Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

September 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 fund: $427.1 million as at 30 June 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 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 Active Fixed Interest Fund Class A [1,3]	0.38	3.28	2.85	8.77	5.94	-0.57	0.15	2.19	2.36
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.78
Bloomberg Ausbond Composite Index	0.31	3.02	2.16	7.11	4.32	-1.19	-0.40	1.76	-

[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.

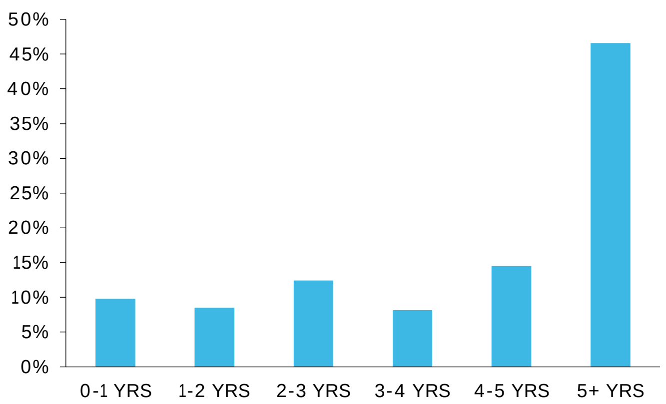
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has 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.

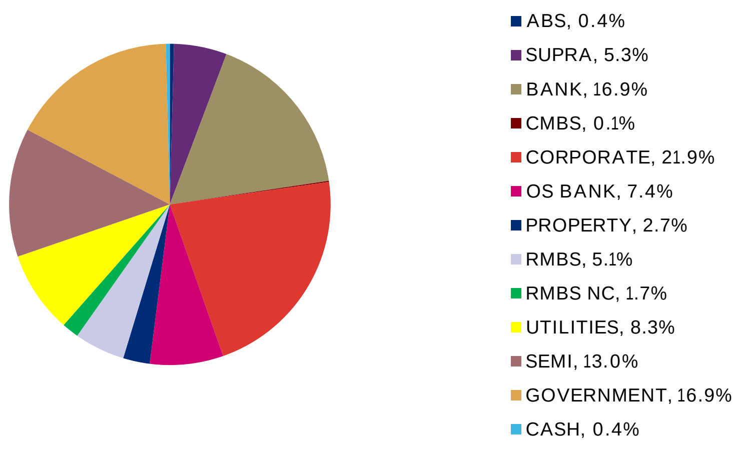
POINTS OF INTEREST

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

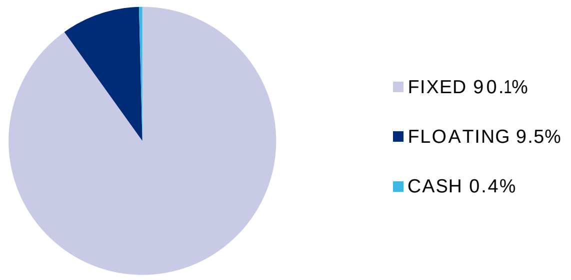
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	89.93%
Subordinated Debt	9.12%
Hybrid Debt	0.95%
Running Yield#	4.20%
Portfolio Weighted Average Life (yrs)	5.66
No. Securities	154
Modified Duration	4.99

* 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 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

Active duration positioning was the key determinant of outperformance during the month. Bond yields rallied over the first two weeks for September before retracing, ending the month in range of recent levels. The Fund started September the marginally short of benchmark duration before lengthening early in the month. Falling yields over the first two weeks of September contributed to outperformance and the Manager elected to reduce the long duration position before yields rose over the remainder of the month. At month end, the Fund was close to benchmark duration with an underweight exposure to the short end, balanced with allocation to off benchmark floating rate notes.

Credit spread dynamics were marginally negative for performance. Spreads traded in a relatively tight range and performance was mixed by sector. Overweight allocations to non-financial corporates and security selection within the utilities sector detracted from outperformance. Allocation to Property trusts and off benchmark exposure to securitised assets were constructive. The negative impact of credit spread return was fully offset by the fund yield premium above benchmark.

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 1.0%.

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 remaining underweight relative to benchmark. The Fund reduced allocation to the real estate, selling out of a number of REITs positions while retaining a slight overweight to the sector. Exposure to subordinated bank paper was also selectively reduced.

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 and will continue to look for active duration opportunities along the curve.

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.

MORE INFORMATION
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