

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A



June 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 30 June 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}	-1.65	-2.38	2.55	2.48	-4.83	-3.00	0.72	-	1.47
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	-	1.23	4.63
Bloomberg Ausbond Composite Index	-1.95	-2.95	1.51	1.24	-4.81	-3.51	0.51	0.83	-

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.

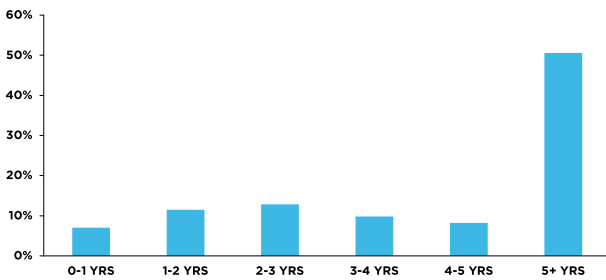
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

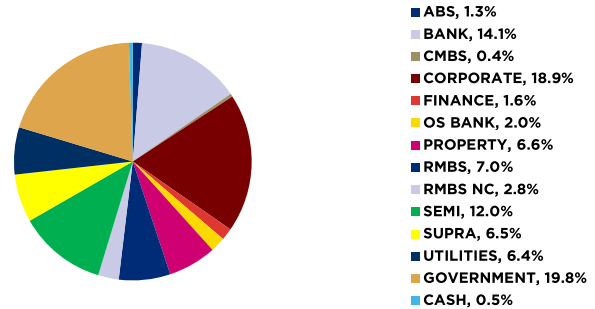
POINTS OF INTEREST

- Bond yields selloff sharply; yield curve flattens;
- RBA increases cash rate; 400 bps of hikes in 13 months;
- Credit spreads rangebound; narrow slightly;
- Swap spreads tighten; primary market orderly.
- The outlook for credit is negative.

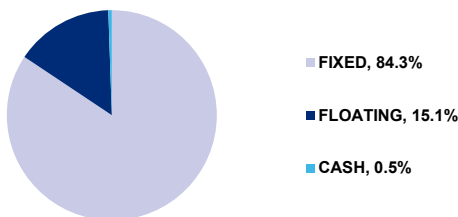
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	85.11%
Subordinated Debt	14.11%
Hybrid Debt	0.78%
Running Yield*	3.88%
Portfolio Weighted Average Life (yrs)	5.88
No. Securities	151
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

Global financial markets were mixed during June with equities continuing to rise and credit markets strengthening while bond yields sold off as investors parsed hawkish central bank rhetoric.

Domestic bonds sold off along the curve over the month. Australian 10-year yields rose 42bps to end the month back above 4.0%. The 3-year tenor saw the sharpest upward move with the curve ending the month inverted between 3-and-10 year yields. The selloff in bonds was attributable in part to the 25bps rate increase agreed upon at the RBA's June meeting which defied consensus expectations. Since May 2022, the RBA has increased the target cash rate by 400 bps in the most aggressive rate tightening cycle in memory. The US AU 10-year spread returned to positive following the selloff in Australian bonds with the US 10-year rising less sharply over the month to 3.8%.

Domestic floating rate credit outperformed traditional fixed interest throughout the month as yields rose while credit spreads tightened. Domestic spread narrowed across most sectors while remaining in range of recent averages. Financial spreads performed well, led by offshore banks. US dollar and Euro spreads outperformed Australian dollar denominated credit, continuing to recover from the spike observed during March.

Primary market issuance was orderly, with multiple deals pricing across financials, corporates and securitised sectors. Westpac came to market with its first Australian Dollar denominated subordinated deal in over two years (The bank has issued tier-2 debt in USD during this period). The \$2.9B book broke the previous record volume for AUD tier-2 major bank issuance. Corporate issuance extended its nascent resurgence with new deals from Endeavour Energy, Transpower New Zealand and Australian Gas infrastructure Group who raised \$400M in a 7-year 6.109% fixed rate bond.

PORTFOLIO COMMENTARY

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 3.9% with the spread measured at 1.2%.

Duration positioning was the most substantial contributor to relative return over the month. Domestic yields rose sharply as investors priced in further RBA rate increases, while the curve flattened further, inverting for the first time since the GFC. The selloff in bonds led to a negative absolute performance for the month however the Fund's marginally short of benchmark duration mitigated the impact, contributing to outperformance. Curve positioning contributed to relative return as the Fund benefitted from its overweight exposure to the long end of the curve which was resilient relative to the belly.

Credit spread dynamics were mixed for performance. Domestic credit spreads narrowed slightly on aggregate while remaining in range of recent levels. Security selection was positive for outperformance with a number of off-benchmark and overweight positions across utilities and infrastructure performing well. As a result of its elevated exposure to credit, the Fund benefitted marginally from tightening swap spreads as rising government bond yields outpaced swap rates over the month.

Sector and risk allocations were actively adjusted during the month. The Manager elected to reduce exposure to government bonds throughout the month, adding to semi-government exposures in secondary. The Manager elected to invest in the record-breaking Westpac subordinated deal alongside new issues in the insurance and utilities sectors.

In line with the challenging outlook for credit, the Manager remains cognisant of risks and selective in purchases made. While the Fund has selectively added risk over the June quarter, the Fund remains defensively positioned while retaining the capacity to take advantage of relative value opportunities.

OUTLOOK

The Credit outlook remains marginally negative.

Valuation indicators are marginally negative. Spreads remain in range of historical averages across Australian investment grade, US investment grade and high yield. Widening USD AUD basis swaps increase the attractiveness of domestic markets for issuers, detracting slightly from the outlook.

Macro indicators remain negative. The slowing pace of economic growth and tightening financial conditions as described in the Fed's Senior Loan Officer continue to weight on the outlook.

Supply and demand indicators have improved over the month and are now marginally positive. Demand has been robust across primary and secondary markets with a number of new deals oversubscribed and performing well on the break. Meanwhile, the elevated pace of issuance observed through the first 6 months of the year weighs on the outlook.

Technical indicators have moderated while remaining positive. Cash levels of real money accounts and intermediary demand are benign. US equity and equity volatility indicators are supportive for the credit outlook.

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Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

