

## Perpetual Investment Funds

# PERPETUAL HIGH GRADE FLOATING RATE FUND

For Institutional Investors

September 2024



### FUND FACTS

**Investment objective:** Aims to provide investors with regular income by investing in deposits, money market and fixed income securities, and outperform the Bloomberg AusBond Bank Bill Index on an ongoing basis before fees and taxes.

<b>Benchmark:</b>	Bloomberg AusBond Bank Bill Index
<b>Inception date:</b>	October 2001
<b>Size of class:</b>	\$24.0 million as at 30 June 2024
<b>Size of fund:</b>	\$215.2 million as at 30 June 2024**
<b>APIR:</b>	PER0265AU
<b>Mgmt Fee:</b>	0.226% pa*
<b>Benchmark Yield:</b>	4.361% as at 30 September 2024
<b>Suggested minimum investment period:</b>	One year or longer

### FUND BENEFITS

Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed and liquid investment.

### 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 30 September 2024

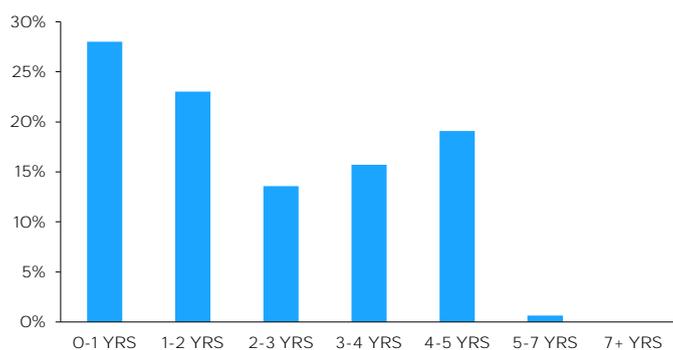
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual High Grade Floating Rate Fund	0.44	1.39	3.04	6.32	5.94	3.82	3.02	2.98	4.37
Bloomberg AusBond Bank Bill Index	0.36	1.11	2.21	4.41	3.99	2.82	1.81	1.81	3.61

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

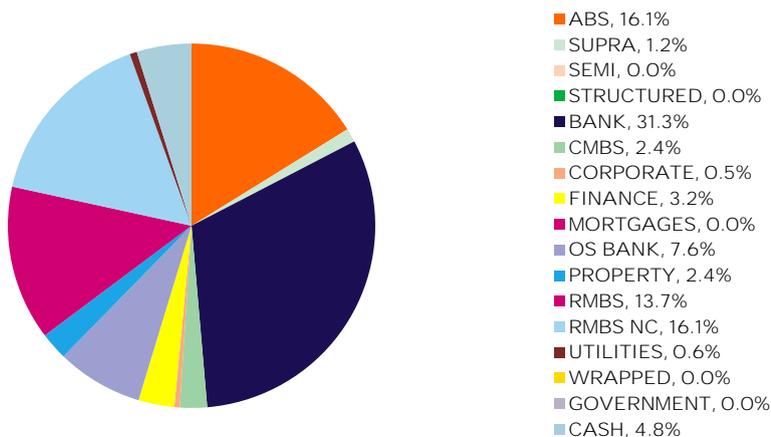
### POINTS OF INTEREST

- RBA on hold; Fed lowers rates by 50 bps;
- Domestic credit rangebound;
- Primary market busy, led by securitisations;
- The outlook remains negative.

### MATURITY PROFILE



### PORTFOLIO SECTORS



### PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	78.72%
Subordinated Debt	21.28%
Hybrid Debt	0.00%
Running Yield <sup>#</sup>	5.30%
Portfolio Weighted Average Life	2.22 yrs
Modified Duration	0.02
No. Securities	140

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

\*\*The total size of the Fund includes all unit classes of the Fund. This includes a retail class.

## MARKET COMMENTARY

Financial markets consolidated during September with equities posting gains as the US commenced monetary easing and China unveiled a substantial monetary policy stimulus package intended to resuscitate the economy and support the embattled property market.

Domestic bond yields traded in a tight range, ending the month close to start of month levels. The RBA held rates at 4.35% at their September meeting while minutes revealed a dovish shift from a tightening to neutral bias. The Fed commenced monetary easing, cutting rates by 50 bps in September. US bond yields reacted favourably and the treasury curve flattened as short end yields rallied.

Credit spreads were rangebound during September. Spreads in government adjacent sectors including supranational and government agencies tightened while non-financial corporates widened marginally on aggregate.

A notable development in September was commentary from APRA proposing that banks phase out the use of additional Tier 1 capital bonds (Hybrids) and replace them with cheaper and more reliable forms of capital that would absorb losses more effectively in times of stress. This was in response to the 2023 turmoil observed in global banks following the collapse of Silicon Valley Bank and acquisition (and subsequent write-off of AT1 capital) of Credit Suisse by UBS.

Primary markets saw a diverse array of issuers, highlighted by the return to market of a number of non-financial corporates. There were a number of new senior unsecured corporate deals, including Qantas (10 year 5.9% \$500M), Origin Energy (7 year 5.35% \$500m) and Telstra (6 Year 4.75% \$450M). QBE Insurance Group raised \$750M across fixed and floating tranches while major bank issuance was headlined by \$2.7B senior unsecured deal from Westpac. By the end of the third quarter, securitisation volumes surpassed their previous full calendar year record. Despite the elevated securitisation volume throughout 2024, demand has proved resilient.

## PORTFOLIO COMMENTARY

**The Fund's yield premium above bank bills remains the key contributing factor to outperformance. The Portfolio's allocation to securitised sectors, and domestic major bank paper were the key contributors to income return.** The portfolio running yield at month end was 5.3%, with the average credit spread measured at 1.0%.

Credit spread dynamics were benign for performance during the month as domestic spreads traded in a tight range. Swap spread contraction contributed slightly to outperformance over the month. The Fund hedges fixed rate exposures via short government bond futures and retains a small sensitivity to swap spreads. Swap spreads reached a multi-year low in mid-September, contributing marginally to return.

Sector allocations were actively managed throughout the month. The Manager elected to add RMBS exposure via the secondary market and took part in a new major bank senior unsecured deal.

The outlook for credit remains challenging. The Fund remains defensively positioned, retaining the capacity to take advantage of relative value opportunities should the outlook improve.

## OUTLOOK

The credit outlook declined further throughout September ending the month with a strong negative reading.

Valuation indicators are marginally negative. While credit spreads are at neutral levels, AUD swap and basis swap levels are detracting from the overall outlook.

The Growth outlook declined to neutral. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth and equity capital market indicators worsened during the month. Survey data has declined over the September quarter, UK Q2 GDP failed to meet consensus expectations and China – while improving – remains challenged.

Supply and demand indicators remained firmly negative. Elevated recent primary market volumes, coupled with a lean upcoming maturity schedule weigh on the credit outlook. The issuance pipeline has moderated somewhat, softening the negative reading.

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.

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## MORE INFORMATION

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