

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

February 2023

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 28 February 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}	-1.03	0.21	1.15	-6.49	-3.95	-3.28	0.92	-	1.48
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	-	1.65	4.69
Bloomberg Ausbond Composite Index	-1.32	-0.69	0.39	-6.37	-3.76	-3.44	0.82	1.19	-

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.

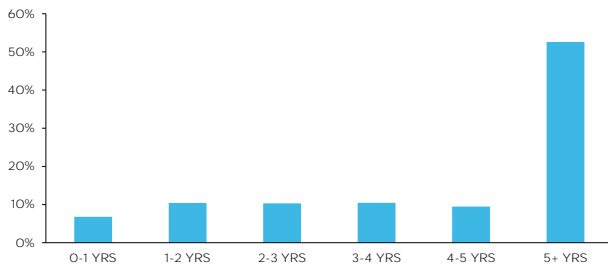
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

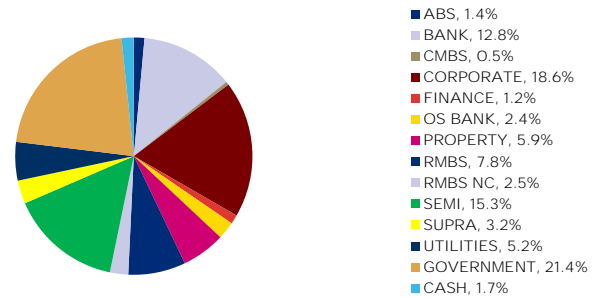
POINTS OF INTEREST

- Economic outlook improves; US inflation exceeds expectations;
- Increasing terminal rate expectations; Bond yields rise;
- Credit spreads tighten moderately;
- Primary market issuance robust; Financials dominate new deals;
- The outlook for credit is neutral.

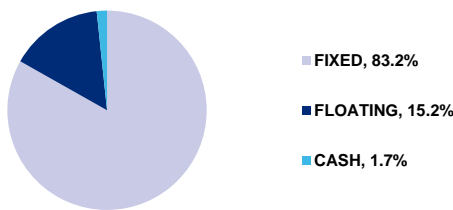
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	85.67%
Subordinated Debt	13.49%
Hybrid Debt	0.84%
Running Yield*	3.56%
Portfolio Weighted Average Life (yrs)	6.09
No. Securities	141
Modified Duration	5.21

* 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

Equity and bond markets slowed in February following a strong start to the year as a series of strong economic data saw a repricing of central bank interest rate expectations. While markets reacted positively to the improving economic outlook in January, February saw increasing caution as robust PMIs, tight labour market data and elevated inflation prompted markets to anticipate further monetary policy tightening and higher terminal rates.

Domestic credit spreads were resilient, grinding tighter through February while remaining in range of recent levels. The primary issuance market remained mixed through February. There continued to be elevated volumes in the financial sector while non-financial corporate and securitisation activity was subdued. Westpac priced \$4.25B of senior unsecured paper across 3 and 5-year tranches. ANZ raised \$1B in a fixed rate tier 2 transaction that was notable for its unusual 15-year non-call 10 structure. Offshore bank, supranational and agency issuers were also active during the month. Signs point towards an emergence of corporate issuance with Telstra launching a \$650M fixed rate bond in the final days of the month.

Bond yields rose giving back late 2022 and January gains. Strong economic data alongside hawkish central bank commentary released during the month led to increasing terminal rate expectations. The domestic yield curve flattened as short end yields sold off sharply. While the US yield curve is deeply inverted (reaching its deepest inversion in 40 years during the month), the slope of the domestic curve remains in positive territory. The RBA elected to increase the target cash rate by 25bps in early February with minutes later revealing that a 50bps increase was discussed. Similarly, the Fed minutes revealed a hawkish tone and discussion of a 50bps increase.

PORTFOLIO COMMENTARY

The Fund's robust running yield continues to contribute to outperformance. 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 3.6% with the spread measured at 1.1%.

Interest rate dynamics were the key determinant of absolute return over the month. Bond yields sold off as investors priced an extended monetary policy tightening cycle and higher terminal rates. The Fund benefitted from its slightly short duration position – relative to benchmark – as yields rose. Curve positioning was constructive as the Fund's underweight exposure to the very short end of the yield curve performed well as the curve flattened and inversion of 1-and-3 year yields deepened significantly. The Fund's duration was selectively lengthened during January, ending month in line with the benchmark.

The Fund's overweight allocation to Credit contributed to outperformance over the month as the credit spreads showed resilience in the face of rising discount rates. Domestic credit spreads tightened while remaining in range of recent levels and swap-to-bonds spreads also narrowed. The Fund's allocation to non-financial corporates, domestic banks and Real Estate Investment Trusts were the key contributors to credit spread return. As well as benefitting from the broader move tighter in spreads, security selection was also rewarded across non-financial corporates and property sectors.

The Manager was active in primary and secondary markets during the month, adding to domestic and offshore bank exposures while selectively trimming allocation to non-financial corporates. The Manager rotated exposures within the semi-government sector, selling a number of shorter dated issues and adding longer dated WA and SA state government bonds. The Fund remains defensively positioned while retaining the capacity to add risk should the outlook for credit continues to improve.

OUTLOOK

The Credit outlook is neutral after briefly reaching the first positive reading in 12 months during early February.

Valuation indicators remain marginally negative. While the majority of indicators are in neutral territory, 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. Tightened financial conditions as described in the Fed's Senior Loan Officer survey continue to be a significant headwind. Meanwhile, the ratio of credit rating upgrades to downgrade has turned and is now detracting.

Supply and demand indicators have improved and are slightly positive. An elevated volume of maturities in the first quarter is expected to be supportive of credit spreads. While market demand has been positive, recent elevated issuance volumes detract from the outlook.

Technical indicators continue to be supportive for the overall credit outlook with each individual indicator in positive territory. There remain elevated levels of cash across real money accounts while demand from intermediaries has been healthy. At the same time, improving trends across US credit and equity and equity volatility are all supportive.

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