

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

July 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 31 July 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}	0.67	-2.05	0.06	-0.08	-5.33	-3.04	0.82	-	1.56
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	-	1.21	4.64
Bloomberg AusBond Composite Index	0.52	-2.63	-0.70	-1.54	-5.40	-3.46	0.58	0.80	-

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.

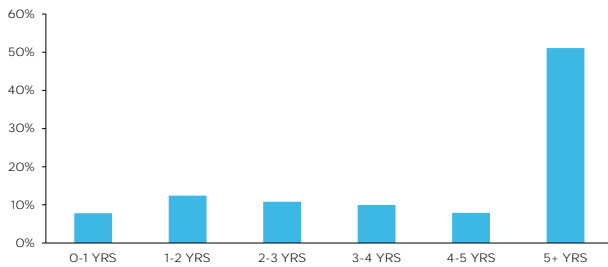
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been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

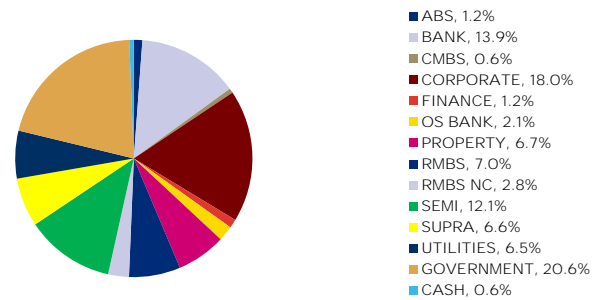
POINTS OF INTEREST

- RBA on hold; Yield curve flattens;
- Domestic credit spread tightens; Bank sub outperforms;
- Primary market issuance very light; secondary demand robust
- The outlook for credit has improved to neutral.

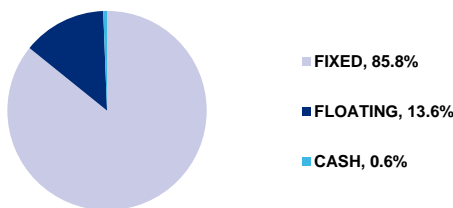
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	86.38%
Subordinated Debt	13.62%
Hybrid Debt	0.00%
Running Yield*	3.82%
Portfolio Weighted Average Life (yrs)	5.83
No. Securities	147
Modified Duration	5.05

* 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 consolidated on a strong first half for risk assets in July. Equities continue to grind higher, while credit spreads tightened across multiple markets. Bond yields were mixed with domestic yields sedate following the RBA's decision to hold in early July, while US long term yields moved higher, responding to further tightening from the Fed.

The RBA elected to keep rates on hold at 4.1% in July following the surprise hike in early June. 2nd quarter CPI released during the month showed moderating headline inflation however inflation in services sectors remains intractable and employment data remains robust. Futures markets at month end had priced an imminent peak in tightening suggesting less than one 25bps increase remaining. The domestic yield curve steepened during the month with long-term yields rising marginally while the short end rallied. US 10-year yields sold off as the Fed continued to raise rates and maintained its hawkish outlook and rhetoric.

Domestic credit spreads tightened over the month supported by improving investor risk appetites. Corporate and tier 2 financial spreads saw the most substantial tightening reflecting lack of supply in primary. Euro and US Dollar spreads continued to outperform domestic peers, rallying during July.

Primary issuance was subdued relative to average monthly volumes over the last 12 months. July saw the lowest aggregate monthly volume thus far in 2023. While this reflects seasonal trends – domestic issuers typically come to market after reporting season – it represents a significant cooling of issuance activity relative to the strong start to the year. Securitisation volumes remained resilient with Bank of Queensland pricing \$1B of RMBS while Think Tank raised \$500M in a CMBS deal.

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 3.8% with the spread measured at 1.1%.

Duration positioning detracted marginally from outperformance during the month. Short term yields rallied following the RBA's decision to keep rates on hold while long term yields sold off marginally. The Fund's underweight exposure to the belly of the curve was detracted from outperformance as 1-5-year yields rallied. While headline inflation has moderated, supply side disruption and tight labour conditions provide a challenging path for the RBA. The Fund remains very marginally short of benchmark duration.

Credit spread tightening was the most substantial contributor to outperformance during the month, more than offsetting the impact of the steepening yield curve. The Fund's overweight exposure to credit was well rewarded during the month as domestic spreads rallied, supported by subdued primary market issuance and robust secondary demand. Exposure to domestic banks – most notably longer dated subordinated positions – contributed strongly to outperformance. Elsewhere, Non-financial corporate, utilities and real estate sectors were constructive.

Sector and risk allocations were broadly maintained during the month. The Manager elected to increase exposure to government bonds marginally. Exposure to issuers in the insurance and energy sectors were selectively trimmed. While the primary market was quiet, the fund did take part in a new CMBS deal from Think Tank which priced during July.

While the outlook for credit has improved, the Manager remains conscious of the challenging macro environment and the risks associated with tightening financial conditions. The Fund is defensively positioned and the manager remains focused on identifying relative value opportunities presented as the outlook continues to improve.

OUTLOOK

The Credit outlook improved to neutral over the course of the month.

Valuation indicators remain negative. While spreads remain in range of historical averages across Australian and US investment grade, tightening US high yield spreads no longer offer attractive value relative to recent levels. Widening USD AUD basis swaps increase the attractiveness of domestic markets for issuers, continuing to detract 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 weigh 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. While primary market activity eased in July, the elevated pace of issuance observed through the first 6 months of the year continues to weigh on the outlook.

Technical indicators have improved, providing a solidly positive signal by month end. Cash levels of real money accounts remain benign while intermediary demand is supportive. US credit, equity and equity volatility indicators are supportive for the credit outlook.

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