Perpetual Investments

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A

April 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 30 April 2022

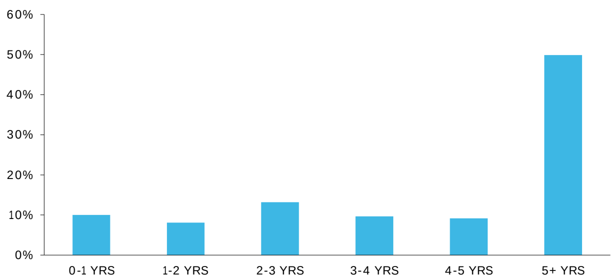
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A [1,3]	-1.66	-6.82	-5.94	-8.03	-3.60	-0.74	1.58	-	1.91
Perpetual Wholesale Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	2.19	4.98
Bloomberg Ausbond Composite Index	-1.49	-6.33	-5.27	-7.47	-4.39	-0.91	1.40	1.85	-

[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.

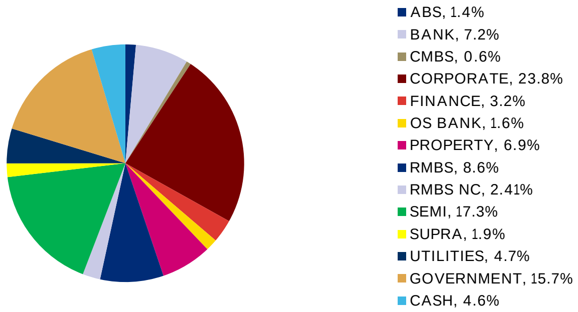
POINTS OF INTEREST

-Financial markets sell off on accelerated monetary tightening.
-Credit spreads mixed; financials underperform corporates.
-Short end yields sell off; US AU spread widens.
-Financial issuance robust; corporate issuance subdued.
-The credit outlook remains marginally positive.

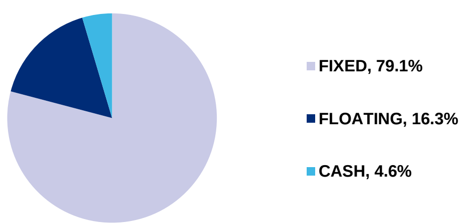
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	89.78%
Subordinated Debt	9.40%
Hybrid Debt	0.81%
Running Yield*	2.72%
Portfolio Weighted Average Life (yrs)	6.00
No. Securities	138
Modified Duration	5.44

* 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 were roiled in January with bonds and equities selling off. Global equity fell sharply as the expectation of accelerated monetary policy tightening weighed on valuations. Further contributing to reduced investor sentiment was increasing geopolitical tensions, mixed early company earnings results, persistent high inflation and the continued disruption caused by the Omicron variant.

Domestic spreads were broadly resilient to the increased volatility in rates markets. Corporate spreads remained rangebound while financials – led by regional and offshore banks - widened slightly. Persistent high inflation, acceleration of The Fed's tapering and tightening schedule and elevated credit issuance saw US spreads widen more sharply. Earnings results for US banks showed increasing expense and margin pressure which impacted financial spreads. Despite some slowing indicators, domestic credit spreads remain supported by robust economic and earnings growth.

Australian Dollar yields rose in January and the curve flattened as the short end sold off. Notably, the AU 10-year yield traded briefly above 2% for the second time since March 2019. The rise in Australian dollar yields reflected both the surge in December CPI and the broader global rise in yields precipitated by the acceleration of Fed policy. US yields rose more dramatically, and the Australian dollar fell against the greenback as the US AU 10-year spread narrowed. The domestic rates market continues to anticipate rate increases in 2022 despite the RBA maintaining that rate rises would remain on hold until at least 2023. At month end, the futures curve priced in a March rate rise and a swift rise in the target cash rate.

Primary issuance was elevated through the first three weeks of January leading to the highest aggregate January volume since 2011. The increased volume was led by financial issuers while the corporate primary market was more subdued. The securitisation market was quiet, in line with seasonal expectations.

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 2.72% with the spread measured at 1.01%.

Credit spread widening was the most significant contributor to underperformance during the month. Credit markets were impacted by expectation of tightening liquidity conditions and increasing discount rates alongside the broader volatility in financial markets. Credit spread performance was mixed by sector with corporates outperforming financials. The Fund's significant overweight exposure to non-financial corporates and property sectors were the most significant detractors from relative return.

Interest rate dynamics contributed to relative performance over the month. Yields rose along the curve with the short end selling off more sharply. The Fund benefitted from its duration positioning, starting the month marginally short of benchmark which was constructive for relative performance. The Fund's duration was lengthened slightly over the month, remaining very close to benchmark.

Sector and risk allocations were actively managed over the month. Primary market activity was mixed during January with robust financial issuance but a quiet primary market for corporates. The manager elected to increase the Fund's exposure to domestic banks via a series of new deals in the space. The Fund's government bond exposure was trimmed while induvial positions were rotated from short to longer dated government bonds.

The credit outlook has tempered while remaining marginally 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 are benign. Concerns surrounding the Omicron variant and a more hawkish stance from the Fed have contributed to widening spreads across US investment grade, high yield and AU investment grade. The basis swap has normalised and is no longer detracting from the overall credit outlook.

The growth outlook has moderated while remaining slightly positive. PMIs – while remaining robust – have fallen from their 2021 highs. The recent spike in the oil price is expected to weigh on the outlook. Credit quality – expressed by the ratio of upgrades to downgrades – continues to strongly contribute to the overall outlook.

Demand and supply indicators have further cooled and are now neutral. Market demand has been more selective than recent months, with a number of new deals trading wider than issue by month end.

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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