

# PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



November 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 30 November 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>	1.86	-3.11	-0.67	-2.63	0.19	3.71	-	-	3.76
Perpetual Wholesale Active Fixed Interest Fund Class W <sup>2,3</sup>	-	-	-	-	-	-	3.72	3.84	5.62
Bloomberg Ausbond Composite Index	2.08	-3.04	-0.56	-3.23	-0.14	3.35	3.30	3.42	-

<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.

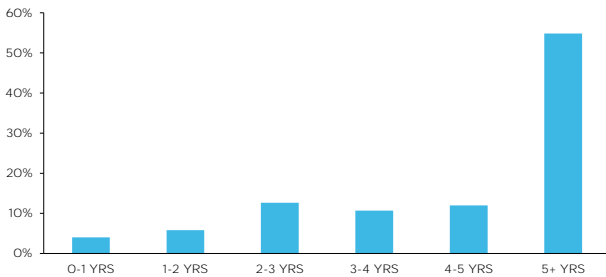
<sup>2</sup> To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee).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

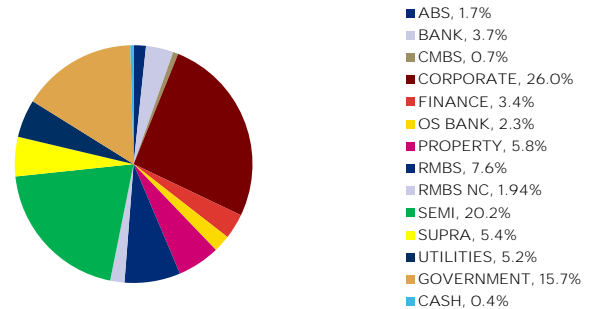
## POINTS OF INTEREST

- Risk assets sell off: Domestic spreads widen;
- Spread volatility increases: Corporates outperform financials;
- Omicron variant concerns & Fed tapering weighs on markets;
- Domestic yield curve flattens;
- Credit outlook moderates but remains positive.

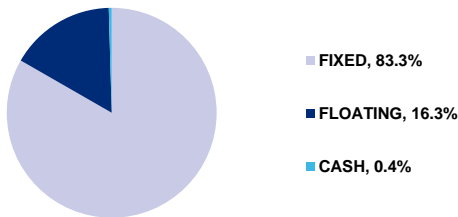
## MATURITY PROFILE



## PORTFOLIO SECTORS



## FIXED AND FLOATING BREAKDOWN



## PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	90.73%
Subordinated Debt	8.46%
Hybrid Debt	0.80%
Running Yield*	2.30%
Portfolio Weighted Average Life (yrs)	6.72
No. Securities	138
Modified Duration	5.69

\* 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 increased volatility over the last two weeks of November with risk assets selling off. Concerns surrounding the Omicron variant and the swift response of governments saw credit and equities tumble while long term bonds rallied globally as investors sought to reduce risk. Contributing to the decreased risk appetite was the late month shift of the US Federal Reserve in the face of persistent high inflation data.

Domestic credit spreads saw increased volatility towards the end of November. Spreads expanded on aggregate with the BAML Australia Corporate spread widening 9 bps. Non-financial corporates outperformed financials. Financial spread expansion was led by major banks which underperformed non-bank financials and corporates over the month. AUD spreads were resilient relative to offshore peers, USD and EUR spreads saw greater volatility and more significant widening. Swap spreads widened significantly during the month most notably at the longer end. Swap rates were steady throughout the month while the curve flattened.

Yield volatility increased as the prospect of central bank tightening and concerns about the omicron variant impact rates markets. Early in November the RBA abandoned its yield curve control policy while remaining firm on the timeline for interest rate increases. Futures markets continue to price in rate hikes ahead of RBA guidance. Long-term yields fell over the month, and the yield curve continued to flatten.

Primary market credit issuance was subdued. Aggregate issuance volume remains well below trend for the year and is unlikely to change in December which is usually a quiet month for corporate issuance. Securitised issuance was reduced following a very busy October.

## 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 2.30% with the spread measured at 0.72%.

Interest rate dynamics were predominantly benign for performance during the month. Long term yields regained a portion of their recent losses and the yield curve continued to flatten over the month. The fund remains only marginally below benchmark duration. A significant factor detracting from performance during the month was the widening of swap spreads. Swap spreads measure the difference between the government bond yield and the bank bill swap rate and is a component of **return for fixed rate credit instruments. As a result of the fund's high credit exposure relative to the benchmark the impact of month-to-month swap spread volatility is increased.**

Credit spread dynamics were broadly positive for relative performance during November. Australian Dollar spreads – led by major banks – widened on aggregate on Omicron concerns and increasing expectations of central bank tightening. Spread performance was mixed by sector with domestic banks and RMBS detracting from performance. Allocation to and security selection within the non-financial corporate sector were the most significant contributing factors to credit spread return.

Risk allocations were actively managed over the month. The manager took the opportunity reduce credit risk in the portfolio trimming exposure to BBB corporates and increasing allocation to mid-long term government bonds. Primary market activity was subdued during the month. The Manager elected to take part in the new \$300M sustainability linked bond from Optus. The deal represented attractive relative value in a sector that continues to see robust demand.

The credit outlook has tempered while remaining positive. The Fund is well positioned to benefit from the supportive conditions for spreads while selectively reducing risk as the outlook cools.

## OUTLOOK

The credit outlook continues to moderate and is no longer strongly positive.

Valuation indicators have improved while remaining marginally negative. Concerns surrounding the Omicron variant and the more hawkish stance from the Fed contributed to widening spreads across US investment grade, high yield and AU investment grade. The basis swap continues to make 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. PMIs remain resilient to supply chain disruption. Growth expectations have cooled slightly as a result of increasing COVID concerns. The accessibility of equity capital and increasing credit quality remain supportive for spreads.

Demand and supply indicators have cooled slightly while remaining marginally positive for the overall outlook. Market demand has been more selective than recent months with a number of new deals trading wider than issue by month end. Spreads continue to be supported by reduced issuance volumes relative to recent years.

Technical indicators are marginally negative for the overall credit outlook. Investor and intermediary cash balances are very low relative to historical levels, weighing on the outlook for credit spreads. The team will continue to monitor technical and supply demand indicators to identify inflection points in investor risk sentiment.

The credit outlook has tempered recently as credit markets face risks in the form of central bank tapering and the Omicron variant. At the end of long rally in spreads, the credit outlook remains supported by positive macroeconomic indicators while valuation, technical, and supply and demand indicators have moderated. The portfolios are well positioned to continue to deliver income and defend capital in these conditions.

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