Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

September 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: $350.3 million as at 30 September 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 September 2022

	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Active Fixed Interest Fund Class A [1,3]	-1.45	-0.59	-5.11	-12.42	-6.60	-3.54	0.73	-	1.12
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	1.50	4.65
Bloomberg Ausbond Composite Index	-1.36	-0.64	-4.43	-11.36	-6.58	-3.42	0.75	1.23	-

[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.

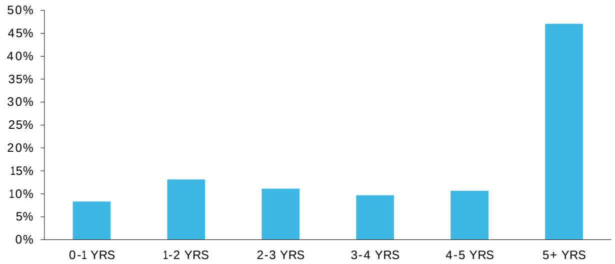
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has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

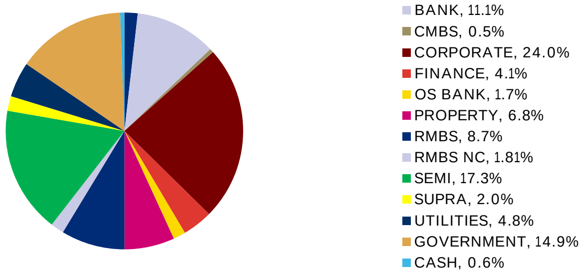
POINTS OF INTEREST

-Financial markets sell off sharply on hawkish central banks;
-Domestic credit spreads widen; in range of post COVID selloff level;
-Corporate issuance orderly; securitisation issuance robust;
-Bond yields rise along the curve; AU yields outperform global peers;
-The outlook for credit remains challenging.

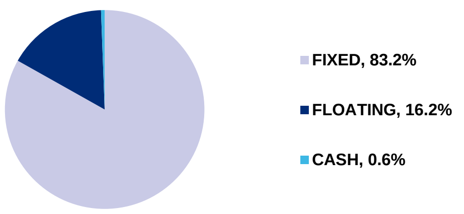
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	86.14%
Subordinated Debt	12.99%
Hybrid Debt	0.87%
Running Yield*	3.35%
Portfolio Weighted Average Life (yrs)	5.78
No. Securities	148
Modified Duration	5.23

* 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 September as central banks continued to aggressively tighten monetary policy and recession risks persisted. Bond markets remain in a historic bear market with the 12-month return on fixed rate bonds as low as any on record.

Domestic spreads traded in a tight range over the first half of the month before widening sharply over the last week of September. Spreads ended the month close to their recent June high. Following the extended expansion over the first half of 2022, spreads are in range of levels seen in the period immediately following the 2020 COVID-19 selloff. Slowing economic growth, rising recession concerns and tightening financial conditions have contributed to rising credit risk premia.

Primary market issuance was orderly during September. In the corporate space, NBN came to market for $800M across a pair of senior fixed rate deals. ANZ's $900M tier-2 deal headlined issuance in financial sectors following large tier-2 deals from Westpac and NAB during August. The Securitisation market rebounded over the month with 11 deals printing between the last week of august and the end of September. Securitised issuance remains short of the pace observed during 2021. The RMBS space saw two deals north of $1B from Columbus Capital and Australian Finance Group during the month.

Domestic bond yields widened along the curve during September. Yields ground higher over the month as the RBA maintained its aggressive monetary policy tightening. The RBA increased the target cash rate by another 50bps early in September following consecutive 50bps increases in June, July and August. The 2.35% target cash rate represents the highest level since February 2015. US yields also sold off significantly during the month on hawkish commentary from the Fed and better than expected leading economic indicators. 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

Rising interest rate were the most significant detractor from absolute return over the month. Bond yields sold off in reaction to the RBA's aggressive pace of rate increases and hawkish commentary from the Fed and other central banks. The RBA increased the target cash rate by 50bps for a fourth successive month in early September. The Fund remains close to benchmark duration however and the impact on relative return was benign. The RBA retains the ability to surprise markets and with the current tightening cycle having a fair way to play out, managing interest rate risks remains crucial. The Manager elected to keep the portfolio duration in line with the benchmark to limit the impact of policy implementation errors.

Credit spread widening detracted from performance during the month. Domestic spreads widened on aggregate as hawkish central bank rhetoric, slowing economic growth and tightening financial conditions weighed on credit markets. The Manager is confident in the current mix of credit and government securities. There are currently no credits of concern within the portfolio and the recent increases in interest rates and credit risk premia ensure that the portfolio receives attractive compensation for moderate levels of credit risk. During the month, the small negative credit spread performance was fully offset by the contribution of the Fund's running yield.

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 3.35% with the spread measured at 1.22%.

Sector allocations were broadly maintained 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 negative. Valuation indicators remain 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.

Growth indicators continue to detract from the overall credit outlook. Recession risks remain prominent and financial conditions are notably tighter. While the ratio of upgrades to downgrades remains robust, the team is cognisant of risks as financial conditions tighten and corporate earnings see increasing pressure.

Supply and demand indicators have improved while remaining marginally negative. Demand remains orderly in primary and secondary markets. Recent primary issuance volumes have been slightly elevated, detracting from the outlook for spreads.

Technical indicators have declined and are now neutral. Investor cash levels are healthy which contributes positively to the outlook. The negative trend in US equity and equity volatility indicators is detracting from the credit outlook.

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.

MORE INFORMATION
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