Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

September 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 30 September 2024

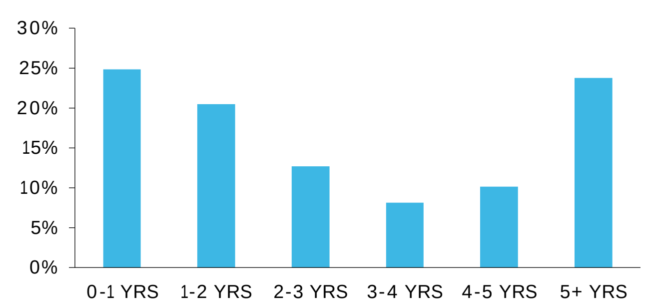
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.35	2.12	2.92	7.55	6.09	2.02	2.20	2.79	4.18
Bloomberg AusBond Composite/Bank Bill Blend	0.33	2.07	2.19	5.79	4.19	0.84	0.74	1.81	3.05

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.

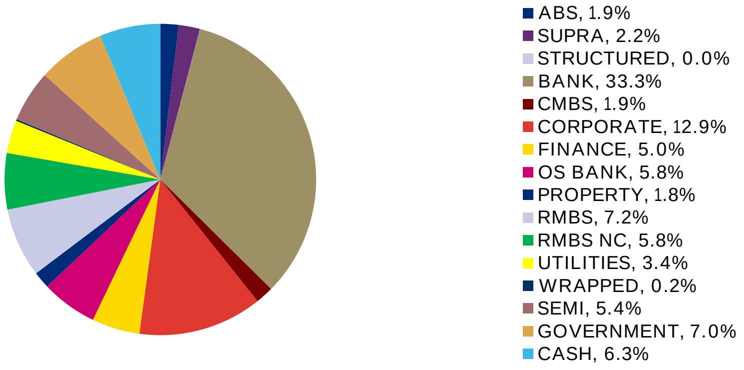
POINTS OF INTEREST

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

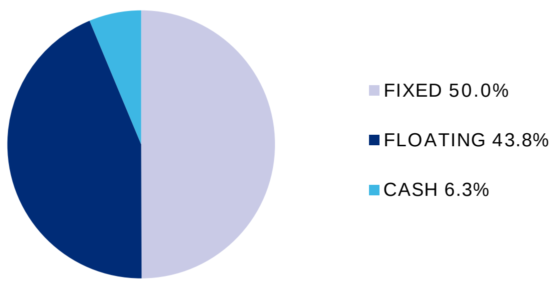
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	61.67%
Subordinated Debt	36.13%
Hybrid Debt	2.19%
Running Yield#	4.89%
Portfolio Weighted Average Life (yrs)	3.51
No. Securities	273
Modified Duration	2.68

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

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 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 4.9% at month end.

Duration positioning detracted slightly from performance during the month. Bond yields rallied over the first two weeks for September before retracing, ending the month in range of recent levels. In September, the Manager elected to lengthen the Fund's duration, ending the quarter at 2.7 years, marginally longer than the strategic target range. 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. Perpetual's Tactical Asset Allocation bond score – a quantitative input to the fund duration management process – improved in mid-September following a slight upgrade to the cycle indicator.

Credit spread dynamics detracted marginally from performance. Spreads traded in a relatively tight range and performance was mixed by sector. The Fund's allocation to non-financial corporates, utilities and semi - government spreads detracted from performance and securitised assets detracted marginally. A small number of directly held domestic bank positions performed well.

The Manager took the opportunity to adjust the Fund's sector and risk allocations during September. The Fund increased its allocation to longer dated government bonds while reducing exposure to real estate investment trusts. Allocation to offshore banks and subordinated domestic bank paper was also trimmed.

The outlook for credit is negative and risk management remains paramount. The Manager is focused on identifying relative value opportunities presented as the outlook improves.

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.

*** 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

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