Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

October 2024

FUND FACTS

Investment objective: The Perpetual Active Fixed Interest Fund aims to outperform the Bloomberg AusBond Composite Index (before fees and taxes) by actively investing in fixed interest securities, primarily corporate bonds.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of fund: $423.8 million as at 30 September 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 31 October 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]	-1.72	-0.18	2.95	8.68	4.67	0.03	-0.11	1.77	2.10
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.66
Bloomberg Ausbond Composite Index	-1.88	-0.39	2.26	7.08	2.86	-0.62	-0.68	1.33	-

[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.

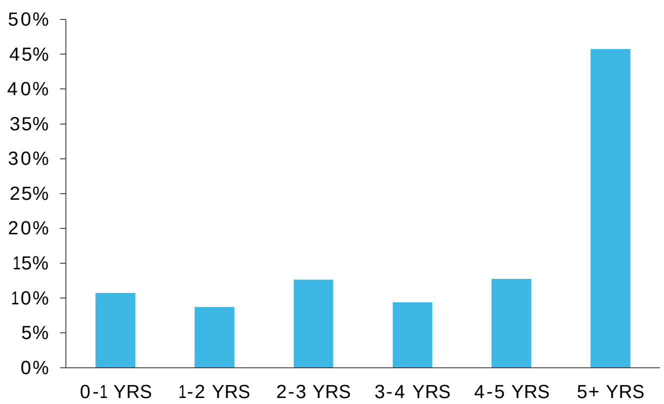
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has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

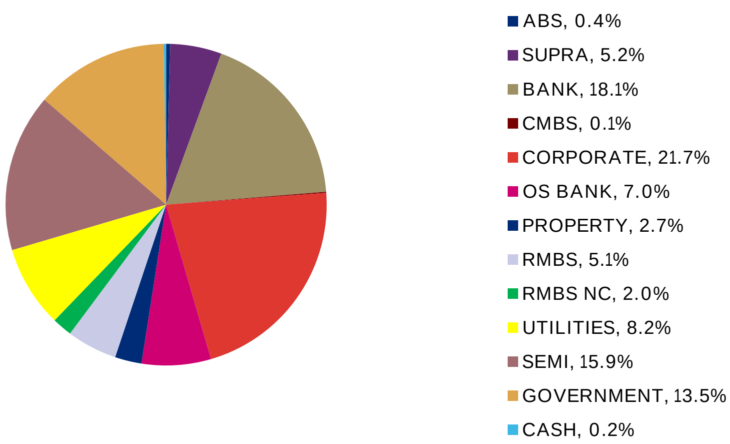
POINTS OF INTEREST

•Domestic credit resilient as bonds and equities selloff;
•Domestic and global bond yields rise on US inflationary policy expectations;
•RBA on hold in early November, retaining neutral stance;
•Primary market demand robust, securitisation volumes remain elevated;
•The outlook remains negative.

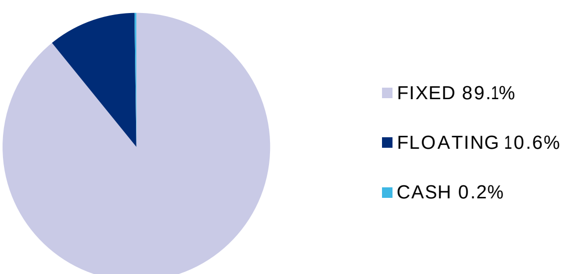
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	89.66%
Subordinated Debt	9.40%
Hybrid Debt	0.94%
Running Yield#	4.32%
Portfolio Weighted Average Life (yrs)	5.60
No. Securities	155
Modified Duration	4.86

* 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 softened in October with equity markets and bond yields weakening globally. A key driver was the firming expectations of a second Trump presidency and the anticipation of inflationary policies including tax cuts and restrictive tariffs on foreign imports. While resurgent inflationary pressure would contribute to higher-for-longer rates, reduced regulations and corporate taxes would be expected to benefit US equities.

Domestic bond yields rose sharply during October, with the 10-year government bond yield rising 53bps to 4.51% by month end. This was in line with US 10-year bonds which also rose by 50bps. Alongside US inflationary policy concerns, robust US jobs and GDP data eased pressure on the Federal reserve to continue lowering rates. Domestically, inflation continues to ease with third quarter year-on year inflation reaching a three year low, led by falling oil prices. The domestic yield curve flattened during the month as 2-5 year yields rose more sharply than long term tenors.

Floating rate credit performed well in a month where equities and bonds weakened. Domestic credit spreads tightened as investors moved to take advantage of elevated base rates by rotating into corporate and financial credit. Credit spread tightening was widespread with utilities, non-financial corporates and financial spreads narrowing. Swap spreads contracted during October as bond yields sold off.

Primary markets were orderly during October. Issuance was headlined by NAB's $2.75B 3-year senior unsecured deal. Tier 2 regional bank issuance met elevated demand with a smaller deals from Judo Bank ($125M) and Bank of Queensland ($250M) attracting substantial investor interest in excess of 8 times the book size. Securitisation volumes remain elevated with almost $10B of new deals in October, continuing the already record breaking 2024 pace.

PORTFOLIO COMMENTARY

Credit spread dynamics were the key contributing factor to outperformance during the month. Spreads performed well, tightening during a month where bond yields and equities posted losses. The Fund's longer spread duration and overweight allocation to non-financial corporates, domestic banks and utilities were key contributors. The Fund's overweight credit allocation also benefitted from swap spreads which continued to contract during October. Issuer selection within the semi-government sector also performed well.

Rising bond yields were the most substantial determinant of absolute return during October. The Fund's duration remains close to benchmark and the impact on relative performance was marginal. The Manager will continue to opportunistically look for opportunities for tactical duration management presented by the uncertain path for monetary policy. The Fund maintains its near benchmark duration with an underweight exposure to the short end, balanced with allocation to off benchmark floating rate notes.

Income return remains a substantial contributor to outperformance. The Fund's yield premium above benchmark is led by overweight allocations to non-financial corporates, banks and off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.3% with the spread measured at 0.9%.

Sector allocations were broadly maintained during the month. The manager elected to add semi government exposures while trimming government bond allocation. The Fund also took part in a pair of new deals in the domestic major and offshore banking sectors.

The outlook for credit improved throughout the month, ending the month with a marginally negative reading and risk management remains crucial. 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 improved during October despite remaining in negative territory throughout the month.

Valuation indicators are marginally negative. While credit spreads are at neutral levels, recent AUD swap spread contraction continues to detract while a recent spate of opportunistic deals from both domestic and kangaroo issuers is reflected in the negative valuation score.

The growth outlook remains neutral. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain challenged.

Supply and demand indicators have improved, ending the month marginally negative. The pipeline of upcoming maturities has improved marginally. Elevated recent issuance volumes continue to weigh on the outlook although this is partially offset by strong investor demand.

Technical indicators have improved to end the month in marginally positive territory. Intermediary positioning remains positive with elevated cash levels expected to contribute to demand. US credit spreads and equity markets are positively contributing while equity market volatility is detracting slightly from the overall outlook.

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