Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

August 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:	$25.6 million as at 30 June 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 August 2024

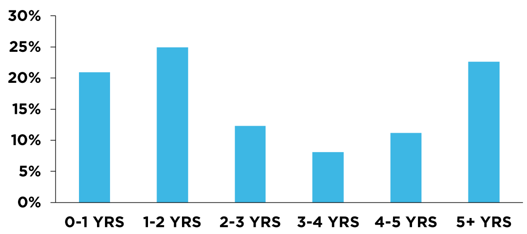
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.80	2.36	3.37	6.90	5.58	1.77	2.14	2.76	4.18
Bloomberg AusBond Composite/Bank Bill Blend	0.79	2.30	2.61	4.81	3.70	0.48	0.63	1.75	3.04

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.

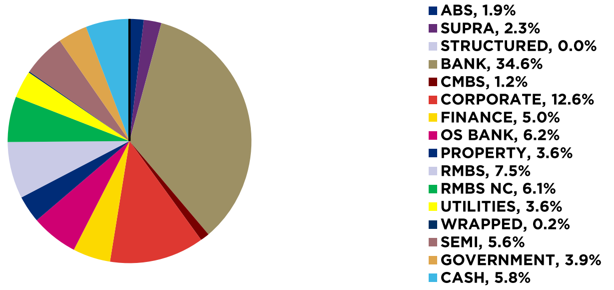
POINTS OF INTEREST

- Volatility spikes on US jobs data and BOJ rate hike;
- Bonds rally; credit spreads recover;
- Credit liquidity impacted early before normalising;
- Primary market activity resurgent after earnings season blackout;
- The outlook for credit is negative.

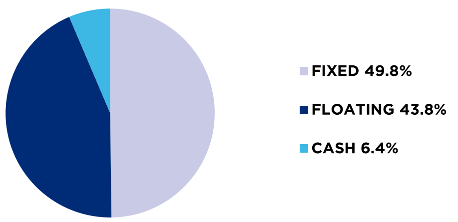
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	61.79%
Subordinated Debt	36.40%
Hybrid Debt	1.81%
Running Yield#	4.81%
Portfolio Weighted Average Life (yrs)	3.49
No. Securities	276
Modified Duration	2.05

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

MARKET COMMENTARY

Volatility spiked in August with financial markets selling off sharply early before recovering over the remainder of the month. Softer than anticipated US jobs data triggered the Sahm rule and associated recession fears saw equities selloff and credit spreads widen globally. This was exacerbated by the Bank of Japan's decision to raise interest rates (by 15bps) for the second time since the GFC (Feb 2007). A strong rally in the Yen ensued and the subsequent unwinding of carry trades contributed to the elevated financial market volatility. The turnaround in sentiment was swift, supported by strong retail sales and corporate earnings alongside doveish comments from Fed Chair Powell at the Jackson Hole conference.

Bond yields moved sharply lower as US recession fears spiked in early August. Domestic 10-year yields fell below 4% after rallying 14bps over the month. The yield curve steepened as short end (2-5 year) yields rallied further. The RBA held rates at 4.35% in line with expectations, continuing to stress that policy will need to remain restrictive to lower inflation over time to sustainably settle in the target range.

Domestic credit spreads sold off in the first week of August before rallying to end the month within range of their starting level. Synthetic spreads tightened further with the iTraxx Australia 5 year spread narrowing 5 bps to 61bps by month end. Swap to bond spreads also contracted during the month remaining tight relative to historical levels.

In August, credit market issuance experienced a brief slowdown as a result of heightened volatility alongside seasonal factors including reporting season and the NSW bank holiday. Despite this, the market saw a number of securitisation deals successfully priced. As the blackout period for banks and corporates ended, issuance picked up pace. CBA raised $4.35B in senior debt while Macquarie Bank ($1.25B) and BNP Paribas ($800M) issued subordinated notes. Additionally, NBN Co set a record with the largest-ever volume by an Australian corporate issuer in the domestic market with their $1.75B deal.

PORTFOLIO COMMENTARY

Duration was a substantial contributor to performance during the month. Uncertainty surrounding the US economic outlook saw bond yields fall sharply at the start of August. The yield curve steepened with 2-4y yields falling furthest. The Portfolio's 2-2.5 year strategic target duration limits the impact of yield volatility while allowing the fund to participate as monetary policy begins to ease. The Manager is cognisant of ongoing risks to bond yields and uncertainty surrounding the path of monetary policy. The Fund's duration remains in line with the lower bound of the strategic target and the Manager will continue to assess tactical opportunities along the curve.

Income returns was a substantial contributor to performance during the month, matching duration return in a month where bond yields rallied. Allocation to domestic and offshore banks alongside RMBS remain the key contributing sectors to the Fund's robust running income. The portfolio running yield was 4.8% at month end.

Credit spread dynamics contributed to outperformance during August. Spreads were impacted by early month volatility and liquidity concerns before recovering. Domestic and offshore banks alongside RMBS were the key contributing sectors to credit spread return.

The outlook for credit remains challenged. 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 continued to decline during August, ending the month with a firmly negative reading.

Valuation indicators remained negative on the back of narrow swap to bond spreads and the wide AUD USD basis swap.

The macro-outlook remained very marginally positive during August. Although concerns around US growth peaked in early August, access to equity capital and the ratio of credit rating upgrades to downgrades remained supportive. Lending conditions as expressed by the Senior Loan Officer survey also improved to neutral for the first time in 24 months.

Supply and demand indicators degraded further during August, ending the month with a strong negative reading.

A paucity of upcoming maturities aligned against a heavy pipeline of new issuance are weighing on the outlook. Year to date issuance remains robust, contributing to the negative supply outlook.

Technical indicators remain marginally negative. Intermediary positioning and US equity market indicators are positively contributing, while cash levels of domestic real money accounts and US credit spread indicators are detracting from the overall outlook.

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 PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that 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 Group means Perpetual Trustees Australia Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any 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 entry or exit fees or taxation (except in the case of superannuation funds, as applicable).
Past performance is not indicative of future performance.
*** 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

Perpetual