Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

July 2024

FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in a portfolio of diversified fixed income securities which are predominantly corporate and government bonds; and outperform the Bloomberg AusBond Composite 0+Yr Index (before fees and taxes) over rolling three-year periods.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of Strategy: $427.1 million as at 30 June 2024
APIR: PER8045AU
Management fee: 0.40%*
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 July 2024

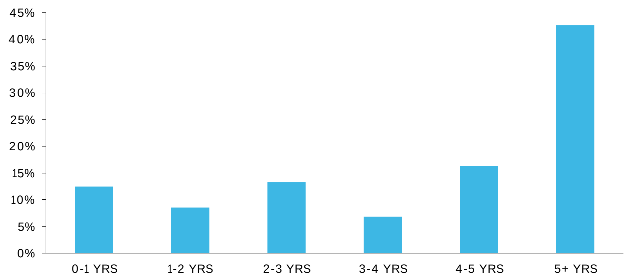
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Active Fixed Interest Fund Class A [1,3]	1.68	3.13	2.41	6.48	3.15	-1.54	0.05	1.93	2.20
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.74
Bloomberg Ausbond Composite Index	1.48	2.67	1.45	4.67	1.52	-2.15	-0.49	1.50	-

[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.

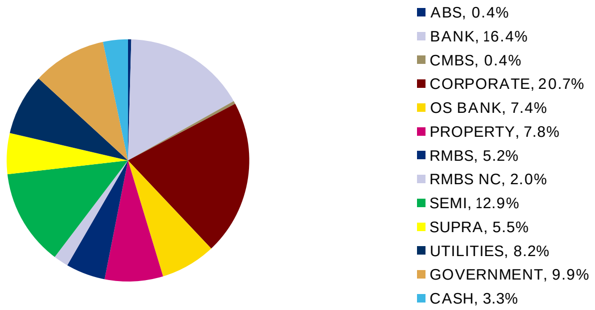
POINTS OF INTEREST

•Equities rise marginally, global bond yields rally;
•Credit spreads rangebound, tighten marginally;
•2Q CPI decelerating, reducing likelihood of further RBA hikes;
•Primary market volumes orderly;
•The outlook for credit is marginally negative.

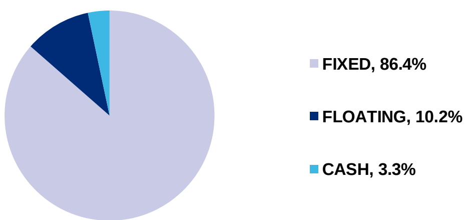
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	87.89%
Subordinated Debt	11.17%
Hybrid Debt	0.94%
Running Yield*	4.22%
Portfolio Weighted Average Life (yrs)	3.79
No. Securities	160
Modified Duration	4.94

* 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

Financial markets consolidated during July with global equities ending the month higher while bond yields fell. Markets were relatively subdued throughout July before below consensus expectations US non-Farm payroll data and the Bank of Japan's 31 July decision to increase interest rates precipitated a spike in volatility in the first days of August.

Domestic bond yields fell aligning with a broader global trend that saw bonds rally through July. 10-year Australian yields rallied 19bps while 10-year US yields led the way, falling 32bps. Slowing core inflation in the second quarter CPI print saw expectations of an August RBA rate increase ease. While inflation has been more subdued through the first half of 2024, there remains a long way back to the central banks target range, which is reflected in the hawkish pricing of potential rate cuts.

Domestic credit spreads consolidated during July tightening marginally. Euro denominated spreads also rallied slightly while USD spreads were close to flat during the month. Financial spreads outperformed corporates while trading in a tight range. Government adjacent spreads including semi-government and supranational spreads outperformed credit. While July was relatively subdued for credit markets, the first week of August saw a spike in spread volatility.

Primary issuance was mixed during July with a busy mid-month period bookended by a slow start and a late month calm as markets anticipated key economic data releases. A number of offshore financial issuers met strong demand including Toronto Dominion, Banco Santander, Cooperative Rabobank and Sumimoto Mitsui Banking Corporation. ANZ raised $1.9B in a fixed rate subordinated transaction which was heavily oversubscribed before moving wider after pricing. Westpac issued subordinated bonds, raising $1.5B early in July.

PORTFOLIO COMMENTARY

Duration and curve positioning was the key determinant of outperformance over the month. Bond yields rallied and the curve steepened slightly over the month. Overweight allocation to longer dated bonds contributed to outperformance as yields fell. The Fund remains close to benchmark duration with an underweight exposure to the short end, balanced with allocation to off benchmark floating rate notes. In recent months, the Manager has highlighted that the short end of the curve is offering an unattractive yield relative to cash, reflecting the markets expectations for RBA cuts despite sticky inflation and resilient economic data. The Manager is cognisant of risk in sovereign balance sheets and the potential for a lack of fiscal discipline over recent years to negatively impact yields and pu pressure on credit premia.

The Fund's robust running yield contributed to outperformance over the month. The Fund's relative yield advantage is led by overweight allocations to non-financial corporates, Banks and Real Estate alongside off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.2% with the spread measured at 1.1%.

Credit spread tightening contributed to outperformance over the month. The Fund's overweight allocation to credit – predominantly focused on domestic banks, non-financial corporates and securitized sectors – performed well. Security selection was also constructive. The Manger is comfortable with the current credit exposure of the Fund and there are no credits of concern. The AUD credit market continues to benefit from a strong regulatory environment, concentrated corporates, and a stable macroeconomic environment.

Sector allocations were actively adjusted during the month with the Manager electing to trim allocation to domestic banks and government bonds. Offshore bank exposures were increased via a small number of primary market deals. The Fund also added allocation to government adjacent non-financial corporate issuer NBN Co in secondary.

The outlook for credit is marginally negative. The Fund is well positioned to navigate an uncertain environment while continuing to collect and attractive running yield. The Manager remains focused on identifying relative value opportunities presented as the outlook improves and will continue to look for active duration opportunities along the curve.

OUTLOOK

The credit outlook declined in the second half of July (prior to the US non-farm payroll release, BOJ rate increase and ensuing volatility) to end the month with a slight negative reading.

Valuation indicators turned negative as tightening AUD swap rates and the USD/AUD basis swap detracting from the outlook.

The macro outlook remained very marginally positive throughout July. Lending conditions as expressed by the Senior Loan Officer survey remain negative. Meanwhile, access to equity market capital and the ratio of credit rating upgrades to downgrades remain supportive.

Supply and demand indicators declined, ending the month marginally negative. As highlighted in recent months, upcoming maturity volumes have fallen, impacting the outlook. Recent supply remains strong and while demand has matched the level of issuance thus far, the volume of year to date primary issuance is weighing on the outlook.

Technical indicators shifted throughout July. By month end, intermediary positioning and US equity market indicators were positively contributing, while cash levels of domestic real money accounts and US credit spread indicators were detracting from the overall outlook.

The team is actively monitoring the elevated volatility that has impacted markets since July month end. In the second week of August, the outlook declined further reflecting tightened liquidity conditions.

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

Perpetual