

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

September 2023



FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in a portfolio of diversified fixed income securities which are predominantly corporate and government bonds; and outperform the Bloomberg AusBond Composite 0+Yr Index (before fees and taxes) over rolling three-year periods.

Benchmark: Bloomberg AusBond Composite Index
Inception date: February 2017
Size of Strategy: \$405.2 million as at 30 June 2023
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 2023

	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}	-1.45	0.10	-2.29	3.18	-4.94	-3.44	0.62	-	1.43
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	-	1.05	4.57
Bloomberg Ausbond Composite Index	-1.53	-0.28	-3.22	1.61	-5.10	-3.92	0.34	0.66	-

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.

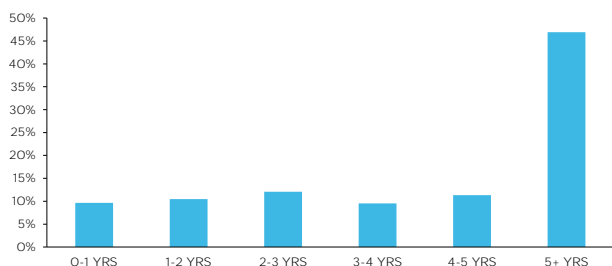
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

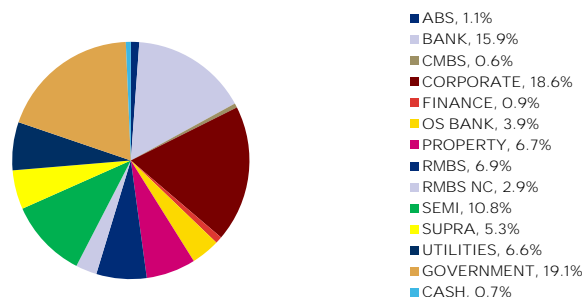
POINTS OF INTEREST

- Bond yields surge higher; RBA remains on hold;
- Credit spreads widen over the second half;
- Semi and supra spreads outperform credit;
- Orderly primary market issuance.
- The outlook for credit is negative.

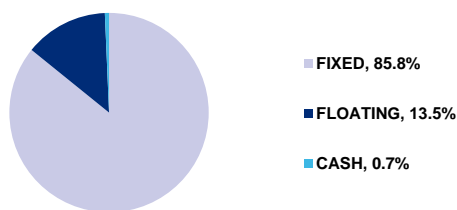
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	85.69%
Subordinated Debt	14.31%
Hybrid Debt	0.00%
Running Yield*	3.95%
Portfolio Weighted Average Life (yrs)	5.66
No. Securities	151
Modified Duration	4.84

* 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

Bond yields surged during September, precipitating a selloff in global equities. Australian yields rose along the curve despite the RBA remaining on hold at their September meeting. The board retained its tightening bias, noting that more time is required to assess the impact of recent rate increases. US bond yields surged as US economic data showed resilience and investors prepared for a higher-for-longer interest rate paradigm. At the same time, the looming government shutdown and leadership dispute in congress alongside rising oil prices put further pressure on bond yields.

Credit spreads consolidated through the first two weeks for the month before selling off in the final days of September. This was in line with the global shift in risk sentiment with synthetic spreads rising as investors moved to purchase credit protection. Non-financial corporate spreads widened in late September, reflecting the pricing of higher-for-longer rates as well as an increase in monthly CPI indicators and corporate earnings growth concerns. Financial spreads were mixed with subordinated major bank spreads outperforming senior.

Primary market issuance was orderly through September following a very busy August. The flurry of senior unsecured financial deals continued with Macquarie pricing \$1.75B across fixed and floating tranches. Suncorp raised \$600M in the first Australian dollar tier 2 deal this quarter which was met with very strong demand. Financial deal flow continued to dominate while corporate issuance remained very light. A \$550M fixed rate bond from Westconnex was the exception, pricing in the last week of the month.

PORTFOLIO COMMENTARY

The Fund's running income above benchmark contributed to outperformance during the month. The Fund continues to collect a healthy yield premium above benchmark attributable to overweight allocations to domestic banks and non-financial corporates as well as off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.0% with the spread measured at 1.1%.

While rising bond yields impacted the Fund's absolute return, the Fund's marginally shorter than benchmark duration contributed to outperformance. Bond yields sold off throughout the month as markets priced an extended period of restrictive rates, in line with hawkish central bank rhetoric. The Fund maintained its relative duration positioning, marginally short of benchmark with an underweight exposure to very short end alongside a small allocation to securitised floating rate assets.

Credit spread dynamics were mixed for performance. Spreads consolidated through September before widening towards the end of the month. Security selection within non-financial corporates contributed to credit spread return with issuers in the energy and rail sectors performing well. **The Fund's underweight allocation to semi-government spreads detracted slightly as semi spreads tightened.** The Fund maintains an elevated exposure to credit relative to the benchmark with the largest active exposures in domestic banks, non-financial corporate and securitised sectors.

The Manager was selective in adding issues to the portfolio during September. Allocation to offshore banks was increased while semi-government and government exposure were trimmed. The Manager elected to take profit on a long position in the iTraxx Euro Xover index which tracks corporate issuers on the cusp of investment grade, closing the position in late September.

The outlook for credit is negative and the Manager remains cognisant of the challenging macro environment and the risks associated with tighter lending conditions. The Fund is defensively positioned and the manager remains focused on identifying relative value opportunities presented as the outlook improves.

OUTLOOK

The Credit outlook deteriorated during September, turning negative by month end.

Valuation indicators are balanced with no decisive signals across a range of indicators. Spreads across domestic investment grade as well as US investment grade and high yield are in range of historical levels. Tightening swap spreads are marginally negative for the outlook.

Macro indicators remain the most significant drag on the outlook for credit spreads. The surging oil price contributed to the negative growth picture. Challenging **economic growth expectations and tightening financial conditions as described in the Fed's Senior Loan Officer survey continue** to weigh on the outlook.

Supply and demand indicators are marginally negative. Heavy issuance both recently – as a result of elevated August volumes – and on a 12 month rolling basis weight on the outlook for spreads.

Technical indicators have moderated, remaining marginally positive. Accommodative intermediary positioning and robust demand are positive. US equity and equity volatility indicators have worsened as rising bond yields saw equities selloff and volatility spike.

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