

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



October 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: \$375.4 million as at 30 September 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 October 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}	-3.50	-4.82	-2.21	-4.24	-0.33	3.11	-	-	3.43
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	3.08	3.75	5.53
Bloomberg Ausbond Composite Index	-3.55	-4.93	-2.33	-5.30	-0.76	2.72	2.58	3.30	-

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.

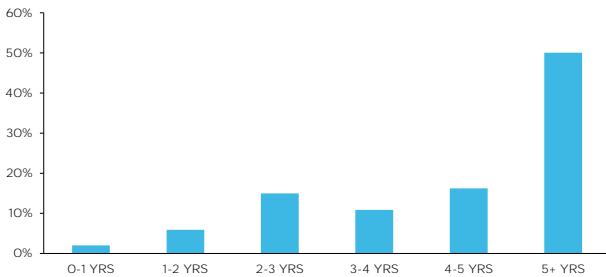
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

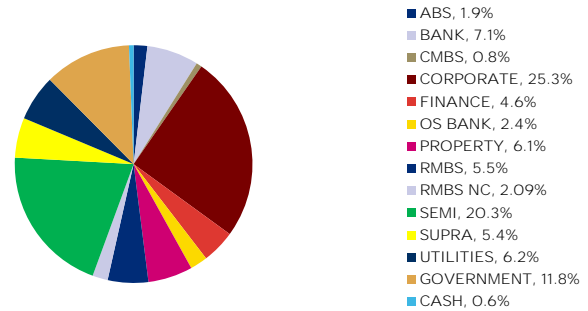
POINTS OF INTEREST

- Domestic spreads rangebound; spread volatility very low.
- Primary activity subdued; supportive supply and demand conditions.
- Global yields selloff on inflation and tapering concerns.
- Supply chain disruption impacting inflation & growth expectations;
- Credit outlook remains positive.

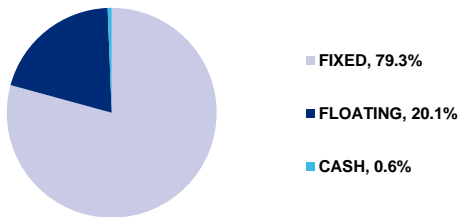
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	88.59%
Subordinated Debt	10.59%
Hybrid Debt	0.82%
Running Yield*	2.25%
Portfolio Weighted Average Life (yrs)	6.47
No. Securities	141
Modified Duration	5.40

* 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 saw mixed performance through October. Equities continued to grind higher led by a strong month from US stocks. Domestic markets were turbulent as inflation spiked and bonds sold off.

Volatility in interest rates markets was the dominant theme throughout October. Domestic yields sold off sharply towards the end of the month. The catalyst was the **high CPI print published in October. Core inflation reached the RBA's preferred band for the first time since 2015 which saw market expectations of rate rises brought forward.** At month end, the forward curve had fully priced in an interest rate rise by July of 2022, significantly earlier than RBA guidance to this point. The selloff in yields – especially at the short end – **also predicted the abandonment of the RBA's yield curve control program.** The 3-year yield became untethered as the market expected the RBA to cease purchases of the April 2024 government bond it had previously utilized in its yield curve control policy. The result of the selloff was significant losses for Australian bonds with the Bloomberg Ausbond composite bond index losing 3.6% over the month.

Domestic credit spreads traded within range of recent levels throughout October. Sector performance was mixed with financial spreads underperforming, led by domestic bank senior spreads which widened significantly. Tier two domestic bank paper also saw widening but was more resilient and the subordinated premium relative to the senior curve decreased.

Issuance was slightly elevated in October, led by domestic banks. Non-financial primary market activity was subdued however. The securitisation market remains very active with \$5.2B priced across 10 transactions. Despite the elevated issuance, RMBS spreads remained resilient.

PORTFOLIO COMMENTARY

Interest rate dynamics were the most significant determinant of absolute performance over the month of October. Bonds sold off dramatically towards the end of October as elevated CPI print brought forward expectations of monetary policy tightening including the expected abandonment of **the RBA's yield curve control program.** **The Fund was not immune to the selloff in rates, recording a negative absolute return for the month.** **The Fund's shorter than benchmark duration positioning however, contributed to relative outperformance.**

Curve positioning detracted slightly from performance overall. The yield curve flattened as the short end – led by the April 2024 Government benchmark – sold off. The fund retains elevated exposure to the short end of the curve with the exception of the 3-year tenor which is in line with benchmark in order to protect against **intervention risk as a result of the announcement and implementation of the RBA's yield curve control strategy.** **At the end of October, the Fund maintained its duration positioning, slightly short of benchmark with underweight exposure to the 5-7 year "belly" of the curve.**

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 2.24% with the spread measured at 0.73%.

Credit spread dynamics detracted marginally from relative performance. Domestic spreads were rangebound on aggregate over the month. Spread movements were mixed by sector with domestic banks widening. The Fund overweight exposure to financial and specifically domestic banks detracted from relative performance. The outlook for credit has cooled slightly while remaining constructive. The manager remains focused on accessing a superior risk adjusted return by identifying relative value opportunities in the credit space and managing curve positioning to limit downside capture.

OUTLOOK

The credit outlook has moderated slightly but remains positive.

Valuation indicators have turned slightly negative. Spreads extremely tight relative to historical averages. The 5y Basis swap moved materially wider during the month which dragged on the valuation outlook. The widening basis swap makes the AUD credit market more attractive for issuers and less attractive for offshore investors, and is expected to weigh on spreads.

The growth outlook remains strongly positive. Supply chain disruption continues to impact economic growth expectations as seen in a number of falling global PMIs (albeit from high bases). While growth expectations remain robust, they have cooled over the month. The accessibility of equity capital – as seen in the strong IPO pipeline – remains supportive for spreads. The ratio of credit upgrades to downgrades remains positive for spreads but is expected to moderate slightly while increased M&A activity may provide a headwind for credit quality.

Demand and supply indicators have settled but remain slightly supportive for the overall credit outlook. Market demand has cooled somewhat with interest rates volatility impacting bid volumes in secondary markets.

Technical indicators are neutral for the overall credit outlook. Intermediaries The team will continue to monitor technical and supply demand indicators to identify inflection points in investor risk sentiment.

The sustained rally in credit spreads continues to be supported by positive macroeconomic indicators. While valuation, technical and supply and demand indicators have moderated, the overall credit outlook remains positive. Despite the slight reduction in the credit outlook, the conditions are constructive and the portfolios remain well positioned to benefit from further spread contraction.

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