

# PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



March 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:** \$378.4 million as at 31 March 2022  
**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 March 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 <sup>1,3</sup>	-3.99	-6.30	-7.70	-5.92	-2.63	-0.07	2.09	-	2.27
Perpetual Wholesale Active Fixed Interest Fund Class W <sup>2,3</sup>	-	-	-	-	-	-	-	2.29	5.11
Bloomberg Ausbond Composite Index	-3.75	-5.88	-7.25	-5.55	-3.70	-0.32	1.86	1.91	-

<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.

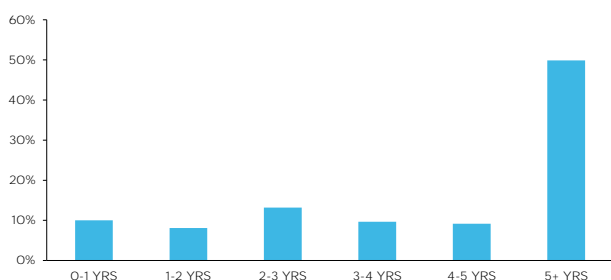
<sup>2</sup> To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee).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

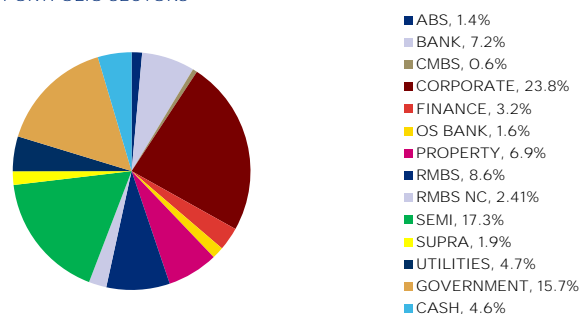
## POINTS OF INTEREST

- AUD spreads widen; Yields rise sharply;
- Inflation, central bank tightening, geopolitics weigh on bond markets;
- Primary issuance robust; Major volumes remain elevated;
- The credit outlook has improved to neutral.

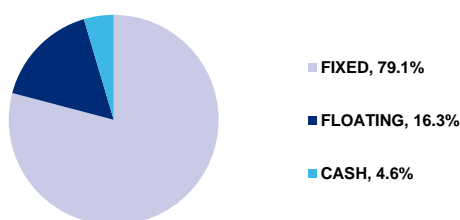
## MATURITY PROFILE



## PORTFOLIO SECTORS



## FIXED AND FLOATING BREAKDOWN



## PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	89.78%
Subordinated Debt	9.40%
Hybrid Debt	0.81%
Running Yield*	2.55%
Portfolio Weighted Average Life (yrs)	6.00
No. Securities	138
Modified Duration	5.42

\* 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

March was a turbulent month for fixed income credit markets with spreads widening and yields rising sharply. The Bloomberg Ausbond composite bond index had its worst ever single month return while the Bloomberg US Aggregate bond index saw its largest fall since 2003. Markets continue to be impacted by speculation surrounding central bank tightening as well as the ongoing conflict in Ukraine and its impact on commodity prices and supply chains. While bonds sold off globally, equities enjoyed a rebound following a torrid start to the year.

Domestic spreads widened on aggregate through March. Credit spreads sold off through the first two weeks of the month before moderating. Australian dollar spreads were outperformed by offshore peers as offshore credit rallied through second half of the month. Spread widening was also impacted by supply with elevated issuance over the first quarter impacting major bank spreads as well as spreads in securitised sectors. The domestic credit market saw decreased liquidity and increasing volatility as investors and intermediaries became more cautious.

Bond yields sold off sharply in March as persistent inflationary pressure saw the Fed commence rate rises and the expected pace of RBA rate hikes increased. The war in Ukraine has intensified the persistent inflationary pressure via soaring energy prices and further disruption to supply chains. During March the RBA elected to not follow the Fed in raising rates but rhetoric suggested an accelerated tightening cycle would likely commence in May. By the end of March, expectations for the pace and scale of 2022 rate increases had increased significantly which saw yields rise substantially along the curve.

The primary market activity was robust through March with several domestic financials and corporate issuers coming to market. Aggregate primary issuance volume remains below trend as a result of lighter corporate volumes through January and February. Major bank senior issuance continues to be strong with Westpac pricing \$2.5B of senior unsecured paper across fixed and floating tranches. The return of major bank senior issuance to the primary market has been notable during the March quarter following the end of the RBA's Term Funding Facility in June 2021. Elevated volumes have contributed to the recent widening of major bank senior spread.

## PORTFOLIO COMMENTARY

Bond markets saw elevated volatility and sold off sharply with the Bloomberg Ausbond Composite index posting worst month on record. The portfolio running yield at month end was 2.6% with the spread measured at 1.0%.

Interest rate dynamics were the most significant detractor from absolute return during the month. The domestic yield curve rose sharply over the month as The Fed commenced tightening and expectations grew of an accelerated RBA tightening cycle. The portfolio's duration positioning contributed to relative performance, mitigating a portion of the broader selloff in rates. The portfolio ended the month with close to benchmark duration. With uncertainty surrounding central bank decisions and elevated volatility in bond markets, the fund's duration positioning is expected to mitigate the impact of possible central bank policy or execution errors.

Credit spread widening detracted from relative performance. Spreads widened throughout the first two weeks of March before stabilising. Concerns surrounding inflation, central bank policy, slowing economic growth and geopolitical risk contributed to the selloff. Elevated issuance volumes also contributed, most notably in the domestic bank sector. The Fund maintains an elevated exposure to credit spreads relative to the benchmark, which detracted from relative performance during March. The Manager is comfortable with the current credit exposure and maintains the capacity take advantage of relative value opportunities offered by the recent elevated volatility. Despite recent spread widening, the manager believes that credit quality remains robust and there are no credits in the portfolio that are distressed or of concern.

Sector and risk allocations were adjusted throughout the month. The manager elected to shorten the credit exposure in the Fund, trimming European debt positions to reduce exposure to the ongoing war in Ukraine. With more than one third of the portfolio in highly liquid government bonds, the portfolio is well positioned to take advantage of relative value opportunities offered by the recent selloff in bond and credit markets. The fund remains defensively positioned with the capacity to add risk at attractive valuations.

## OUTLOOK

The credit outlook has improved and is now neutral. Despite recent spread widening, valuation indicators remain somewhat negative. Credit spreads have widened across US investment grade, high yield and domestic investment grade but remain in reach of recent average levels. Offshore spreads are offering more attractive value relative to the domestic market and the basis swap remains wide of recent averages both of which weigh on the valuation outlook.

The growth outlook remains slightly positive, supported by the strong ratio of ratings upgrades to downgrades. PMIs remain robust but have continued to fall over recent periods. Elevated oil prices continue to detract from the overall credit outlook.

Demand and supply indicators have improved and are now neutral. Primary issuance volumes have been elevated over the first quarter, meeting selective demand. The issuance pipeline is expected to reduce as financial conditions tighten which could be constructive for spreads.

Technical indicators have improved and are now neutral. Falling equity valuations elevated equity volatility have contributed to the improvement in the technical score.

The credit outlook has improved as supply and demand as well as technical indicators have improved. While the credit outlook has improved, credit markets continue to face risks in the form of central bank tightening and increasing geopolitical risks against a backdrop of slowing economic growth. The team continues to actively manage the risks and evaluate opportunities presented by the current market conditions.

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