



# Perennial Income Focused Trust

Perennial believe that a well-diversified and balanced mix of investment grade and sub-investment grade credit gives investors seeking a higher yield the best risk adjusted outcome over time.

## About the Trust

The Trust is designed to offer an actively managed, well diversified exposure to a portfolio of higher yielding securities that are of sound credit quality and generate the majority of their return from regular interest payments.

## Description of the Trust

The types of securities that the Trust invests in includes corporate bonds and corporate floating rate notes, asset backed securities, hybrid securities including perpetual income notes, converting preference shares (both cumulative and non-cumulative) and capital notes. These securities can be either unlisted or listed. In terms of their security ranking, the securities can form any part of a company's capital structure from senior, secured debt through to preferred equity.

In terms of interest rate risk, the Trust can invest in both floating rate and fixed rate securities. To the extent that the Trust holds fixed rate securities, interest rate derivatives will be used to hedge the interest rate risk at an overall Trust level back to within stated investment guidelines so that the capital value of the Trust is not unduly affected by changes in long term interest rates.

The Trust is authorised to utilise derivative instruments for risk management purposes, subject to the specific restriction that they cannot be used to gear the portfolio exposure.

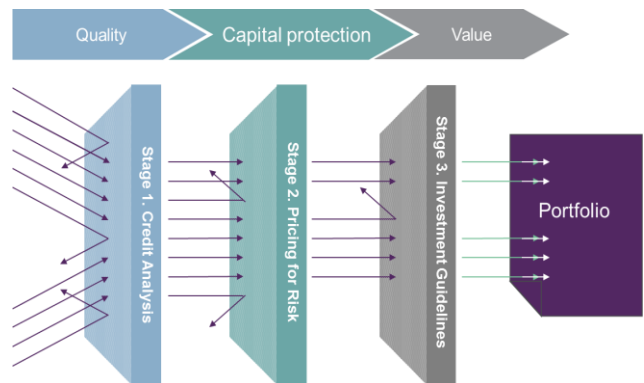
At the overall Trust level, any foreign currency exposures are hedged back to Australian dollars.

For reasons of investment efficiency, the Trust may gain its exposure to certain sectors and strategies by holding units in other Perennial Trusts.

## Objective

The aim of the Trust is to provide a total return (after fees) that exceeds the Bloomberg AusBond Credit FRN 0+ Yr Index over rolling three year periods.

## Investment process



## Investment philosophy

Perennial Fixed Interest believe that investment markets are at times influenced by non-fundamental factors that cause prices to periodically overshoot their fair value levels. The biggest inefficiency that we seek to exploit is the disproportionate impact that short term factors have on the valuation of long term securities.

We believe that a well-diversified and balanced mix of investment grade and sub-investment grade credit gives investors seeking a higher yield the best risk adjusted outcome over time. We believe in being patient, value oriented investors with a preference to buy good quality credits and capture the higher running yields over time, rather than actively trade credits. Perennial believes that investing in credit should remain consistent with the general defensive nature fixed interest plays in a balanced portfolio.

## Portfolio construction

Perennial's credit process is both a top-down and bottom-up process. We begin from a top-down perspective given the strong correlation between the broader health of the economy and the credit risks associated with a company's credit risk.

In assessing the economic landscape we conduct a regular review of the latest economic releases and formulate detailed economic forecasts of both growth and inflation. We do this using Perennial's proprietary econometric models. In addition, we make an assessment of where we are in the credit cycle in terms of aggregate gearing, profitability and defaults.

From a bottom up perspective, our credit research uses a three stage filter to determine which securities, and in what magnitude, they find their way into the portfolio:

1. Credit analysis (assessment of quality, price and the diversification benefits to the portfolio)
2. Pricing for risk (to make an assessment of "fair value")
3. Investment guidelines (sector exposures and concentration limits)

The final stage of the process is portfolio construction. Our proprietary risk tool, Perennial One, is used to construct the portfolio through the measurement of interest rate risk, sector risk, credit risk and exposure by security type.

### Trust summary

APIR Code	IOF0127AU
Inception date	October 2012
Risk/return profile	Medium
Income distribution	Quarterly
Minimum recommended investment period	3 years
Investment management fee % p.a.	0.60
Performance fee	No
Buy/sell spread %	0.30
Unit pricing, applications and redemptions	Daily

### Investment guidelines summary

Asset allocation	
Cash	0 to 50%
Corporate debt	30 to 100%
Hybrids	0 to 70%
Asset backed securities	0 to 50%
Unit trusts	0 to 30%
Credit exposure	
Investment grade	50 to 100%
Sub investment grade	0 to 50%
Modified duration	0 to 1 year
Minimum credit quality	BB-
Tracking error	1.00%

## Investment team

**Glenn Feben**  
Portfolio Management  
Interest rate  
Sector strategy  
Perennial: 27 years  
Industry: 34 years

**Frank Uhlenbruch**  
Macroeconomics  
Interest rate strategy  
Perennial: 19 years  
Industry: 29 years

**Noel Murphy**  
Portfolio Management  
Interest rate  
Sector strategy  
Perennial: 12 years  
Industry: 34 years

**Jay Sivapalan**  
Portfolio Management  
Relative value  
Perennial: 14 years  
Industry: 16 years

**Ashley Kopczynski**  
Credit analysis  
Relative value  
Perennial: 8 years  
Industry: 12 years

**Taf Mugwagwa**  
Analyst  
Dealing  
Perennial: 1 year  
Industry: 7 years

For further information contact us on 1300 730 032 or visit [www.perennial.net.au](http://www.perennial.net.au)

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