

# PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



August 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 August 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 <sup>1,3</sup>	0.05	2.51	4.12	2.10	1.76	4.84	-	-	4.69
Perpetual Wholesale Active Fixed Interest Fund Class W <sup>2,3</sup>	-	-	-	-	-	-	3.81	4.57	5.91
Bloomberg Ausbond Composite Index	0.09	2.55	4.23	1.05	1.33	4.52	3.33	4.15	-

<sup>1</sup> 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.

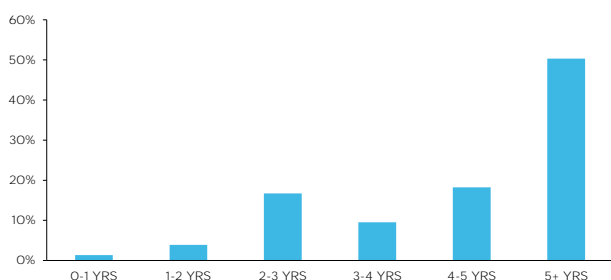
<sup>2</sup> To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been calculated by subtracting the fees for Class A from the actual gross past performance for Class W.

<sup>3</sup> Past performance is not indicative of future performance.

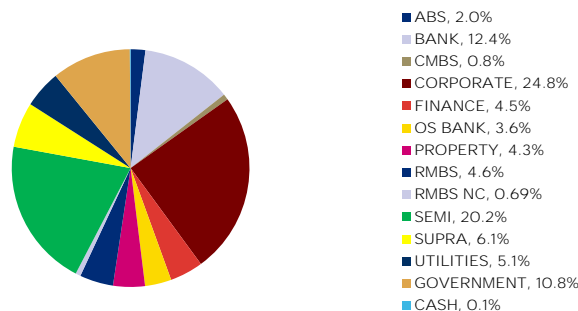
## POINTS OF INTEREST

- Domestic spreads tighten marginally.
- Financials outperform corporates.
- Primary market issuance robust.
- Credit outlook remains strongly positive.

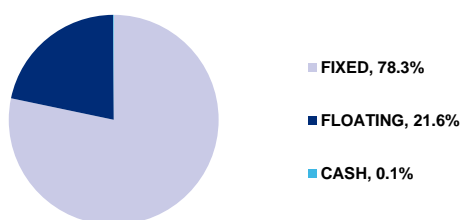
## MATURITY PROFILE



## PORTFOLIO SECTORS



## FIXED AND FLOATING BREAKDOWN



## PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	86.87%
Subordinated Debt	12.31%
Hybrid Debt	0.82%
Running Yield*	2.22%
Portfolio Weighted Average Life (yrs)	6.61
No. Securities	144
Modified Duration	5.59

\* 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 were mixed during August. Global equities continued to march higher, rallying throughout the month. Economic growth expectations however continued to be revised down as a result of the spread of the delta variant and continued supply chain disruption. A slew of leading indicators turned over during August with global service and manufacturing PMIs falling, most notably in China.

Domestic yields were steady through August in spite of the continued impact of the delta variant. Longer term yields outperformed and the yield curve flattened slightly. The RBA maintained their tapering schedule in spite of the continued lockdown in New South Wales. Semi-government spreads widened in August reflecting the elevated issuance schedule over the prior months.

Domestic credit spreads tightened slightly while remaining rangebound over the month. Financial spreads outperformed corporates during August. The credit curve flattened somewhat with longer dated credit outperforming. Credit volatility remains subdued with supportive conditions and low yields contributing to the stability in credit spreads. Reporting season results were mixed for credit markets. While corporate earnings were unquestionably strong, there was increased uncertainty with regards to forward guidance as a result of the spread of the delta variant and the impact of ongoing lockdowns in Australia.

Corporate and financial issuance was elevated in August, in line with seasonal trends following reporting season. Pacific National Finance came to market for \$400M following the release of their earnings. The deal was met with demand more than twice the deal size and priced 10bps tighter than initial guidance. NBN Co continued to tap the Australian credit market raising \$825M in a 3-year deal as they seek to replace their expiring government funding. The securitisation market remained active with a number of deals priced across ABS and RMBS. In spite of the active issuance schedule, securitised spreads ground tighter over the month, notably in subordinated tranches.

## 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 0.65%.

Domestic yields were stable through the month with a slight flattening of the yield curve. Yields were resilient to the prospect of monetary tapering with the RBA **maintaining its intention to reduce purchases. The fund's duration positioning marginally detracted from relative performance** over the month. The fund remains slightly short of benchmark duration and overweight the short end and ten year tenor.

**The detraction of interest rate dynamics was offset by the portfolio's income and credit spread return. Credit spread tightening was slightly positive for performance. Spread dynamics were relatively muted in August. The Fund's credit sector allocation contributed to relative performance over the month.** Financial spreads outperformed corporates and the Fund's elevated exposure to domestic and offshore banks performed well.

**The manager was active in primary markets during the month. The manager electing to take part in NAB's senior unsecured deal** which represented the first domestic major bank senior issuance since prior to COVID-19. Elsewhere the fund invested in a tier 2 deal priced by Commonwealth bank during the month. Short-dated government and major bank exposures were trimmed in order to fund purchase. With the credit outlook remaining supportive, the fund is near fully invested. **With some sector's credit spreads near or tight of pre-COVID levels, sub sector relative value positioning remains a heightened focus.**

## OUTLOOK

The credit outlook has 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. Global PMIs softened during the month as a result of COVID concerns and continued supply chain disruption. Growth expectations continued to be revised down during the month and are now neutral. The ratio of credit rating 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 continue to support credit spreads.

Technical indicators remain neutral to the overall credit outlook. US credit spreads continue to marginally detract from the overall credit score while, robust equity valuation and volatility continue to be supportive for domestic spreads.

The credit outlook remains strongly positive, supported by supply and demand factors as well as robust corporate earnings and improved credit ratings. The portfolios remain well positioned to take advantage of relative value opportunities presented by the current market conditions.

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The product disclosure statement (PDS) for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.