Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND - CLASS A

November 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 30 November 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]	1.18	-0.19	3.52	6.76	4.39	-0.19	-0.04	1.81	2.23
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.71
Bloomberg Ausbond Composite Index	1.14	-0.46	3.02	5.16	2.65	-0.93	-0.61	1.37	-

[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.

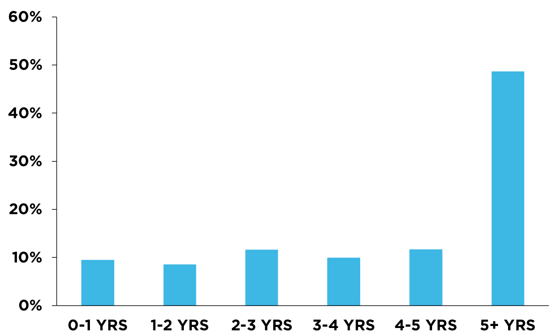
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has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

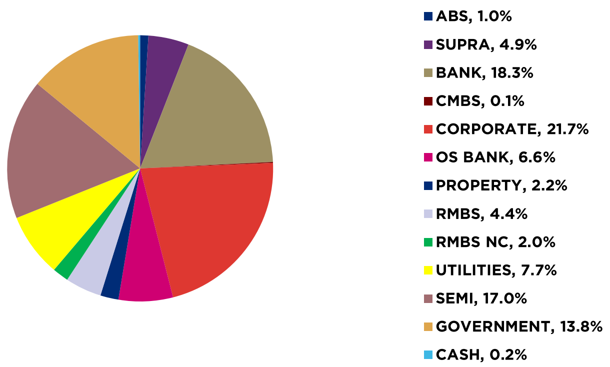
POINTS OF INTEREST

•Bond yields retrace following recent rises;
•Domestic spreads rangebound;
•RBA on hold, retaining neutral stance;
•Primary market issuance elevated meets strong demand;
•The outlook remains slightly negative.

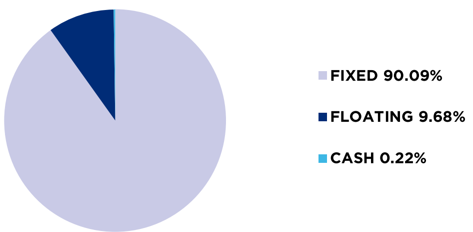
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	89.41%
Subordinated Debt	9.69%
Hybrid Debt	0.90%
Running Yield#	4.30%
Portfolio Weighted Average Life (yrs)	5.81
No. Securities	157
Modified Duration	4.95

* 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 responded positively to the results of the US presidential election with equities rallying globally, led by the US. Bond markets retraced slightly after selling off in September and October on concerns around the inflationary effect of proposed US trade policies.

Domestic bond yields fell through November with the Australian 10-year government bond yield rallying 16 bps over the month down to 4.34%. The short end 2-5 years fell back below 4% by month end. Offshore yields were more volatile with US yield spiking following the election before retracing and French bond yields selling off sharply reflecting political uncertainty.

AUD spreads traded in a tight range during November. While spread contraction was broadly muted, the utilities sector was the notable outperformer. EUR and USD spreads rallied following the US election consolidating their strong recent performance. US High yield and investment grade spreads are at levels last seen prior to the GFC. Swap spreads were in negative territory throughout November, contracting during the first two weeks before returning to near 0 by month end.

No indications of end of year fatigue were present in the primary market with a busy pipeline of deals across financials, corporate and securitised sectors. Demand was robust throughout the month leading to oversubscribed book builds, most notably Woolworths 10-year $800M which priced much tighter than guidance reflecting the market's appetite for long dated blue chip corporate paper. In the Financial space, NAB (7-year) and ANZ (5-year) each raised $2.5B of senior debt across fixed and floating tranches. Kangaroo issuance was also healthy with a number of offshore borrowers coming to the Australian market to meet the persistent robust demand.

PORTFOLIO COMMENTARY

Credit spread return was benign during November as domestic spreads traded in a tight range. The fund maintains an overweight allocation to credit and longer than benchmark spread duration. The most substantial overweight sectors are domestic and offshore banks and non-financial corporates. The Fund also maintains an off-benchmark allocation to securitised assets which has performed well through 2024. The Manager is comfortable with the level of credit exposure in the portfolio and confident in the quality of issuers.

Duration and curve positioning contributed to outperformance over the month. Yields retraced in late November after selling of throughout October. The Fund's overweight exposure to the long end was constructive. The underweight allocation to the short end also contributed as the curve steepened slightly. 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 was the most substantial contributing factor 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 continued to selectively add semi-government exposure, focused on NSW and Queensland state government debt. The Fund also took part in the new senior unsecured 10-year fixed rate deal from Woolworths during the month.

The outlook for credit stayed marginally negative through November 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 remained in marginally negative territory throughout November.

Valuation indicators are marginally negative. US high yield spreads are trading below the fair value range and AU swap spreads are very tight and were negative throughout the middle of the month. Elsewhere, a spike in opportunistic issuance is weighing on the outlook with borrowers exploiting strong demand, resulting in elevated issuance levels.

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

Supply and demand indicators continue to weigh on the outlook. The high volume of recent issuance paired with a healthy pipeline and light maturity schedule conspire to negatively impact the outlook. In spite of these factors however, demand has remained very resilient thus far.

Technical indicators continued to improve, remaining in positive territory. Intermediary positioning remains positive with elevated cash levels expected to contribute to demand. US credit spreads, equity markets and equity market volatility indicators are all constructive.

MORE INFORMATION

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