Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

December 2024

FUND FACTS

Investment objective: Aims to provide capital stability and regular income by investing in a diversified range of income generating assets, and a positive return (before fees and taxes) irrespective of market conditions over a rolling three-year period.

Benchmark:	50% Bloomberg AusBond Composite Index/50% Bloomberg AusBond Bank Bill Index
Inception date:	November 2010
Size of fund:	$26.0 million as at 30 September 2024
APIR:	PER0557AU
Mgmt Fee:	0.45% pa*

Suggested minimum investment period: Three years or longer

FUND BENEFITS

The fund is designed to provide investors with a diversified fixed income solution that manages both credit risk (credit worthiness) and duration risk (sensitivity to changes in interest rates) in different economic conditions.

FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

TOTAL RETURNS % (AFTER FEES) AS AT 31 December 2024

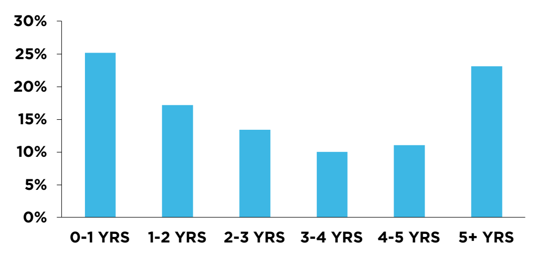
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.53	0.78	2.92	5.39	6.05	2.46	2.36	2.74	4.16
Bloomberg AusBond Composite/Bank Bill Blend	0.44	0.43	2.50	3.72	4.12	1.23	0.93	1.74	3.03

Please note: Performance for Perpetual's complete list of investment funds is available on www.perpetual.com.au. Past performance is not indicative of future performance.

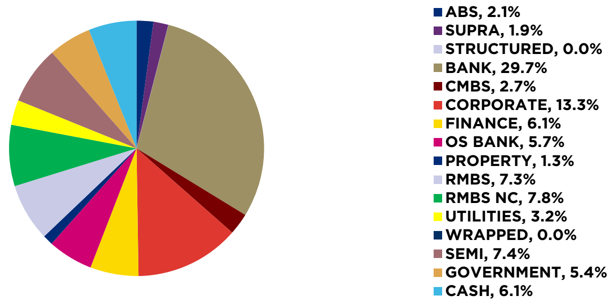
POINTS OF INTEREST

•RBA on hold; Fed lowers rates by 25 bps;
•Bond yields rise marginally. Domestic credit resilient;
•Primary market activity winds down;
•The outlook remains negative.

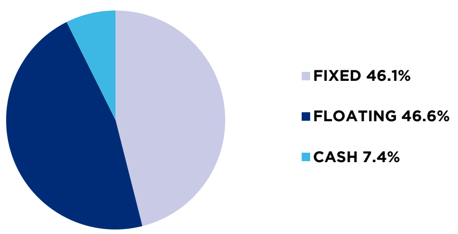
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	56.72%
Subordinated Debt	39.58%
Hybrid Debt	3.70%
Running Yield#	5.09%
Portfolio Weighted Average Life (yrs)	3.51
No. Securities	287
Modified Duration	2.06

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

December marked the close of a robust year for risk assets, though equities saw some pressure as expectations for US monetary policy moderated. The Federal Reserve's decision to implement a 25bps rate cut was in line with market expectations, while its updated dot plot forecasted only two additional rate cuts in 2025. This shift in outlook led to some volatility in risk markets.

Bond markets experienced mixed movements, with Australian government bond yields rising slightly, with the 10-year yield up 3bps to 4.37%. In contrast, U.S. Treasury yields saw a sharper increase as the market priced in a slower pace of rate cuts. In Australia, the Reserve Bank of Australia (RBA) kept the cash rate steady at 4.35%, with the December meeting accompanied by a more dovish statement reflecting easing wage growth. By month's end, market pricing anticipated up to two rate cuts by May, ahead of the federal election.

On the credit front, domestic spreads remained stable throughout December, contributing to a strong year for credit. Despite occasional volatility driven by global events, the overall "risk-on" sentiment—fuelled by strong equity performance, soft economic landings, central bank easing, and low credit defaults—supported spread compression. This positive environment provided an encouraging backdrop for the credit market, concluding 2024 on a strong note.

December is historically a quiet month for primary issuance and wound down in the second half of the month. CIBC raised $1.5B across fixed and floating tranches in the last major deal of the year. There were a pair of corporate hybrid deals priced during early December from Pacific National ($500M) and Ampol ($600M). The deals met strong demand, benefitting from forthcoming changes to bank hybrid capital. The securitisation market capped off a very busy 2024 with a $1.2B prime RMBS deal from Columbus Capital.

PORTFOLIO COMMENTARY

The Fund continues to collect a healthy running yield and income was the most substantial contributor to performance during the month. Income return was centred around domestic and offshore banks alongside securitised assets. The portfolio running yield was 5.1% at month end.

Active duration positioning detracted marginally from of outperformance during the month. Long term bond yields stepped marginally higher while the short end rallied. Portfolio duration remains close to the strategic target level and the Manager continues to opportunistically look for opportunities for tactical duration management presented by the uncertain path for monetary policy. The Portfolio's 2-2.5 year strategic target duration allows the Fund to participate as yield rally while limiting the impact of yield volatility.

Credit spread dynamics were constructive for performance during December. Domestic spreads traded in a relatively tight range and the portfolio benefitted from issuer and security selection to generate positive spread performance. Allocation to offshore banks was the most substantial contributing factor to spread return, supported by non-financial corporate and securitised asset exposures.

Sector and risk allocations were broadly maintained during December. The Fund marginally increased exposure to semi-government bonds and domestic banks.

The outlook for credit has improved to neutral. The Manager is focused on identifying relative value opportunities presented as the outlook continues to strengthen and will continue to look for active duration opportunities along the curve.

OUTLOOK

The credit outlook improved in mid-December to reach neutral territory for the final reading of 2024.

Valuation indicators are marginally negative. US high yield spreads are trading below the fair value range and AU swap spreads remain very tight. Elevated demand and attractive rates conditions for borrowers continued to contribute to elevated levels of opportunistic issuance in early December.

The growth outlook remains neutral. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain slightly challenging.

Supply and demand indicators improved in early December ending the month marginally negative. The high volume of recent issuance continues to weigh on the outlook. Market demand and the issuance pipeline have moderated somewhat reflecting seasonal trends.

Technical indicators remained in positive territory. Intermediary positioning has normalised however cash levels among real money accounts remains elevated. US credit spreads, equity markets and equity market volatility indicators are all constructive.

*** The benchmark for the Fund was previously reported as both the Bloomberg AusBond Bank Bill Index and the Bloomberg AusBond Composite Index. As at 29 April 2015, the benchmark for reporting was updated to a composite benchmark comprising 50% Bloomberg AusBond Bank Bill Index & 50% Bloomberg AusBond Composite Index. The change in benchmark was to better reflect the investment strategy. The performance table above reflects the change in benchmark applied across all periods.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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