

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



February 2022

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 28 February 2022

	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}	-1.31	-2.20	-5.24	-1.34	-1.63	1.94	3.07	-	3.12
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	-	2.99	5.39
Bloomberg Ausbond Composite Index	-1.21	-2.13	-5.10	-1.09	-1.95	1.57	2.73	2.58	-

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.

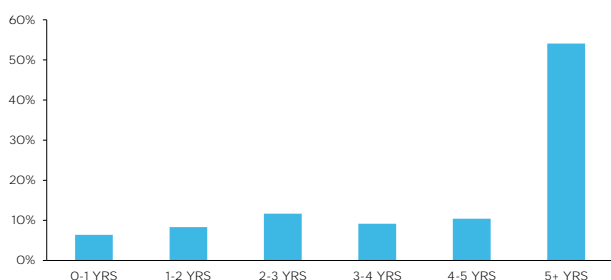
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

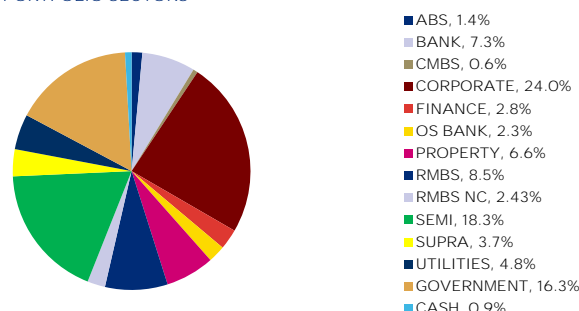
POINTS OF INTEREST

- Monetary tightening, war in Ukraine weigh on financial markets.
- Credit spreads widen; financials underperform corporates.
- Domestic yields rise; curve steepens;
- Financial issuance robust; corporate issuance subdued.
- The credit outlook has turned slightly negative.

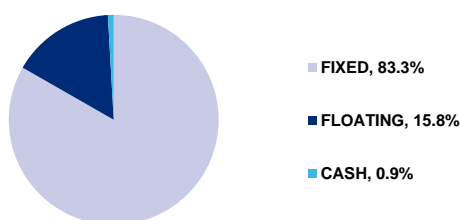
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	89.87%
Subordinated Debt	9.32%
Hybrid Debt	0.81%
Running Yield*	2.51%
Portfolio Weighted Average Life (yrs)	6.44
No. Securities	141
Modified Duration	5.67

* 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 as a result of increasing geopolitical instability alongside anticipation of monetary tightening. Throughout the month expectations of an aggressive tightening cycle from major banks weighed on valuations. Towards the end of February, financial markets were roiled by the invasion of Ukraine by Russia. While markets stabilised somewhat, the conflict has significant potential ramifications via central bank policy, energy prices and transition and exacerbated supply chain disruption.

Domestic credit spread widened in response to the geopolitical and monetary policy uncertainty. Corporate spreads outperformed financials as a result of lower sensitivity to geopolitical turmoil in some instances and a lighter issuance schedule. The busy month for major bank issuance impacted financials and other sectors closely correlated to the major bank curve such as RMBS. Domestic spreads were well supported by robust corporate earnings results which mitigated the impact of geopolitical and central bank policy uncertainty. Australian Dollar spreads were more resilient than offshore with US Dollar spreads widening further. Euro Spreads were the hardest hit, seeing a sharp expansion following the invasion of Ukraine. European banks are more sensitive to the economic sanctions placed on Russia and Europe remains reliant on Russian energy.

Domestic yields rose over the month with the curve steepening at the short end. Throughout the first half of the month, yields rose as the market continued to price an accelerated tightening schedule. During this time, the RBA took a more hawkish stance with 2022 rate hikes being discussed and their Bond Purchase Program ceasing. Following the invasion of Ukraine, the aggressive pricing of 2022 rate increases reduced somewhat.

Primary market activity was elevated throughout February though mixed by sector. Financials saw heavy issuance headlined by a large deal from NAB. The Bank raised \$4B in a deal split between 3 and 5-year tenors across fixed and floating tranches. The crowded issuance schedule for the major's is a notable contrast to the prior year where access to the term funding facility saw an absence of senior bank issuance. Corporate issuance was more subdued for the second month of the year.

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 2.51% with the spread measured at 0.87%.

Widening credit spreads were the key detractor from performance during February. The Fund's overweight exposure to credit was impacted by the broader move wider in spreads as a result of the invasion of Ukraine alongside expectations of accelerated monetary policy tightening. The Fund's weighting towards corporate credit mitigated some of the negative performance impact as corporate spreads outperformed financials over the month.

A portion of the negative spread return was offset by the contribution of interest rate dynamics. Yields rose at mid and longer tenors while remaining anchored at the short end. Yields rose throughout the first weeks of February as the market priced in a more aggressive tightening by the RBA. Following the invasion of Ukraine, yields fell somewhat as investors reduced risk. The Fund's duration exposure remains close to benchmark but the elevated exposure to the very short of the curve was constructive for performance.

Sector and risk allocations were actively managed throughout February. The credit outlook has turned slightly negative, and the portfolio has adjusted accordingly, adopting a more defensive positioning. Credit exposure in the fund was reduced in line with credit outlook and exposure to sectors and regions sensitive to the war in Eastern Europe were trimmed. The manager elected to take part in a new deal in the domestic bank sector as well as add a moderate position in a European CDS index. The fund is positioned well to taken advantage of opportunities in credit when value emerges.

OUTLOOK

The credit outlook has continued to degrade and is now marginally negative. Valuation indicators remain marginally negative. While remaining in range of recent levels, credit spreads have widened across US investment grade, high yield and (to a lesser extent) domestic investment grade. The basis swap remains wide, making the AUD credit market more attractive for issuers and less attractive for offshore investors, which is expected to weigh on spreads.

The growth outlook remains slightly positive, supported by strong corporate earnings results and the preponderance of credit rating upgrades. PMIs remain robust despite continuing to fall from recent highs. The spiking oil price detracts from the overall credit outlook and this is expected to be exacerbated by the ongoing conflict in Ukraine.

Demand and supply indicators have turned and are now slightly negative. Primary issuance volumes have been elevated over the first two months of the year, meeting selective demand. Market demand has also cooled in secondary markets where liquidity has reduced. Technical indicators remain marginally negative. US credit, equity and volatility indicators are all detracting from the overall credit outlook.

The credit outlook has fallen recently as credit markets face risks in the form of central bank tightening and increasing geopolitical risks against a backdrop of slowing economic growth. The team continues to manage these risks and the portfolios are well positioned to continue to deliver income and defend capital in these conditions.

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