

# Perennial Tactical Income Trust



**PERENNIAL  
FIXED  
INTEREST**

TEAM FORMED AUGUST 1994

A TEAM OF SIX INVESTMENT PROFESSIONALS, HEADED BY GLENN FEBEN

STYLE – ACTIVE ‘FAIR VALUE’ INVESTMENT PHILOSOPHY

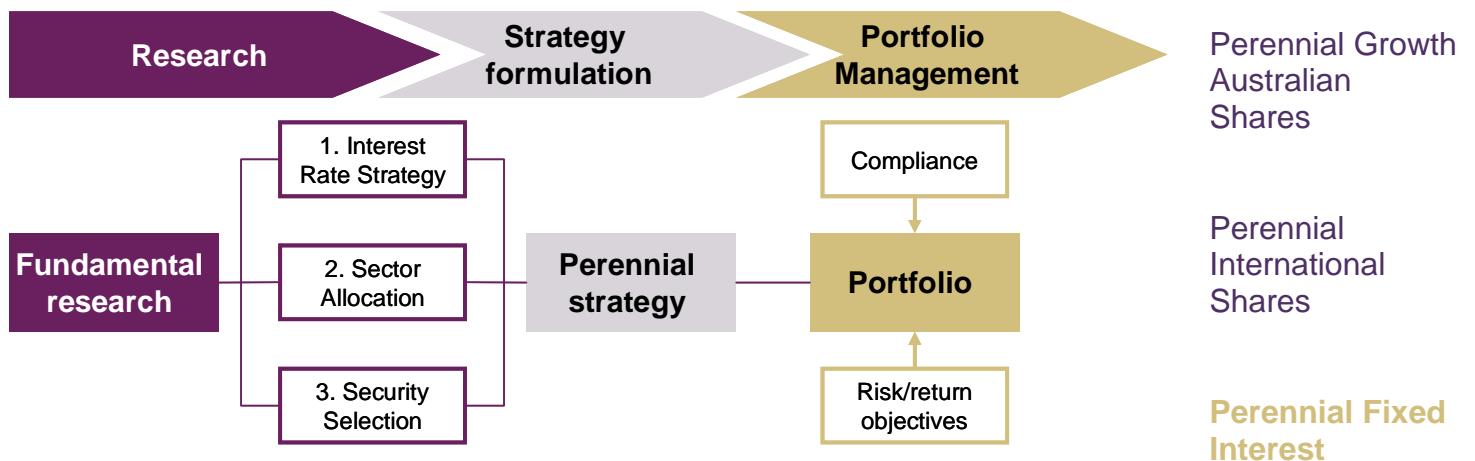
The Tactical Income Trust is designed to meet the needs of investors who want:

- An integrated solution to their Australian defensive asset allocation;
- an absolute return investment mindset; and
- an investment that is defensive in nature, which provides them with strong performance in poor economic conditions.

The Tactical Income Trust enables investors to combine their Australian defensive asset allocation in a single product.

## Tactical Income Trust Investment

### Process: A Three Stage Process



## Tactical Income Trust Objective

By investing in a diversified portfolio of Australian income producing assets, the objective of the Trust is to provide investment returns in excess of the Trust's Benchmark, the UBS Bank Bill Index and UBS Composite Bond Index (0+ years) equally weighted. The Trust aims to provide a total return (after fees) that exceeds the benchmark.

Perennial Real Estate Investments

Perennial is a specialist active manager who accesses a range of diversified strategies to add value for our investors. Our principal focus is developing strategies that we believe are in the best long-term interest of our clients. We are not unduly influenced by the structure of the Index portfolio.

## TRUST SUMMARY

The Trust will be actively managed and can invest across Australian cash, cash equivalents, fixed income and hybrid securities.

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- An integrated solution to their Australian defensive asset allocation;
- an absolute return investment mindset; and
- an investment that is defensive in nature, which provides them with strong performance in poor economic conditions.

To achieve this, the Tactical Income Trust seeks to manage the following key investment decisions:

- Interest rates - when should the investor hold longer dated fixed rate assets and when should they be in shorter dated floating rate assets?
- Sector – what is the right proportion of Government guaranteed assets and when is the reward in non-Government securities enough to adequately compensate the investor for the additional risk?
- Security – what non-Government securities have stable to improving credit quality? Of these securities, which offer an appropriate return for the underlying risk?

## INVESTMENT PROCESS

1. Research: Like all Perennial fixed income portfolios, the Tactical Income Trust is driven by our fixed income investment process. The Tactical Income Trust accesses all the proprietary research and views from our work across a spectrum of Australian debt markets.

The research stage covers three key areas:

- Economic outlook (predominantly driving interest rate management);
- market research (predominantly sector allocation); and
- credit research (predominantly security selection)

2. Strategy Formulation: This is where insights from our research effort are used to answer the three key areas in positioning the Tactical Income Trust. This is done sequentially:

- What interest rate risk do we wish to take on?
- Which sectors look attractive to invest in?
- What securities within the relevant sectors have stable to improving credit quality. Of these, which look attractively priced?

3. Portfolio Implementation: The Tactical Income Trust makes use of existing Perennial Trusts where these can allow us to express our desired position. This increases the investment flexibility and efficiency of managing the product. These Trusts include the Perennial Cash Trust, the Perennial Cash Enhanced Trust and the Perennial Australian Fixed Interest Trust.

Snapshot of these three Trusts:

**Cash Trust:** A portfolio of quality floating rate instruments such as money market securities, Bank Bills and Treasury Notes, managed against the Bank Bill Index. Average portfolio credit quality is AAA and it has limited interest rate risk.

**Cash Enhanced Trust:** A portfolio of floating rate instruments comprising about a third in money market and bank bills and two thirds in floating rate notes (including asset backed, mortgage backed and corporate) managed against the Bank Bill Index. Minimum average credit quality is AA, and interest rate risk is up to 1.25 years.

**Australian Fixed Interest Trust:** A portfolio of longer dated fixed income securities issued by governments, supra-nationals and corporates, managed against the UBS Composite Bond Index. Minimum average credit quality is A-, and interest rate risk can be 1.5 years either side of the benchmark.

Additionally, the Tactical Income Trust can also hold assets directly. This may include opportunistic allocation to listed hybrid securities and, in some cases, debt assets and futures contracts. Our approach to investing in hybrids will be deliberately conservative, seeking to identify and select securities where we have a high level of comfort as to their credit quality. All securities must pass through Perennial's two step credit assessment process prior to inclusion.

This combination allows us to manage both the interest rate and credit exposure. For example, if it is believed long term interest rates and credit looks attractive, a larger allocation may be made to the Fixed Interest Trust. Conversely, should we believe longer dated interest rates and credit is expensive, more exposure would be taken in the Cash Trust.

## INVESTMENT TEAM

Perennial's Fixed Interest Team, led by Glenn Feben, is responsible for managing this Trust. The Perennial Fixed Interest Team was formed in 1999 and has won the Morningstar Fixed Interest Fund Manager of the Year three consecutive times (2001, 2002 & 2003). The Team also won the Money Management Australian Fixed Interest Fund Manager of the Year in 2005. Perennial Fixed Interest has also been awarded the Australian Fund Manager of the Year Awards – Fixed Interest Securities for three years running (2009, 2010 & 2011).

