- Why manager experience matters in higher-yielding credit

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By Perpetual Asset Management
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Investors looking to private credit in the search for higher income should take care when choosing an investment manager, says Perpetual senior portfolio manager GREG STOCK

- Look for managers who have invested through multiple credit cycles
- Ask your manager how they size risk
- Find out about Perpetual Credit Income Trust's (ASX:PCI) limited-time capital raising offer

FUND manager experience and a proven track record are becoming increasingly important in private-credit investing as regulatory scrutiny increases.

That’s according to Perpetual senior portfolio manager and head of credit research, Greg Stock.

Regulatory focus on private credit valuations and liquidity structures has highlighted risks in concentrated, single-sector strategies.

The scrutiny comes as more investors look beyond investment-grade bonds for higher income.

What separates managers is how they size risk and whether they’ve operated through multiple credit cycles, with funds chasing the highest yields in single sectors at risk in a downturn, says Stock.

“Every cycle there’s one or two funds that specialise in the highest-return, highest-risk segment,” says Stock.

“Invariably, the increased risks materialise, the higher returns are unsustainable, and some are no longer in existence a couple of years later.

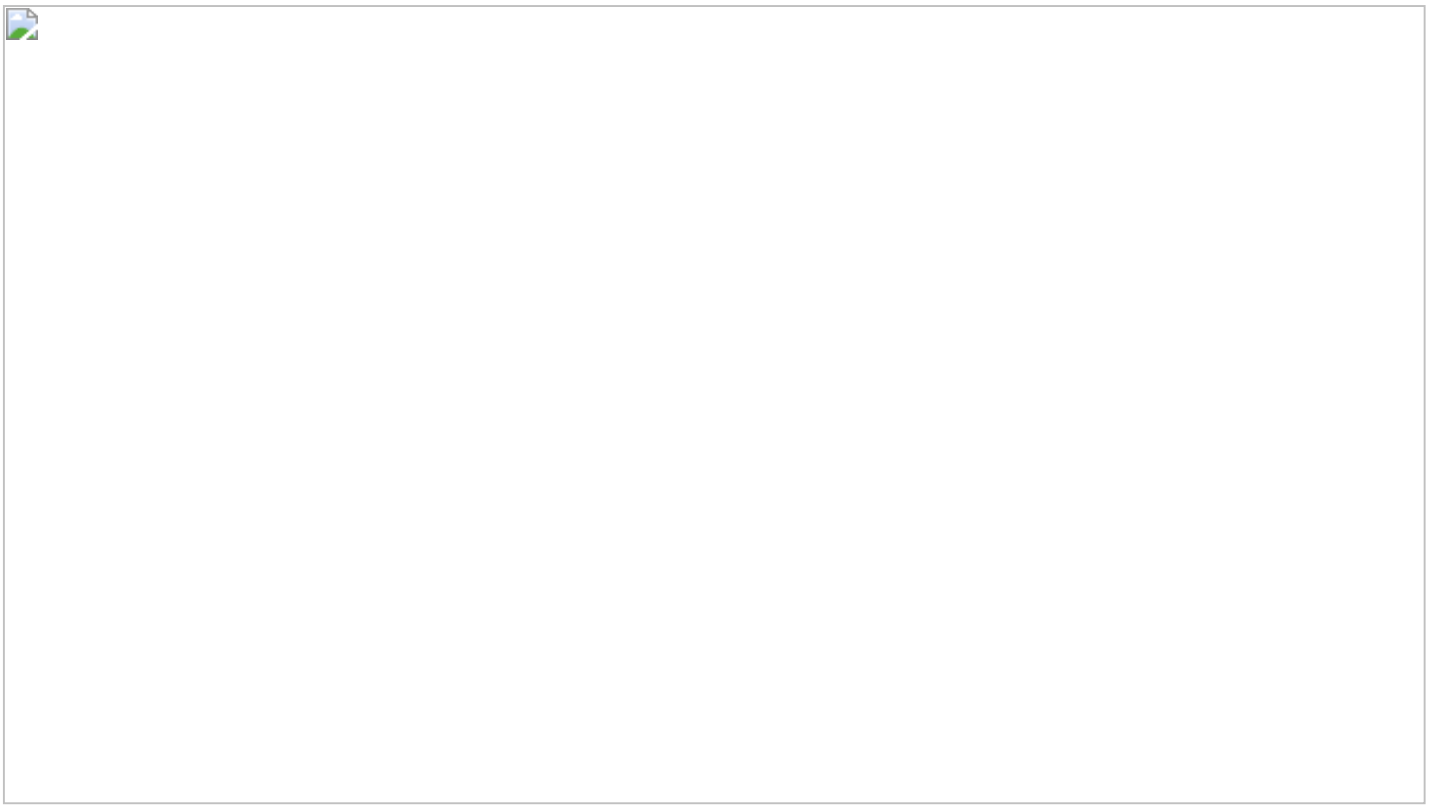
Stock manages Perpetual Credit Income Trust (ASX:PCI), which has just announced a new capital raising.

