

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A



December 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: \$347.7 million as at 31 December 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 December 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} | -1.86 | 0.52 | -0.07 | -10.62 | -6.62 | -2.96 | 0.52 | - | 1.17 |
| Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3} | - | - | - | - | - | - | - | 1.63 | 4.61 |
| Bloomberg Ausbond Composite Index | -2.06 | 0.38 | -0.27 | -9.71 | -6.35 | -2.87 | 0.54 | 1.32 | - |

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.

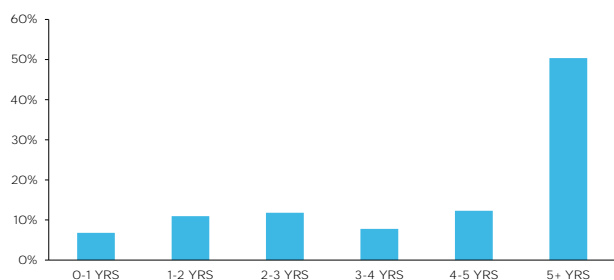
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

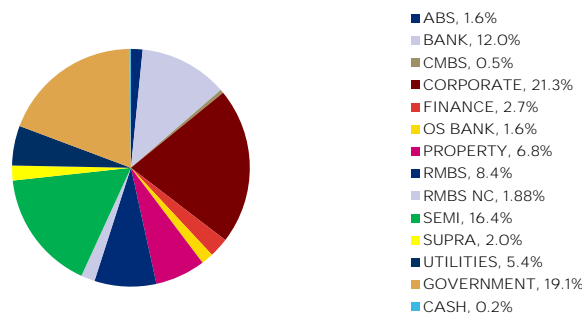
POINTS OF INTEREST

- Domestic spreads rangebound.
- Swap spreads marginally tighter.
- Bond yields rise; curve steepens slightly.
- Primary issuance subdued in line with seasonal expectations.
- The outlook for credit remains neutral.

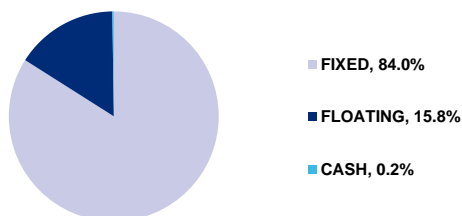
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---------------------------------------|-----------|
| Senior Debt | 85.25% |
| Subordinated Debt | 13.88% |
| Hybrid Debt | 0.87% |
| Running Yield* | 3.57% |
| Portfolio Weighted Average Life (yrs) | 5.98 |
| No. Securities | 146 |
| Modified Duration | 5.10 |

* 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

Credit markets were steady in December while global equities (with the notable exception of China) gave back some their fourth quarter gains, and bond yields rose on aggregate. December brought to a close an extremely challenging year for financial markets with almost all asset classes retreating and fixed rate bonds experiencing their worst performance in 40 years. The key contributing factor to this turmoil has been the aggressive tightening of monetary policy, headlined by the greatest calendar year increase of the Fed Funds rate in history. Global recession concerns and the timing of potential pivots from the Fed and other central banks are expected to dominate financial markets into 2023.

Yield rose sharply in December, outpacing offshore peers. The curve steepened slightly with long term yields pushing back above 4% by month end. The RBA elected to increase the target cash rate by 25bps during for the third consecutive month. The current rate of 3.1% represents the highest level in over a decade while still well behind the US. Minutes released during the month revealed that the possibility of no increase was discussed for the first time since the commencement of the tightening cycle. Swap rates rose less than bond yields and swap spreads tightened slightly over the month.

Domestic spreads traded in a tight range, narrowing slightly over the month. Steep expansion throughout 2022 leaves domestic spreads at their highest consistent level since 2013 (2020 COVID spike notwithstanding). Offshore peers also tightened with the exception of Japan which pushed wider as the BOJ considered loosening their rates targets. Issuance was subdued in line with seasonal expectations. Notable issuance included a \$1B benchmark deal from Suncorp Metway while Westpac saw strong demand for their 1-year senior unsecured issuance which raised \$1.7B. Securitisation volumes were steady including new RMBS deals from Resimac and Mystate Bank.

PORTFOLIO COMMENTARY

The Fund's robust running yield continues to contribute to relative return. The Fund's allocation to non-financial corporates, domestic banks and securitised sectors were the strongest contributors to relative income return during the month. The portfolio running yield at month end was 4.1% with the spread measured at 1.6%.

Rising bond yields was the key determinant of the Fund's negative absolute return during the month. Bond yields rose sharply over the final weeks of the year giving back a substantial portion of their gains since October. The Fund began the month marginally short of benchmark duration which contributed to outperformance as yields sold off. Over the course of the month, the Manager lengthened the fund's duration before ending the year in line with the benchmark.

The contribution of credit spread movements to outperformance was negligible during December. Credit spreads traded in a tight range, narrowing slightly over the course of the month. **The Fund's overweight allocation to domestic bank paper was rewarded. As the credit outlook improves, the Manager is comfortable with the current credit exposure of the fund and its capacity to take advantage of upcoming opportunities.**

Over the course of the month, the Fund benefitted from narrowing swap spreads. Swap spreads measure the difference between the government bond yield and the swap rate and is a component of return for fixed rate credit instruments. The Fund has elevated exposure to movements in swap spreads as a result of the overweight allocation to credit. Swap rates rose less than corresponding government bond yields during December, positively contributing to relative return.

Sector and risk allocations were broadly maintained during the month. Despite recent improvements in the credit outlook the manager remains cognisant of risks and selective in purchases made. Fund remains defensively positioned while retaining the capacity to add risk as the outlook for credit continues to improve.

OUTLOOK

The credit outlook remains neutral.

Valuation indicators are marginally negative. Following a moderation in swap spreads, the majority of valuation indicators are in range of neutral levels. 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. The ratio of upgrades to downgrades has reached an inflection point and is no longer providing support for the growth outlook. Tightened financial conditions as described in the **Fed's Senior Loan Officer survey continue to be a significant headwind.**

Supply and demand have improved and are now neutral. Supply is expected to be subdued in line with seasonal patterns while an elevated volume of maturities in the new year is expected to be supportive.

Technical indicators remain supported by a noticeable recent uplift in cash across real money accounts and improving trends in US credit and equity markets.

While the outlook for credit spreads has improved considerably, the team remains cognisant of the risks associated with tightening financial conditions and slowing economic growth.

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