

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

May 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: \$424.0 million as at 31 March 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 31 May 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}	-1.07	2.12	2.33	2.15	-3.69	-2.27	1.14	-	1.76
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	-	1.66	4.74
Bloomberg Ausbond Composite Index	-1.21	2.11	1.40	1.73	-3.54	-2.77	1.00	1.31	-

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.

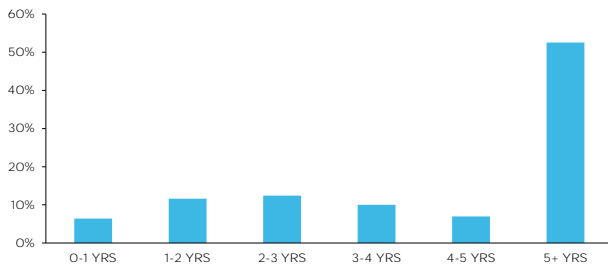
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

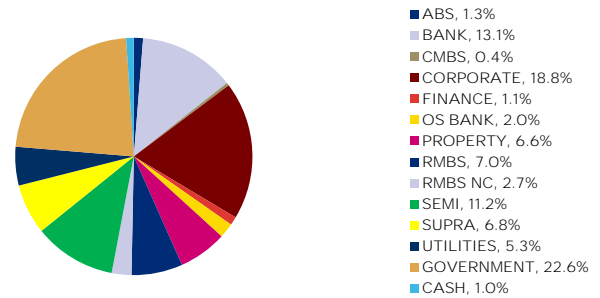
POINTS OF INTEREST

- Markets price further tightening;
- Domestic yields rise, curve steepens;
- Credit spreads rangebound; credit curve steepens;
- Corporate issuance rebounds; securitisation remains robust;
- The outlook for credit remains marginally negative;

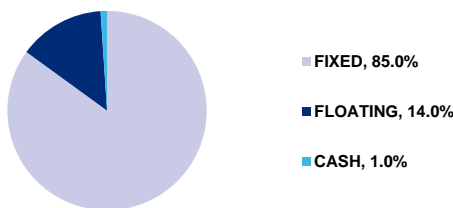
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	86.94%
Subordinated Debt	12.29%
Hybrid Debt	0.77%
Running Yield*	3.63%
Portfolio Weighted Average Life (yrs)	5.97
No. Securities	147
Modified Duration	5.13

* 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 saw mixed fortunes during May as equity and bond markets continue to price in starkly different outlooks for global growth. The fight over the US debt ceiling and the looming threat of a US default had an impact with US short end yields spiking during the month. Elsewhere, markets tried to anticipate the path of monetary policy tightening as central banks continue to grapple with stubbornly high core inflation and resilient labour data.

Domestic bond yields rose throughout May as markets adjusted to the RBA's surprise rate hike and parsed their increasingly hawkish commentary. The RBA elected to increase rates at their May meeting and their rhetoric was adjusted to include reaching target inflation levels "in a reasonable timeframe" which prompted markets to anticipate further rate hikes in the near term. While headline inflation has eased throughout 2023, this has been primarily attributable to moderating goods prices while services sector inflation remains intransigent. The domestic yield curve steepened as 1 and 2-year yields sold off sharply and the inversion of the short end deepened further.

Credit spreads were relatively benign during May, trading in range of recent levels. Financials marginally outperformed corporates on aggregate as global banking sector concerns continued to ease. The credit curve steepened with shorter dated spreads outperforming while long dated issues saw more widening. Swap to bond spreads narrowed as bond yields rose more rapidly than swap rates.

The domestic primary market welcomed back non-financial corporate issuance during May following an extended lean period. Australian Postal Corporation raised \$100M in a fixed rate Sustainability bond deal. Meanwhile, TransGrid (\$500M), Ausnet (\$700M) and PACCAR financial (\$200M) also contributed to the nascent resurgence in corporate issuance. Financial sector issuance remained robust, headlined by NAB's \$5.25B deal which priced in early May across 3 and 5-year fixed and floating tranches. The Securitisation market continued to be active with the recent trend of elevated Auto ABS issuance persisting.

PORTFOLIO COMMENTARY

The Perpetual Active Fixed Interest Fund in the month of May delivered a return of -1.0%, outperforming its benchmark by 0.2%.

The Fund's robust running yield contributed to outperformance during the month. The Fund's allocation to non-financial corporates, domestic banks and RMBS were the strongest contributors to relative income return. The portfolio running yield at month end was 3.6% with the spread measured at 1.1%.

Duration positioning was the key contributor to outperformance during the month. Domestic yield moved higher over the month following the RBA's decision to increase rates at their May meeting. The inversion of the short end of the curve deepened as 1-3 year yields sold off sharply. While rising yields impacted absolute return, the Fund's short of benchmark duration positioning contributed to outperformance. Curve positioning was also constructive as the Fund benefitted from underweight exposure to the very front of the yield curve.

Credit spread dynamics detracted from return. In a month of relatively benign spread movements, it is worth noting that the impact of scattered spread widening was more than offset by the contribution of both the Fund's running yield and duration positioning. The Fund's overweight exposure to non-financial corporates and Real Estate Investment Trusts detracted slightly as these sectors underperformed. As a result of its elevated exposure to credit, the Fund benefitted marginally from tightening swap spreads as rising yields outpaced swap rates over the month.

The Manager was active in primary and secondary markets during the month and the Fund's credit risk was selectively increased as the outlook improved slightly. The Fund's allocation to government bonds was reduced and the Manager elected to take part in a number of new corporate deals. The Fund took part in new fixed rate deals which included government adjacent issuer Australia Post, QIC shopping centre fund and energy network Ausnet Services. Elsewhere, the Fund added exposure to domestic and offshore banks via new deals from ANZ, UBS and Credit Agricole.

The Fund remains defensively positioned while retaining the capacity to take advantage of relative value opportunities as the outlook improves.

OUTLOOK

The Credit outlook improved towards the end of May, remaining slightly negative.

Valuation indicators have improved to neutral. Spreads remain in range of historical averages across Australian investment grade, US investment grade and high yield. The relative attractiveness of Australian Dollar credit has improved somewhat on the back of narrowing spreads vs offshore comparable as well as the tightening of USD AUD basis swaps.

Macro indicators continue to detract from the overall credit outlook. Tightened financial conditions as described in the Fed's Senior Loan Officer survey remain a significant headwind. The ratio of credit rating upgrades to downgrades has improved to neutral with a number of investment grade issuers upgraded following a US reporting season.

Supply and demand indicators remain marginally negative. Robust aggregate issuance volumes continue to weigh on the outlook for spreads.

Technical indicators are constructive. While cash levels across real money accounts have moderated, demand from intermediaries remains healthy. US credit, equity and equity volatility indicators are supportive for the credit outlook.

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