“The way we approach the segment is to have a blend of investment grade and sub-investment assets – and the ability to rotate where there’s relative value.

“We think there needs to be balanced risk management – it’s really important.”

The case for ASX:PCI

Perpetual Credit Income Trust (ASX:PCI) is designed to provide monthly income from a diversified mix of credit and fixed-income securities.



Importantly, PCI can draw on both public and private markets, rotating between the two to capture relative value.

“We can blend investment-grade and sub-investment-grade securities – and a diverse range of underlying sectors – and have the ability to rotate where there’s relative value.

“We can capture the liquidity premiums and higher yields available in private credit, which adds to the return profile, while being mindful of the risk-return characteristics of the fund and what it’s seeking to achieve.”

Where the opportunities lie

Public credit includes tradable bonds – mostly from investment-grade corporates – while private credit covers less-liquid assets like securitised structures and corporate loans.

Securitised structures pool underlying exposures – mortgages, car loans, equipment leases or receivables – and divide them into tranches with different risk and return profiles.

Corporate lending includes loans to businesses, from large infrastructure and blue-chip corporates to smaller firms with higher gearing.

Stock says Perpetual aims to rotate towards areas of relative value and away from sectors where risk is under-priced – avoiding the pattern of concentrated funds that chase the highest yields to attract large inflows.

Private credit generally pays a higher yield because it is less liquid than publicly traded securities – investors naturally seek and receive higher income in return for locking up their money for longer.

Much of private credit is either unrated or carries a sub-investment-grade rating – meaning it sits below BBB on the credit scale. But that rating often reflects financial structure, not necessarily business quality.

“You can have a very strong, stable business profile, but if it’s highly geared, it will tend to be sub-investment-grade,” says Stock.

“We focus on large corporates with pricing power, market share and competitive advantages. These loans typically have strong security and covenants to protect investors”

Stock says the key requirement for investment is discipline: deep analysis of business quality and financial structure, sizing positions appropriately, and diversifying across issuers, industries and structures.

Long track record

The Perpetual credit team has a long track record in the sector, joining the firm more than two decades ago just as Australian corporate credit markets were being developed.

At the time, investors had limited options beyond cash, term deposits and bonds.

Stock and the Perpetual team were among the first to develop strategies designed to capture the liquidity premiums and sub-investment-grade opportunities emerging as banks stepped back from lending.

That tenure means the team has invested through multiple credit cycles. “You don’t get any return unless you take risk,” says Stock.

“The questions are the same: what risk, what’s the appropriate return for that risk, and what’s the right position size?

About Greg Stock and Perpetual Credit Income Trust (ASX:PCI)

Greg Stock is a Senior Portfolio Manager and Head of Credit Research with Perpetual’s Credit and Fixed Income team.

Greg has more than 30 years of investing experience, including 20 at Perpetual. He has researched and analysed credit markets on the buy side and sell side for more than a decade, through multiple cycles.

Greg is portfolio manager for several of our credit and fixed income funds, including Perpetual Credit Income Trust (ASX:PCI), which has just announced limited-time capital raising offer.

Find out about PCI’s limited-time capital raising offer

Want to know more? Contact a Perpetual account manager

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