Perpetual Investment Funds

PERPETUAL
ACTIVE FIXED INTEREST FUND
CLASS A

October 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: $350.3 million as at 30 September 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 October 2022

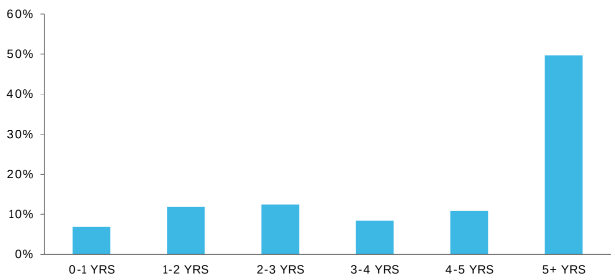
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A [1,3]	0.68	-3.06	-2.86	-8.63	-6.46	-3.18	0.64	-	1.23
Perpetual Wholesale Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	1.57	4.66
Bloomberg Ausbond Composite Index	0.93	-2.98	-2.08	-7.24	-6.28	-2.97	0.72	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.

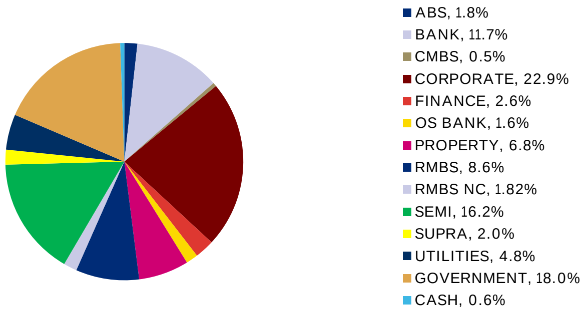
POINTS OF INTEREST

-Domestic spreads rangebound; Swap spreads surge.
-Bond yields rally as RBA slows rate hikes.
-Domestic banks headline primary issuance market.
-The outlook for credit remains negative.

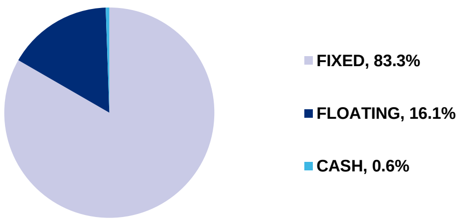
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	85.44%
Subordinated Debt	13.69%
Hybrid Debt	0.87%
Running Yield*	3.45%
Portfolio Weighted Average Life (yrs)	5.97
No. Securities	147
Modified Duration	4.97

* 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 were supported during October by speculation that the pace of central bank policy tightening might slow and that the Fed was nearing a potential pivot. Risk sentiment remains closely tied to the path of central banks, as tightening financial conditions, rampant inflation and slowing growth weigh on markets.

Domestic credit spreads widened slightly over the month, remaining in range of recent levels. Slowing economic growth, rising recession concerns and tightening financial conditions continue contribute to rising credit risk premia. The domestic credit market has recently seen a marked reduction in liquidity as financial conditions have tightened. Meanwhile, swap spreads moved sharply wider during October. Swap rates surged as investors reduced risk while at the same time bond yields rallied. As a result, 3 year and 10 year swap spreads saw elevated volatility, reaching their widest levels in a decade.
Primary market activity was headlined by major bank issuance during October. ANZ came to market for a record breaking $4.75B senior deal while CBA priced $2B of subordinated debt. The deals represent the largest senior unsecured and tier two deals respectively in the Australian credit market. The deals were notable for the volume but also the spreads; both printing wide of recent transactions. Elsewhere, non-financial corporate issuance remained very subdued while securitisation activity also slowed.

Domestic bond yields rallied through October. Bond yields fell as the pace of monetary policy tightening slowed. The RBA increased the target cash rate by 25bps in October and November following a series of 50bps increases since June. Bond yields at the 3-10 year tenors rallied while the short and very long end was more subdued. This came against a backdrop of sharply rising inflation with 3rd quarter CPI beating expectations. With the impact of monetary tightening operating on long and variable lags, it remains to be seen how much further the central bank has to go in order to rein in inflation.

PORTFOLIO COMMENTARY

The Fund's robust running yield continues to contribute to relative return. Allocation to non-financial corporates and domestic banks were the most significant contributing sectors to relative income return during the month. The portfolio running yield at month end was 3.45% with the spread measured at 1.28%.

Credit spread widening slightly impacted relative return with non-financial corporates and domestic bank exposures detracting from performance. The Fund's underweight exposure to semi-government debt positively contributed to performance as semi spreads widened over the month. The current level of credit exposure in the portfolio remains consistent with our muted credit outlook. Currently there are no specific credit issuer exposures of concern.

The Manager elected to shorten duration slightly, taking advantage of the rally in yields during October. The Fund remains underweight the short end of the yield curve and overweight the belly (3-7 years). Duration positioning positively contributed to performance. The most substantial fa ctor detracting from relative return during October was the unusual significant widening of swap to bond spreads, widening over 20bps across the curve which was close to 50% of its starting level. The Fund is overweight exposure to these spreads via credit holdings

Sector allocations were broadly maintained during the month. The Fund took part in new deals from ANZ and Cooperative Rabobank which offered attractive relative value and are indicative of the potential opportunities presented by recent spread widening. With a challenging outlook for credit and volatility in rates markets likely to continue, the Portfolio is defensively positioned and retains the capability to add risk at attractive valuations.

OUTLOOK

The credit outlook remains challenged.

Valuation indicators have improved slightly and are now neutral. Over the month, the expansion of swap spreads contributed to the improvement in the valuation outlook. 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. While the ratio of upgrades to downgrades remains robust, the team is cognisant of risks as financial conditions tighten and corporate earnings see increasing pressure.

Supply and demand indicators have degraded over the month. Secondary markets have seen sharply reduced liquidity, with lowered demand weighing on spreads. Meanwhile, recent primary issuance volumes have been slightly elevated, detracting from the outlook. Technical indicators are mixed with elevated investor cash balances but reduced demand from intermediaries.

With a challenging outlook for spreads, risk management remains paramount. The team continues to position to defend capital while evaluating opportunities presented by the current market conditions.

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

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