	Corporate Loans	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.25%
Perpetual Credit Income Trust	PCI	$516.9	Diversified	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.25%
Pengana Global Private Credit Trust	PCX	$160.6	Fund of Fund Private Credit	Senior, subordinated & equity-linked	Monthly	7.0%
Qualitas Real Estate Income Fund	QRI	$720.2	CRE debt	Senior & Mezz debt	Monthly	RBA Cash Rate + 5.0%- 6.5% &

*As at 31 July 2024.
**Target Distribution Yield is determined at the beginning of each financial year and is calculated based on the target annual distribution amount and the NAV as at the end of each financial year.

Source: ASX, IIR.

PCI's fees are competitive when compared to its peers with an annual management fee of 0.72% (including GST) and no performance fee.

ASX Fixed Income LIT Fees

LIC/LIT	Code	Management Fee, incl. GST	Performance Fee	Performance Fee Hurdle
Gryphon Capital Income Trust	GCI	0.72%	na	na
KKR Credit Income Trust	KKC	1.00%	5.13%	RBA Cash Rate +4% p.a. subject to High Water Mark
Metrics Income Opportunities Trust	MOT	1.03%	15.38%	RBA Cash Rate +6% p.a.
Metrics Master Income Trust	MXT	0.60%	na*	na*
Perpetual Credit Income Trust	PCI	0.72%	na	na
Pengana Global Private Credit Trust	PCX	1.20%	20.0%	RBA Cash Rate + 6.0% with a floor of 7.5%
Qualitas Real Estate Income Fund	QRI	1.50%	20.5%	8.0% p.a., subject to High Water mark over a three-year period

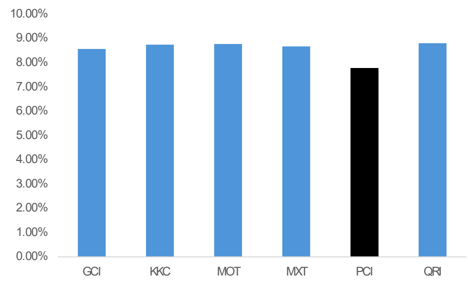
*SPDF II and REDF are eligible for performance fees of 15% of the outperformance of the target returns for the respective funds.

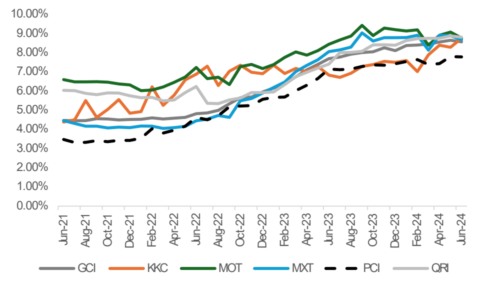
Distributions

PCI's distribution yield has increased as the RBA Cash Rate has increased. PCI's yield is at the low-end of the peer group, however this is considered competitive given the level of risk in the portfolio. PCI's portfolio is considered to be at the lower end of the risk spectrum when compared to its peers given the nature in which the mandate is managed.

Trailing 12-month Distribution Yield

As at 30 June 2024	Trailing 12-month Distribution Yield (3 years to 30 June 2024)





Source: Iress, IIR.

Performance

Fixed income LITs generated attractive risk-adjusted returns across the board over the 12-months to 30 June 2024. PCI delivered strong returns when compared to the peer group, however it is important to note that the LITs in the peer group invest in different underlying assets and therefore have different risk/return profiles.

Given PCX only recently listed, it is not included in the below table.

NAV Risk & Returns (as at 30 June 2024)

	GCI	KKC	MOT	MXT	PCI	QRI
Total Cumulative Returns						
1 year	9.7%	13.5%	9.9%	9.4%	**10.2%**	9.3%
3 year (p.a.)	6.8%	5.9%	10.3%	7.2%	**5.9%**	7.5%
5 year (p.a.)	6.3%	na	9.1%	6.4%	**5.2%**	7.2%
Standard Deviation						
1 year	1.2%	4.8%	1.2%	1.1%	**0.6%**	0.2%
3 year (p.a.)	1.1%	5.9%	2.4%	1.0%	**1.4%**	0.8%
5 year (p.a.)	1.1%	na	2.2%	0.9%	**2.5%**	0.8%

Unitholder returns for all LITs in the peer group outperformed the NAV returns over the 12-months to 30 June 2024. There was demand for fixed income as an asset class which saw a number of the LITs narrow or eradicate the discount at which they were trading, boosting unitholder returns.

