

# PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



May 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 May 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>	-1.00	-6.52	-8.58	-9.19	-4.40	-1.66	1.13	-	1.68
Perpetual Wholesale Active Fixed Interest Fund Class W <sup>2,3</sup>	-	-	-	-	-	-	-	2.04	4.90
Bloomberg Ausbond Composite Index	-0.89	-6.02	-8.02	-8.54	-4.95	-1.76	0.99	1.72	-

<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.

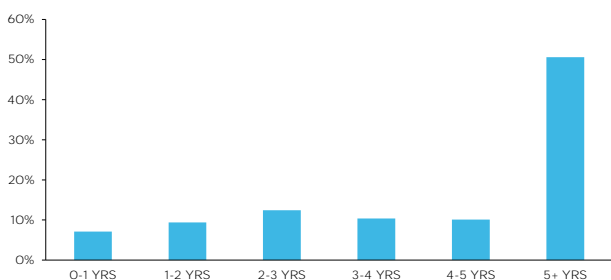
<sup>2</sup> To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee).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

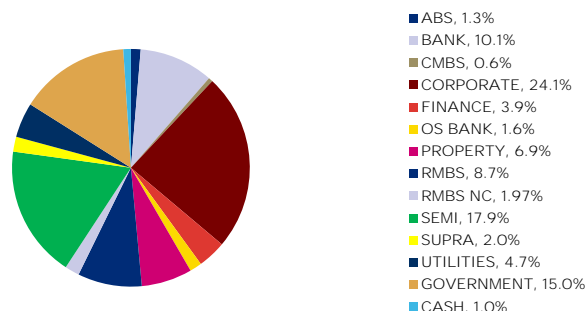
## POINTS OF INTEREST

- AUD bonds and credit underperform offshore peers
- AUD spreads widen; Corporates outperform financials
- Yields rise early before moderating; RBA commences rate hikes
- Corporate primary issuance orderly; Major bank and securitised issuance robust
- The outlook for credit has continued to deteriorate and remains negative.

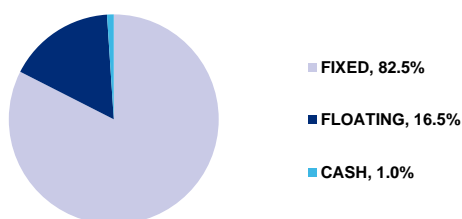
## MATURITY PROFILE



## PORTFOLIO SECTORS



## FIXED AND FLOATING BREAKDOWN



## PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	87.13%
Subordinated Debt	12.03%
Hybrid Debt	0.84%
Running Yield*	2.82%
Portfolio Weighted Average Life (yrs)	6.13
No. Securities	145
Modified Duration	5.27

\* 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

Global financial markets moderated somewhat during May following a tumultuous start to the year. Domestic markets underperformed offshore peers across fixed income, credit and equities as the RBA accelerated monetary tightening.

Domestic bond yields continued to selloff, ending the month higher along the curve. Yields rose early in May before rallying through the remainder of the month. The early month selloff was attributable to the greater than expected interest rate increase at the RBA's May meeting. The RBA elected to raise the target cash rate to 35bps and the subsequently released minutes revealed that 15, 25 and 40 bps increases were actively considered. The decision and subsequent increase in rate volatility demonstrate how central banks still retain the capability to surprise markets despite aggressive tightening already being priced in. US treasury yields rebounded slightly, and the US AU 10 Year spread tightened. US bond yields fell slightly on expectations of a more moderate tightening cycle which was supported by marginally below consensus April inflation print.

Domestic credit spreads continued to drift wider over the month. Accelerated monetary tightening and growth concerns continue to contribute to spread expansion. AUD credit underperformed relative to offshore peers. Corporates outperformed financials during May. Major bank spreads were impacted by a heavy issuance schedule. Among corporate sectors, Materials continued to lag with the weaker outlook for China weighing on spreads. Swap spreads widened as swap rates climbed higher during the month. The short end remains very steep in anticipation of a sharp tightening cycle.

Corporate and financial issuance was robust during May. Major banks headlined the domestic primary market following reporting season. ANZ came to market for \$4B across multiple tranches. A week later Westpac issued \$3B in covered and senior unsecured bonds. NAB later raised \$2.75B in the last week of May. Issuance in securitised sectors continued at a rapid pace with aggregate volumes trending above recent averages.

## PORTFOLIO COMMENTARY

Domestic yields rose early in the month as the RBA's May rate increase exceeded expectations before regaining a portion of their losses over the remainder of the month. The Portfolio ended the month close to benchmark duration, but modest position changes during the month's volatility contributed positively to relative performance over the month. As evidenced by recent rate increases, the RBA maintains the capacity to surprise bond markets, a trend that is expected to continue both domestically and offshore. The fund's strategic duration positioning at benchmark and tactical positioning at extremes is expected to continue to add modest relative returns.

Credit spread widening was the key detractor from relative performance during May. Spreads continued to widen, impacted by growth and inflation concerns and uncertainty surrounding monetary policy tightening. The fund's elevated exposure to corporate and financial credit impacted relative performance as spreads widened over the month. A portion of the negative credit spread return was offset by the contribution of security selection in the Domestic bank sector. The current defensive sector positioning between government and credit securities reflects the credit outlook while continuing to benefit from the yield premium offered by bonds from high quality corporate issuers.

Income return continues to contribute to relative return, mitigating the impact of widening spreads and yield volatility. Allocation to Non-financial corporates and domestic banks were the most significant contributing sectors to income return during the month. The portfolio running yield at month end was 2.8% with the spread measured at 1.1%.

With a challenging outlook for credit and volatility in rates markets likely to continue, the portfolio is defensively positioned and retains the capability to add risk at attractive valuations

## OUTLOOK

The credit outlook has continued to deteriorate and is now negative.

Valuation indicators turned slightly negative over the month. Swap spreads, which were previously at constructive levels, have expanded. Offshore spreads are offering more attractive value relative to the domestic market and the basis swap remains wide of recent averages both of which continue to weigh on the valuation outlook.

The growth outlook has reduced and is now neutral. The ease of access to equity capital has reduced somewhat over recent periods which can contribute to increased issuance of corporate debt. The strong ratio of upgrades to downgrades remains supportive while elevated oil prices continue to detract from the overall credit outlook.

Demand and supply indicators remained negative over the month. Aggregate issuance volumes remain above trend while primary market demand is slightly subdued. Technical indicators have deteriorated further over the month. Secondary market liquidity remains disrupted with intermediaries looking to reduce risk.

With a challenging outlook for spreads, risk management remains paramount. The team continues to position to defend capital while evaluating opportunities presented by the current market conditions..

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Adviser Services 1800 062 725  
Investor Services 1800 022 033  
Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)  
[www.perpetual.com.au](http://www.perpetual.com.au)

