

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



June 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: \$354.2 million as at 30 June 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 June 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}	-1.96	-4.55	-10.56	-11.61	-5.63	-2.66	0.89	-	1.29
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	-	1.87	4.75
Bloomberg Ausbond Composite Index	-1.48	-3.81	-9.46	-10.51	-5.80	-2.58	0.87	1.64	-

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.

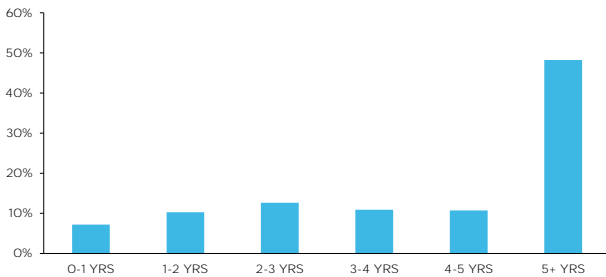
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

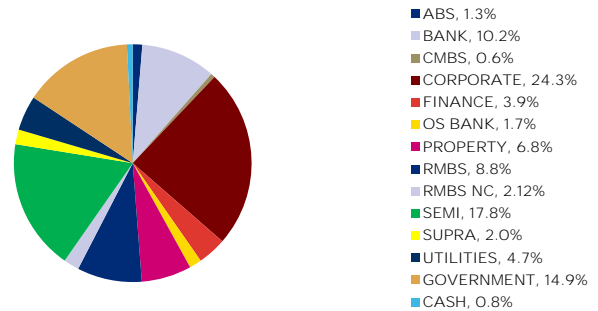
POINTS OF INTEREST

- Financial markets weaken on inflation and recession concerns;
- AUD spreads widen; EUR spreads underperform dramatically;
- Yields rise early before rallying; RBA increases 50bps;
- Corporate primary issuance subdued; securitisation robust;
- The outlook for credit has improved while remaining negative.

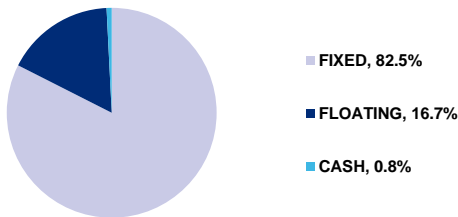
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	86.80%
Subordinated Debt	12.36%
Hybrid Debt	0.85%
Running Yield*	3.00%
Portfolio Weighted Average Life (yrs)	5.99
No. Securities	145
Modified Duration	5.22

* 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 again in turmoil during June. Rising inflation weighed on equity and fixed income markets over the first two weeks of the month. Recession risks took prominence over the second half of June with bond yields rallying while credit and equities continued to weaken.

Leading economic indicators deteriorated throughout June as high inflation and rising interest rates were reflected in falling business and consumer sentiment. Purchasing manager indices continued to fall over the quarter with the latest ISM US manufacturing survey reading the lowest in two years.

Domestic bond yields sold off sharply over the first two weeks of June before rallying to end the month. Yields rose along the curve in reaction to accelerated monetary policy tightening, with 10-year yield rising above 4% during mid-June. **High US inflation and the Fed's 75bps hike precipitated the global selloff in bonds.** The RBA elected to increase the target cash rate by 50bps, which was higher than market expectations. As recession risks were foregrounded, yields rallied sharply but ended higher for the month.

Domestic credit spreads moved wider over the month. Australian dollar spreads were more resilient than offshore peers, supported by reduced primary market issuance. EUR spreads, in particular, widened dramatically following hawkish rhetoric from the ECB and increasing economic growth concerns.

Primary market issuance was subdued during June. The major banks were absent, following a flurry of issuance in May. Lloyds Banking Group issued in AUD for the first time in three years, pricing \$500M of 5-year fixed rate notes. In the non-financial corporate space, Ampol raised \$150M in subordinate sustainability-linked debt. Securitised sectors saw more action with year-to-date aggregate issuance remaining above trend. NAB issued a \$1.5B RMBS deal – its first since 2018. The deal included a \$500M AAA green tranche.

PORTFOLIO COMMENTARY

Interest rate dynamics detracted from relative performance over the month. Domestic yields rose sharply over the first two weeks of June before rallying over the second half on recession concerns. As evidenced by recent rate increases, both domestically and offshore, central banks maintain the capacity to surprise bond markets, a trend that is expected to continue. As such, the Fund remains in line with benchmark duration, with elevated exposure to the very short and long end of the curve. **The Fund's overweight exposure to yields at the 7-10 year tenors detracted from performance as the long end of the curve saw higher volatility relative to short end yields.**

The Portfolio was also impacted by swap spread expansion during June. The Fund's overweight exposure to credit securities relative to the benchmark mean that the Portfolio has elevated sensitivity to month-to-month movements in swap spreads. Swap to bond spreads widened over the first two weeks of the month before moderating, detracting from relative performance.

Credit spread widening detracted from relative performance during the month. Credit spreads continue to grind wider over the month, despite support from reduced issuance volumes. **As spreads widened, the Fund's elevated exposure to corporate and financial credit impacted relative performance.** This was partially offset by underweight exposure to semi-government and supranational sectors which was constructive. **The Fund's very small long position in a European CDS index detracted from return as EUR spreads widened drastically on a hawkish shift from the ECB and economic growth concerns.** The Manager is comfortable with the current defensive sector positioning between government and credit securities, which 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 2.97% with the spread measured at 1.15%.

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 improved slightly while remaining challenged.

Valuation indicators improved over the month while remaining slightly negative. Rising swap spreads were constructive for the outlook. The domestic credit market remains expensive relative to offshore markets across relative spread and basis swap indicators.

The growth outlook is unchanged, remaining neutral. PMIs remain constructive but continue to weaken and global recession concerns rose over the month. Equity capital markets remain tight, detracting from the outlook. The most significant positive contributor remains the ratio of credit upgrades to downgrades, although US high yield is showing signs of slowing.

Recent supply has improved. Primary market volumes slowed slightly over June as financial conditions tightened. Demand remains slightly negative. Investors are selective with the success of primary deals increasingly name dependent. The upcoming maturity schedule is slightly elevated and expected to be constructive for spreads.

Technical indicators have improved while remaining slightly negative. Secondary market liquidity remains somewhat disrupted with smaller bid sizes and an elevated premium for holding risk. US credit, equity and equity volatility indicators remain negative.

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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