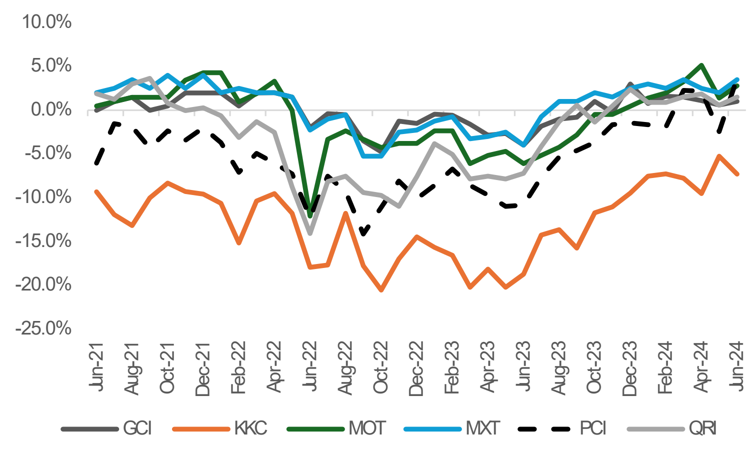
Unitholder Risk & Returns (as at 30 June 2024)

	GCI	KKC	MOT	MXT	PCI	QRI
Total Cumulative Returns						
1 year	15.3%	30.6%	20.3%	17.7%	**28.2%**	19.6%
3 year (p.a.)	7.2%	7.7%	11.2%	7.8%	**9.8%**	7.6%
5 year (p.a.)	5.9%	na	9.8%	6.7%	**5.9%**	7.2%
Standard Deviation						
1 year	5.1%	9.7%	5.7%	4.2%	**9.6%**	6.0%
3 year (p.a.)	5.4%	14.8%	10.9%	5.9%	**10.6%**	9.0%
5 year (p.a.)	10.8%	na	16.6%	10.7%	**12.0%**	12.5%

Premium/Discount

Over the last three years, fixed income LITs as a group have moved from discounts to slight premiums. As distribution yields have improved, there has been an increased demand for the risk-adjusted returns offered from fixed income LITs. Until recently, PCI had traded at a larger discount than many of its peers, however the discount has narrowed and has traded at slight premiums to NAV in recent months, in line with many of its peers. Like the other LITs, the increasing distribution yield combined with low capital volatility has increased demand.

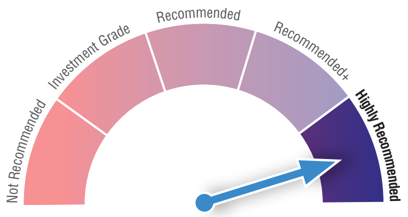
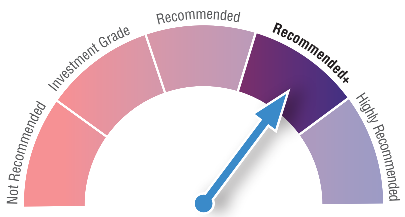
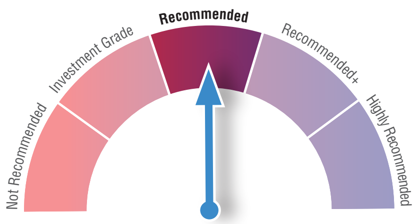
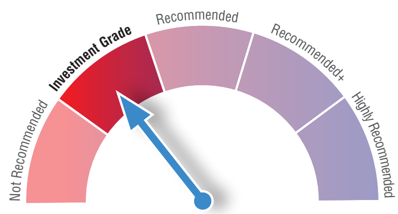
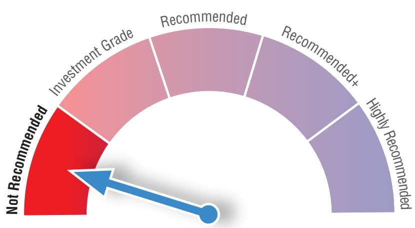
Peer Group Premium/Discount



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system.

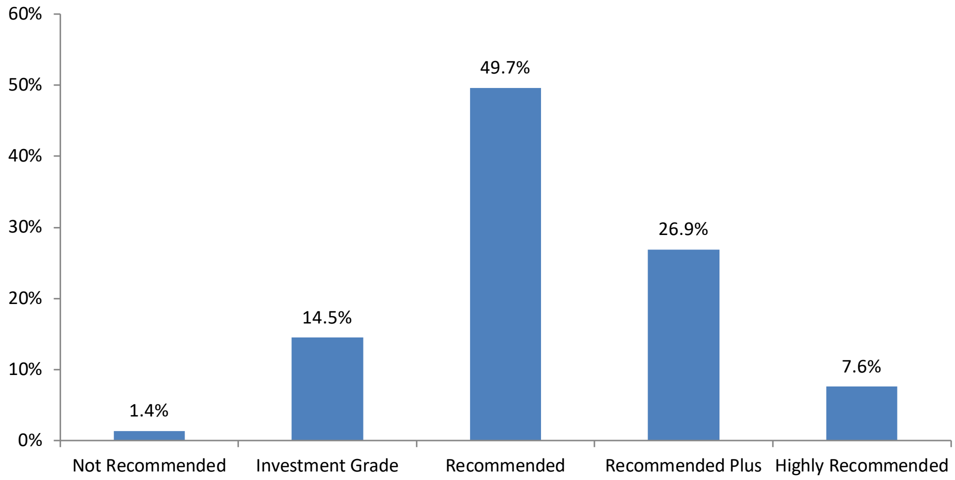
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	83 and above
	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.
Recommended +	79–83
	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.
Recommended	70–79
	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.
Investment Grade	60-70
	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.
Not Recommended	<60
	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.

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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