Perpetual Investments

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A

July 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 31 July 2021

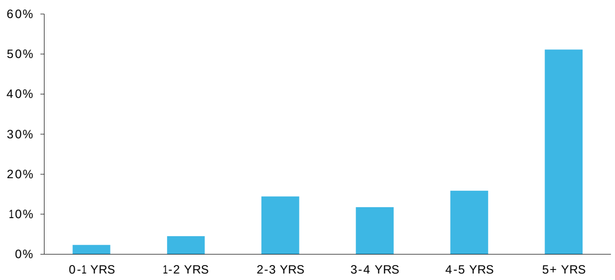
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A [1,3]	1.73	2.74	0.68	1.71	2.49	5.13	-	-	4.76
Perpetual Wholesale Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	3.95	4.72	5.94
Bloomberg Ausbond Composite Index	1.76	2.73	0.41	0.53	2.05	4.77	3.40	4.29	-

[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.

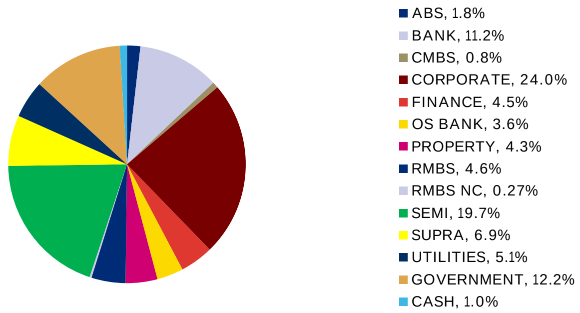
POINTS OF INTEREST

-Domestic spreads rangebound; Financials outperform corporates;
-Global spreads widen; Economic growth downgraded;
-Yields rally on COVID-19 concerns;
-Corporate primary market subdued; Securitisation market busy;
-The Credit outlook remains positive.

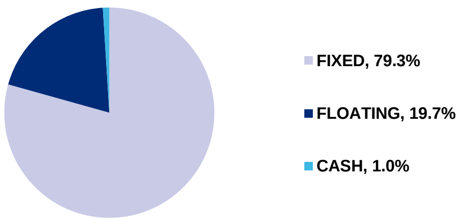
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	87.71%
Subordinated Debt	11.47%
Hybrid Debt	0.82%
Running Yield	2.22%
Portfolio Weighted Average Life (yrs)	6.61
No. Securities	140
Modified Duration	5.86

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

MARKET COMMENTARY

Global markets were mixed in July. The resurgence of COVID-19 globally saw economic growth expectations reduced. Locally, the spread of the delta variant led to an extended lockdown in NSW and snap lockdowns in other states. Traditionally defensive assets performed well during the month long term yields falling across multiple markets and the US dollar appreciating against the AUD.

Domestic spreads remained in range of recent levels during the month. Spreads were supported by supply side constraints as primary market issuance was subdued. Spreads were resilient to increasing COVID concerns and offshore volatility. In contrast to domestic credit, USD spreads widened through July as the spread of the delta variant of COVID-19 impacted economic growth expectations. Financial spreads marginally outperformed non-financial spreads on aggregate. The credit curve steepened with shorter dated credit outperforming long term spreads.

Primary market issuance was subdued during July. The reduced supply was partially attributable to seasonal factors with corporate issuance expected to increase following company reporting season. Nonetheless, issuance volume remains below trend relative to the long-term average and significantly below 2020 volumes. The securitisation market was more active, and volumes are expected to rise substantially over the coming months.

Interest rate markets rallied through July as economic growth expectations cooled. The continued spread of the COVID-19 delta variant globally led investors to reduce risk and contributed to falling yields during the first two weeks of the month. The reintroduction and extension of lockdowns in Greater Sydney contributed to domestic 10-year bonds rallying further than global yields. Monetary policy tapering remained a key concern in global rates markets throughout the month. Lockdowns in Australia resulted in speculation that RBA tapering might be postponed.

PORTFOLIO COMMENTARY

The portfolio collected running income in excess of the benchmark across all corporate sectors. The most significant contributing sectors to income return were non-financial corporate and domestic banks. The portfolio running yield at month end was 2.22% with the spread measured at 0.62%.

Domestic yields rallied through July as the spread of the delta variant and the potential for a delay to monetary tapering saw investors move to reduce risk. While the move lower in yields was strongly positive to absolute return, the Fund's shorter duration relative to the benchmark meant that interest rate movements detracted from outperformance. The Fund's curve positioning further detracted from outperformance as the mid-curve outperformed while the long end steepened. The Fund remains slightly short of benchmark duration and overweight the one and ten-year tenors.

The impact of interest rates movement on relative performance was offset by the contribution of credit spread tightening. On aggregate, domestic spreads were rangebound, remaining resilient despite increasing COVID-19 concerns. While credit spread tightening was slightly mixed across sectors, security selection was positive for outperformance. Security selection in the non-financial corporate, utilities and semi-government sectors contributed to outperformance. With many credit spreads tighter than their pre-COVID levels, active management remains crucial to identifying relative value opportunities in the credit space.

Sector allocation was actively managed over the month. The manager elected to trim the allocation to domestic banks, reducing exposure to subordinated tranches of regional bank debt. Exposure to RMBS was increased during the month. The RMBS sector continues to offer competitive relative value opportunities, and the Fund was able to increase both its credit quality and running income by investing in top tranches of a number of recent RMBS deals. Securitisation issuance remains robust in contrast to reduced volumes in the corporate primary market.

OUTLOOK

The credit outlook has cooled marginally but remains strongly positive.

Valuation indicators are neutral. Spreads have contracted significantly over the past year reaching below their pre COVID levels.

The growth outlook remains strongly positive. Despite a slight reduction in growth expectations during the month, leading and trailing economic indicators suggest conditions for strong economic growth and robust support for spreads. The ratio of upgrades to downgrades remains very supportive.

Demand and supply indicators continue to positively contribute to the overall credit outlook. Issuance volume in the primary credit market is below trend relative to long term averages. Reduced primary market activity over the recent months and subdued issuance pipeline continue to support credit spreads.

Technical indicators have quietened somewhat and are now neutral to the overall credit outlook. Investor and intermediary positioning remain neutral to the credit outlook. The widening of US credit spreads over July detracted from the technical outlook. Elsewhere, robust equity valuation and volatility continue to be supportive for domestic spreads.

The sustained rally in credit spreads continues to be supported by positive leading and trailing macroeconomic indicators and technical factors. The portfolios remain well positioned to take advantage of relative value opportunities presented by the current market conditions..

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