

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



July 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 31 July 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} | 3.24 | 0.20 | -6.63 | -10.30 | -4.48 | -1.96 | 1.45 | - | 1.86 |
| Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3} | - | - | - | - | - | - | - | 2.16 | 4.92 |
| Bloomberg Ausbond Composite Index | 3.36 | 0.93 | -5.46 | -9.10 | -4.41 | -1.81 | 1.49 | 1.93 | - |

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.

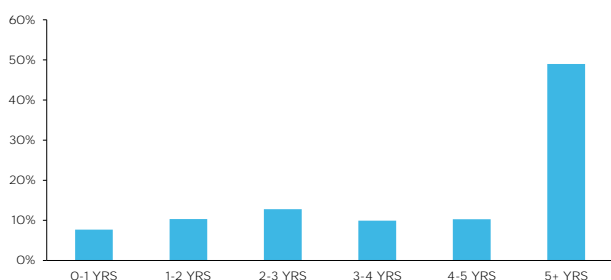
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

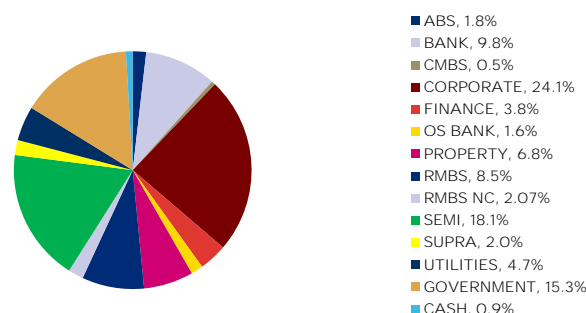
POINTS OF INTEREST

- Financial markets rebound on moderating monetary policy expectations;
- Domestic yields fall. Yield curve flattens;
- AUD spreads widen slightly; USD and EUR spreads tighten;
- Primary issuance orderly;
- The outlook for credit remains challenged.

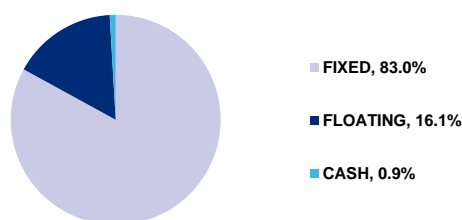
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---------------------------------------|-----------|
| Senior Debt | 87.09% |
| Subordinated Debt | 12.09% |
| Hybrid Debt | 0.83% |
| Running Yield* | 3.02% |
| Portfolio Weighted Average Life (yrs) | 5.98 |
| No. Securities | 146 |
| Modified Duration | 5.04 |

* 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 rebounded during the month with equities and bond yields clawing back a portion of their first half losses. As recession risks continued to rise, markets were buoyed by the softening of monetary policy tightening expectations.

During the month, investors reacted to slowing economic growth by anticipating a deceleration of rate increases from central banks. Two successive quarters of **negative GDP growth confirmed a technical recession in the US which saw financial markets rally on expectations the Fed's aggressive tightening cycle would ease**. Employment data remains constructive and corporate earnings have proven thus far resilient. Forward looking indicators are less constructive, with profit guidance revised down and Purchasing Manager Indices (PMIs) indicating contraction.

Credit spread dynamics were predominantly benign during July as the expansion of credit spreads observed over recent months slowed. While AUD spreads ended the month slightly wider, USD and especially EUR spreads tightened, the latter recovering a portion of the dramatic selloff observed in June. Primary issuance was orderly during July. NAB issued \$1.25B of 10-year non-call 5 tier 2 fixed and floating rate notes. In the corporate space, John Deere Financial priced a 3 year \$300M deal. Swap spreads tightened slightly over the month following persistent widening over recent months.

Domestic bond yields ended the month lower after a strong rally in the last week of July. The Australian 10-year is more than 100bps down from the June peak. The Reserve Bank of Australia (RBA) has continued its aggressive tightening cycle, having increased the target cash rate by 175bps between the start of May and the 2nd of August. Inflation remains the key concern for the central Bank with trimmed mean inflation – **the RBA's preferred measure** – rising to 4.9% yoy during the June quarter, remaining well outside of the target range. While surging inflation will provide little comfort to the central bank, the print came in short of estimates and saw monetary tightening expectations ease as a result. At the same time, the labour market remains robust and wage growth is expected to accelerate.

PORTFOLIO COMMENTARY

Interest rate dynamics were constructive during July. Bond yields rallied on rising recession concerns and moderating monetary policy tightening expectations. Falling yields were the most significant determinant of absolute return as fixed rate bonds regained a portion of their year to date losses.

Curve positioning contributed to relative return as the domestic yield curve flattened. The Manager elected to reduce the Fund's duration exposure, ending the **month 0.4 years short of the benchmark. The recent rally presented an opportunity reduce interest rate risk as market's priced** in a reduced terminal rate and a less aggressive RBA tightening cycle. With an easier tightening cycle fully priced in, the Manager remains cautious of further downside risk alongside policy error and execution risks.

Credit spread dynamics detracted from relative return over the month. Domestic credit spreads continued to grind wider during July although the rate of expansion slowed. The Portfolio maintains elevated exposure to credit relative to the benchmark which contributed to underperformance. 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. Swap spreads were also constructive with the Fund's elevated credit exposure** contributing as swap spreads tightened.

Income return continues to contribute to relative return, mitigating the impact of widening spreads. Allocation to non-financial corporates and domestic banks were the most significant contributing sectors to relative income return during the month. The portfolio running yield at month end was 3.02% with the spread measured at 1.21%.

Sector allocations were broadly maintained during the month. The Manager remains selective in purchases made. During the month, the Fund took part in a pair of new deals from Canadian banks that priced during the month. 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 remains challenged with a number of indicators degrading over the month.

Valuation indicators remain somewhat negative. US investment grade and high yield alongside Australian Investment grade and swap spreads remain at neutral levels relative to historical averages. The domestic credit market remains expensive relative to offshore markets across relative spread and basis swap indicators.

The growth outlook remains delicately poised with slowing economic growth and the elevated oil price offset by the robust ratio of upgrades to downgrades.

Supply and demand indicators have worsened, detracting from the overall credit outlook. Market demand remains disrupted with secondary markets seeing reduced volumes and primary deals meeting selective demand. Primary issuance volumes have been rising and are now at robust levels relative to recent trends. The upcoming maturity schedule is slightly elevated and expected to be constructive for spreads.

Technical indicators remain negative. Intermediaries continue to limit risk to their balance sheets, impacting secondary market liquidity and detracting from the outlook for spreads. US credit and equity indicators remain negative while equity volatility indicators have improved.

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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