

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



December 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: \$390.1 million as at 31 December 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 December 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}	0.21	-1.50	-1.17	-2.45	1.12	3.33	-	-	3.74
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	3.78	3.62	5.60
Bloomberg Ausbond Composite Index	0.09	-1.46	-1.15	-2.87	0.74	2.87	3.36	3.18	-

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.

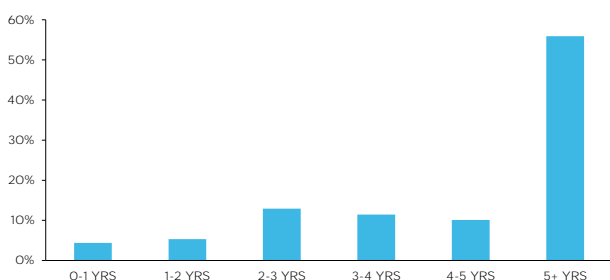
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

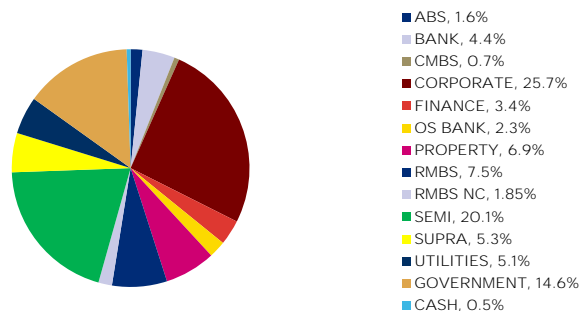
POINTS OF INTEREST

- AUD spreads rangebound: Financials outperform corporates
- Long term yields rise: Yield curve steepens.
- Primary issuance subdued
- The credit outlook is slightly positive.

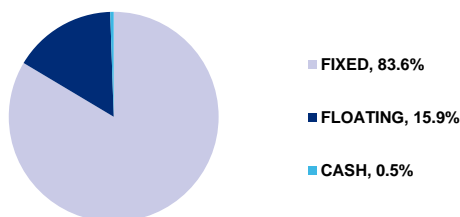
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	90.13%
Subordinated Debt	9.07%
Hybrid Debt	0.79%
Running Yield*	2.34%
Portfolio Weighted Average Life (yrs)	6.62
No. Securities	141
Modified Duration	5.73

* 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 in December. Risk assets proved resistant to the impact of the Omicron variant and the acceleration of central bank tightening during December. Global equities continued to rise with the MSCI World Index ending the year at a new high watermark. Credit and bonds were more mixed as a result of the acceleration of the Fed's tapering schedule and a more hawkish tone from central banks on tightening. The persistent high inflation print in the US - and to a lesser extent Europe and the UK - led central banks to abandon the 'transitory' prefix for inflation and moves to tighten were advanced, including a surprise rate hike from the Bank of England in mid-December.

Australian dollar long-term yields rose over the month, surging in mid-December on robust jobs data. The yield curve steepened as the long end of the curve sold off. **The RBA remains at odds with futures markets over when rate rises are expected. Australia's central bank has continued to insist that increases in 2022 remain unlikely.** In comments during the month, RBA Governor Philip Lowe praised the strength of recovery and noted the strong unemployment figures, while confirming that the cash rate would remain on hold until actual inflation is sustainably in the 2-3% range. Swap spreads tightened slightly over the month, regaining a portion of the widening observed through October and November.

Domestic credit spreads were mixed over the month overall, trading in range of recent averages. Financial spreads - led by major banks - outperformed corporates in December. The credit curve steepened as the short end outperformed longer-dated credit. RMBS spreads widened on aggregate. Demand in the sector has cooled over recent months and issuance volumes over the past year have been elevated.

Primary issuance was subdued in line with seasonal expectations. Overall, issuance volumes were lower in 2021 than recent years. This is partially attributable to the **RBA's Term Funding Facility, which led to the absence of senior bank issuance throughout the first half of the year. The reduced volume has been constructive for spreads as reduced supply has met robust demand in both primary and secondary markets.**

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 0.75%.

Interest rate dynamics were constructive for relative performance during the month. The yield curve steepened as the very long and very short end of the curve sold off. The fund remains only marginally below benchmark duration. The Fund benefitted from the retracement of swap spreads during the month. Swap spreads narrowed regaining a portion of the widening seen during October and November. **Over prior month, the Fund's return had been impacted as its elevated exposure to corporate credit increases the fund's sensitivity to month-to-month swap spread volatility. This volatility is expected to moderate further as the RBA's quantitative easing program is tapered and the supply of bonds available to investors is increased in 2022.**

Credit spread dynamics were mixed for performance. Security selection in non-financial corporate, domestic bank and semi-government sectors contributed to performance. **The fund's active approach to credit management ensured that relative credit spread return remained positive despite mixed results for domestic credit during the month.**

Sector and risk allocations were maintained over the month. The manager remains selective in purchases made and the primary market was subdued in line with seasonal expectations. **The manager elected to add to the Fund's commercial property allocation via a new deal from Centuria as well as in secondary markets.**

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 remains marginally positive.

Valuation indicators have improved while remaining marginally negative. Concerns surrounding the Omicron variant and a 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 this 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 a 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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