

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



June 2021

FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in fixed income securities, primarily corporate bonds. Outperform the Bloomberg AusBond Composite Index (before fees and taxes) over rolling three year periods.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of Strategy: \$567.4 million as at 30 June 2021
APIR: PER8045AU
Management fee: 0.40%*
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 June 2021

	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A ^{1,3}	0.72	1.60	-1.29	0.76	2.16	4.60	-	-	4.45
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	3.76	4.53	5.86
Bloomberg Ausbond Composite Index	0.69	1.52	-1.74	-0.84	1.64	4.22	3.19	4.07	-

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.

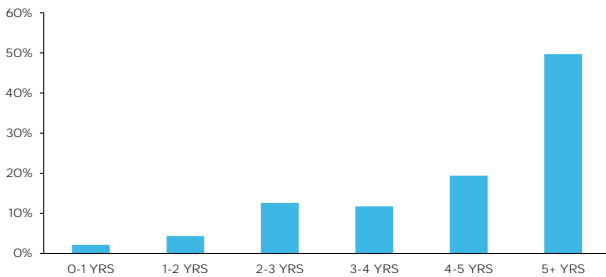
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

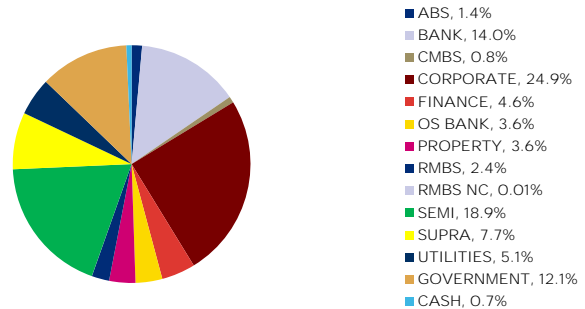
POINTS OF INTEREST

- Domestic spreads tighten slightly; Financial spreads outperform.
- Credit curve steepens; Primary market activity orderly.
- Economic indicators remain strong;
- Inflation concerns subsiding; Yield curve flattens
- Credit outlook remains strongly positive.

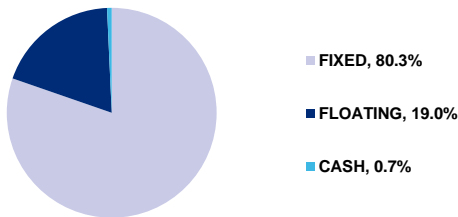
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	88.08%
Subordinated Debt	11.09%
Hybrid Debt	0.83%
Running Yield	1.42%
Portfolio Weighted Average Life (yrs)	6.51
No. Securities	142
Modified Duration	5.57

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

MARKET COMMENTARY

Financial markets continued to rise through June on the back of strong economic growth expectations, supportive monetary and fiscal policy and the continued COVID-19 vaccine rollout and reopening. The recovery in asset prices has been dramatic over the past 12 months with the ASX posting its highest financial year return since the 1980s. Valuations were supported during June by easing inflation concerns which saw long term bond yields dip. Markets were resilient to COVID-19 concerns including the spread of the delta variant and a late June lockdown in NSW.

Domestic spreads continued to grind tighter through June. Shorter dated credit performed well and the credit curve steepened over the month. Sector performance was mixed with financials outperforming corporates. The best performing sectors were energy – on the back of the surging oil price – consumer sectors and industries leveraged to reopening including universities. Corporate sector performance was sensitive to recent issuance volumes with sectors that have seen elevated issuance including utilities and listed property underperforming.

Yields were broadly stable over the month. The AUD yield curve flattened with longer tenors outperforming significantly. Inflation concerns subsided as the Australian CPI came in below expectations and the recent spike in CPI was considered transitory by investors. Rates markets in June were calm in anticipation of a number of monetary policy decisions from the RBA on the extension or tapering of quantitative easing and yield curve control policies. Semi-government spreads widened slightly over the month. Spread expansion was led by NSW as a result of reintroduced lockdowns and the announcement of a larger than expected borrowing program for the 2022 financial year.

