Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND - CLASS A

December 2024

FUND FACTS

Investment objective: The Perpetual Active Fixed Interest Fund aims to outperform the Bloomberg AusBond Composite Index (before fees and taxes) by actively investing in fixed interest securities, primarily corporate bonds.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of fund: $423.8 million as at 30 September 2024
APIR: PER8045AU
Mgmt Fee: 0.40% pa*
Suggested minimum investment period: Three years or longer

FUND BENEFITS

Active management of credit risk through sector and sub sector rotation, curve positioning and relative value trading. Strategically maintain duration at benchmark, tactical overlay at extremes.

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

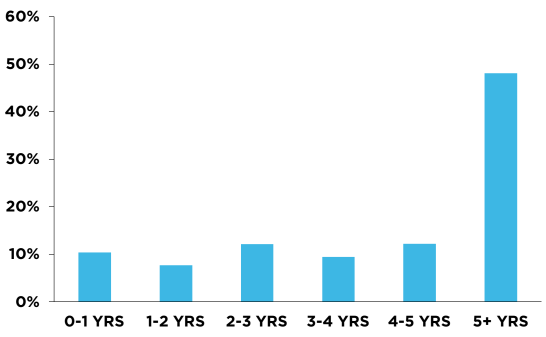
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Active Fixed Interest Fund Class A [1,3]	0.58	0.01	3.29	4.32	5.67	-0.06	0.41	1.97	2.28
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.72
Bloomberg Ausbond Composite Index	0.51	-0.26	2.75	2.93	3.99	-0.79	-0.18	1.51	-

[1] Class A of the Perpetual Active Fixed Interest Fund (Fund) has been operating since February 2017. This row represents the actual past performance of Class A of the Fund.
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been calculated by subtracting the fees for Class A from the actual gross past performance for Class W.
[3] Past performance is not indicative of future performance.

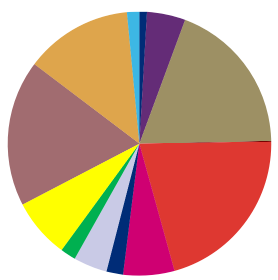
POINTS OF INTEREST

•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.

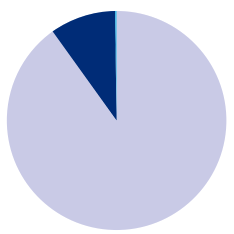
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	89.39%
Subordinated Debt	9.22%
Hybrid Debt	1.39%
Running Yield#	4.23%
Portfolio Weighted Average Life (yrs)	5.75
No. Securities	158
Modified Duration	4.90

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

#The methodology used to calculate Running Yield is derived from FactSet, and calculated as follows: The coupon rate of the security / the capital price of the security. Note that the exception is discounted securities, where a Yield to Maturity calculation is used.

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

Active duration positioning detracted marginally from of outperformance during the month. Long term bond yields stepped marginally higher while the short end rallied. The Fund's underweight exposure to the short end of the curve detracted as the curve steepened. The Manager will continue to opportunistically look for opportunities for tactical duration management presented by the uncertain path for monetary policy. The Fund maintains its near benchmark duration with an underweight exposure to the short end, balanced with allocation to off benchmark floating rate notes.

Credit spread dynamics were mixed for performance. The Fund's sector positioning underperformed the benchmark with underweight allocation to semi-government bonds and overweight exposure to non-financial corporates detracting. This was partially offset by issuer and security selection within the corporate sector where a number of positions across consumer staples and infrastructure performed strongly. The Fund's overweight exposure to credit benefitted from swap spread compression throughout December, contributing strongly to outperformance as swap to bond spreads reached negative territory. The Manager is confident with the level of credit exposure within the portfolio and there are no issuers or securities of concern.

Income return was a substantial contributor to outperformance, led by overweight allocations to non-financial corporates, banks and off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.2% with the spread measured at 0.9%.

Sector and risk allocations were broadly maintained during December. The Fund marginally increased exposure to semi-government bonds and domestic banks. The Fund also added allocation to a non-financial corporate hybrid in primary. The deal met strong investor demand, realising a tailwind from the forthcoming changes to bank hybrid capital.

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.

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.
The product disclosure statement (PDS) for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

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