Perpetual Investments

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A

August 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 August 2022

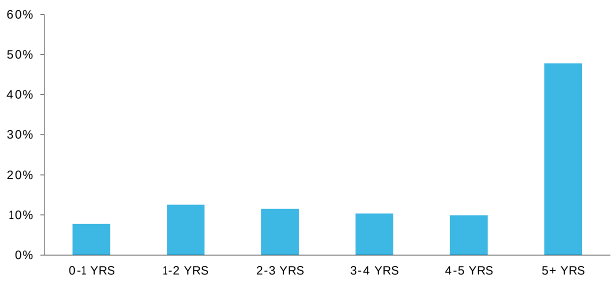
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A [1,3]	-2.29	-1.11	-7.56	-12.40	-5.43	-3.20	0.98	-	1.41
Perpetual Wholesale Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	1.73	4.76
Bloomberg Ausbond Composite Index	-2.54	-0.76	-6.74	-11.50	-5.43	-3.14	0.97	1.46	-

[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.

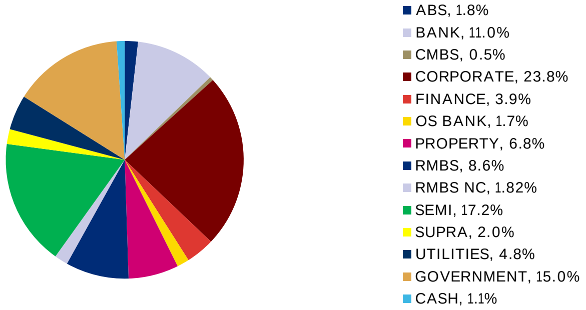
POINTS OF INTEREST

-Hawkish tone from Jackson Hole sees markets falter.
-Bond yields rise; remain short of June highs.
-Domestic spreads rangebound; Earnings results robust.
-Primary market sees elevated domestic bank issuance.
-The outlook for credit remains challenged.

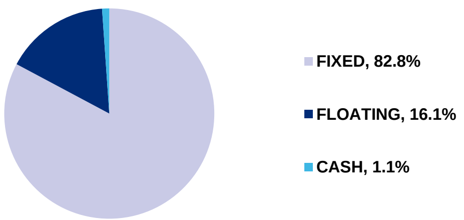
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	86.48%
Subordinated Debt	12.66%
Hybrid Debt	0.86%
Running Yield*	3.17%
Portfolio Weighted Average Life (yrs)	5.88
No. Securities	147
Modified Duration	5.31

* 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

The reversal in fortunes of financial markets observed during July slowed during August. Bond yields rose throughout the month while equities fell over the second half as hawkish central bank commentary saw investor sentiment weaken. Whereas in July, markets priced in less aggressive monetary policy tightening, hawkish comments from Fed chair Jerome Powell saw investors move to reduce risk towards the end of the month.

Credit spreads were rangebound over the month. Spreads rallied through the first two weeks of August before widening over the second half, ending the month slightly tighter on aggregate. Robust earnings season results were supportive as well as improved liquidity conditions in the secondary market. A busy month in the domestic bank primary market was headlined by Commonwealth Bank's $4.5B multi tranche senior unsecured transaction, which was met with a record order book. Westpac also issued senior debt, pricing a $1.55B floating rate note in the first week of the month. Offshore banks were also active with a number of smaller deals pricing during August. Elsewhere, Suncorp-Metway raised $750M across fixed and floating tranches. Non-financial corporate issuance was notably quieter.

Domestic bond yields rose throughout August gaining more than 50bps at most tenors along the curve. The RBA maintained its aggressive tightening cycle, raising the target cash rate by 50bps in the first week of August, marking 175bps of increases since the start of May. Alongside the domestic monetary policy tightening, rates markets also adjusted in anticipation of Powell's comments at the Jackson Hole Economic Symposium. The RBA has a somewhat more favourable predicament – relative to the US – with less severe inflation and wages growth as well as greater consumer sensitivity to policy rates as a result of highly leveraged households and the prevalence of variable rate mortgages. While the Australian economy looks robust thus far, the RBA does have a delicate balance to maintain. Inflation remains above the target rate and labour conditions are very tight, but forward indicators suggest slowing growth.

PORTFOLIO COMMENTARY

Interest rate duration management contributed to relative return over the month. Yields rose over the month, returning a portion of the gains made since mid-June. The RBA reiterated its dedication to their aggressive tightening cycle, including a 50bps interest rate increase early in the month. the Fund began the month marginally short of benchmark duration, then went shorter as the outlook for yields was higher. This positioning contributed materially Towards month end, the manager elected to bring portfolio duration in line with the benchmark.

Credit spread dynamics contributed to relative performance during August. Domestic spreads were rangebound, ending the month marginally tighter on aggregate. The Fund benefitted from its overweight exposure to credit. Allocation to non-financial corporates, domestic banks and utilities were the key contributors to credit spread return

The Fund's robust running yield continues to contribute to relative return. 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 3.17% with the spread measured at 1.19%.

Sector allocations were broadly maintained during the month. The Manager was active in primary markets, taking part in a number of new deals in the domestic bank and non-financial sectors. Elsewhere, the Manager elected to trim non-financial corporate and semi-government exposures. 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 negative.

Valuation indicators have improved while remaining marginally negative. Credit spreads are at neutral levels relative to historical averages and offshore peers. The USD AUD basis swap remains elevated relative to long term averages, detracting from the credit outlook.

The growth outlook reduced during the month. Recession risks continue to escalate with a number of forward indicators deteriorating over the month. While the ratio of upgrades to downgrades remains robust, the trend is starting to turn as financial conditions tighten and corporate earnings see increasing pressure.

Supply and demand indicators remain mixed. There has been a noticeable improvement in demand across secondary and primary markets. At the same time, recent supply has been heavy and the upcoming maturity schedule is light both of which detract from the outlook for spreads.

Technical indicators have improved and are now positively contributing to the overall credit outlook. Intermediaries have been more active, contributing to improvements in secondary market liquidity. Strengthening US equity markets and increased equity volatility are also contributing to the positive technical score.

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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