Primary market activity was increased in June following a very quiet May. Corporate issuance was active, led by utilities and listed property sectors. AGI Finance – the financing arm of the Australian Gas infrastructure group – came to market for \$575M across two tranches. The deal met strong demand and priced tighter than guidance. Wesfarmers raised \$1B across 7 and 10-year tranches. The bond was Wesfarmers first sustainability linked issue and was significantly oversubscribed, priced tighter than guidance and tightening further in secondary.

Financial issuance was more subdued. Macquarie Bank, priced \$750M of tier-2 subordinated paper. Goldman Sachs raised \$325M in a senior unsecured deal. Notably, the RBA's Term Funding Facility closed at the end of June. The impact of the TFF on the issuance pipeline has been significant and domestic bank senior issuance is expected to resume in the second half of the year. The TFF will continue to impact credit supply in the coming years as the 3-year funding matures in FY2024. The primary securitisation market was quieter in June following a very busy period. Issuance was headlined by AMP's Progress 2021-1 Trust which raised \$1B during June.

PORTFOLIO COMMENTARY

The portfolio continued to collect running income in excess of the benchmark. This contribution to positive carry was primarily associated with allocations to non-financial corporates and domestic banks. Allocations to non-bank financials and utilities also contributed to income return.

Credit spread dynamics were the key contributing factor to outperformance during the month. The portfolio's overweight exposure to credit markets continues to perform well in an environment of low yields and expectations of rising rates. Credit spreads continued their steady grind tighter during June. Credit spread return was led by non-financial corporates, domestic banks and property. Portfolio allocation to the energy sector performed particularly well as the oil price continued its extended rally. Portfolio running yield at month end was 1.42% with the spread measured at 0.56% above the benchmark.

Interest rate dynamics were fairly benign for overall performance in June. The portfolio's slightly shorter than benchmark duration positioning detracted slightly from outperformance. Somewhat offsetting this, curve positioning contributed with the portfolio's overweight allocation to the ten-year tenor performing well as the curve flattened.

Sector allocation was actively managed throughout the month. The manager elected to increase exposure to corporate credit, trimming semi-government exposures and increasing allocations to domestic financials. The outlook remains strong and credit risk was selectively increased over the month by lengthening credit duration and increasing allocation to BBB rated securities. The manager was active in primary markets during the month, taking part in new deals from AGI Finance and Wesfarmers. The portfolio invested in the new subordinated deal from Macquarie Bank which performed well on issue and tightened in secondary, contributing to outperformance.

OUTLOOK

The credit outlook remains strongly positive.

Valuation indicators have degraded slightly and are now marginally neutral. Spreads have contracted significantly over the past year reaching below their pre COVID levels. US high yield in particular now appears expensive relative to medium term averages and is detracting from the overall credit outlook. The growth outlook remains strongly positive. Leading and trailing economic indicators suggest conditions for explosive economic growth and robust support for spreads. During the month the ratio of credit upgrades to downgrades improved further on the back of strong commodity price tailwinds and positive economic growth expectations.

Demand and supply indicators have continued to support the overall credit outlook. Reduced primary market activity over the recent months and reduced pipeline for issuance are supportive for credit spreads. Demand is orderly with spreads being sensitive to issuance volume.

Technical indicators remained positive for the overall credit outlook. Broker inventories remain somewhat reduced and intermediaries are adding selectively. Investor cash reserves have increased slightly over the month but remain neutral to the overall outlook. Tightening US credit spreads alongside robust equity valuations and volatility are all supportive for domestic credit.

The sustained rally in credit spreads continues to be supported by positive leading and trailing macroeconomic indicators, supply and demand conditions and technical factors. The portfolios remain well positioned to benefit from further spread contraction offered by the current conditions.

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