Perpetual Investments

PERPETUAL WHOLESALE DYNAMIC FIXED INCOME FUND

December 2020

FUND FACTS

Investment objective: Aims to provide capital stability and regular income by investing in a diversified range of income generating assets, and a positive return (before fees and taxes) irrespective of market conditions over a rolling three-year period.

Benchmark:	50% Bloomberg AusBond Composite Index/50% Bloomberg AusBond Bank Bill Index
Inception date:	November 2010
Size of fund:	$32.0 million as at 31 December 2020
Mgmt	0.550%
Mgmt Fee:	0.45% pa*

Suggested minimum investment period: Three years or longer

FUND BENEFITS

The fund is designed to provide investors with a diversified fixed income solution that manages both credit risk (credit worthiness) and duration risk (sensitivity to changes in interest rates) in different economic conditions.

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 December 2020

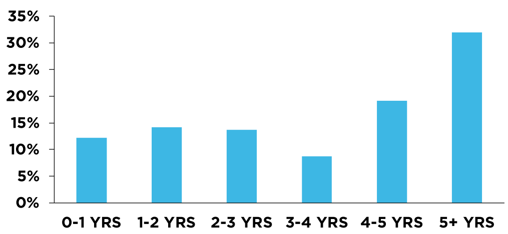
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Dynamic Fixed Income Fund	0.50	1.50	3.17	3.69	4.71	3.69	3.89	4.04	5.01
Bloomberg AusBond Composite/Bank Bill Blend	-0.13	-0.04	0.48	2.41	3.38	3.33	3.04	3.40	4.02

Please note: Performance for Perpetual's complete list of investment funds is available on www.perpetual.com.au. Past performance is not indicative of future performance.

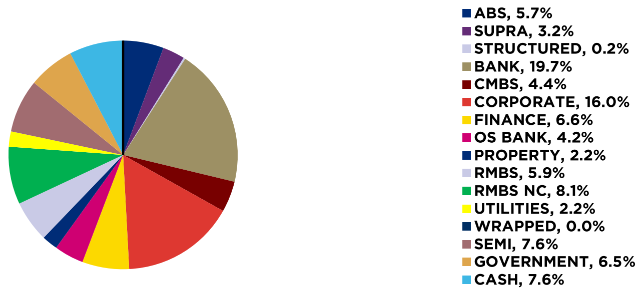
POINTS OF INTEREST

•Domestic credit spreads tighten; November rally slows.
•Corporate spreads outperform financials
•Yield curve stable; Steepens slightly.
•Primary market active early; Credit demand remains robust.
•Credit outlook improving; Remains positive.

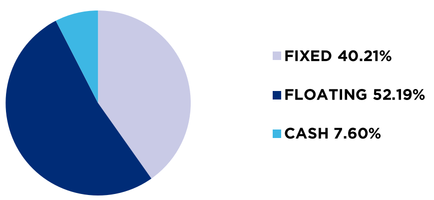
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	72.29%
Subordinated Debt	24.89%
Hybrid Debt	2.82%
Running Yield	1.52%
Portfolio Weighted Average Life (yrs)	4.48
No. Securities	272
Modified Duration	0.56

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

Financial markets continued to rally through December. Credit spreads and equity valuations continued to benefit from positive COVID-19 vaccine news and the positive reception to the resolution of the US presidential election in November. Equities and credit were further buoyed by the improving macroeconomic outlook for 2021. While markets reacted strongly to positive vaccine developments the continued surge of new coronavirus cases and mutations across the Europe and the US were largely ignored.

Domestic credit spreads tightened on aggregate. While financial spreads vacillated around recent averages, corporate spreads outperformed, continuing their November rally. Spreads in a number of industries that were severely impacted by COVID-19 restrictions including retail real estate, and universities performed well in spite of increased fears around COVID-19 spread in NSW towards the end of the month. Spreads in the energy sector also performed well as the oil price continued its recovery.

Interest rate dynamics were subdued as the RBA continued it's 3-year yield curve control activity and held the overnight cash rate firm at the effective lower bound. The yield curve steepened slightly as risk appetites increased in recognition of the improving macroeconomic outlook.

The primary issuance market was active through the first week of December before tapering in line with seasonal expectations. The busy fortnight of issuance was led by a $1.45B 5-year senior unsecured deal from Macquarie Bank which priced tighter than initial guidance. Improved conditions brought two universities to the market in early December with the University of Wollongong ($200M) and the University of Western Sydney ($200M) issuing notes. NBN Co followed up its November inaugural issuance with a $400M 10 -year deal which was met with slightly less demand. Goodman Australia Industrial Partnership issued an eight year, $400M fixed rate note. In the securitisation market, automotive ABS deals from Metro Finance ($300M) and Pepper ($615.9M) were priced in the second week of December. Overall, the domestic credit market ended the year in striking distance of annual issuance records despite significant interruptions earlier in the year.

PORTFOLIO COMMENTARY

The portfolio collected strong running income across all sectors. This contribution to positive carry was primarily associated with allocations to non-financial corporates and domestic banks. The running yield at month end was 1.52%.

Credit spread tightening comprised the key contributing factor in performance. Credit spreads continued to tighten although less dramatically than during the November rally. Credit spreads benefitted from improving macro expectations and investor confidence following the US presidential election and COVID vaccine news. Domestic spreads were resilient in late December as travel restrictions were reintroduced to combat the spread of COVID-19 in New South Wales. Portfolio allocation to non-financial corporates and domestic banks were the most significant contributors to performance. Property and offshore banking spreads also contributed.

Interest rate dynamics were marginally positive for performance in December, in spite of the steepening yield curve. Duration was tactically reduced to near zero in November and the portfolio was insulated from losses as the yields rose at the long end. Later in the month, duration was increased slightly in line with signalling from our proprietary tactical asset allocation model. The model is used to determine valuation, economic cycle and technical indicators, and during December remained negative for bonds. Valuation indicators improved over the month leading duration to be reintroduced to the portfolio though remaining below the strategic target duration of 2-2.5 years.

OUTLOOK

The credit outlook has continued to improve and remains positive.

Valuation indicators are slightly positive. Domestic and international spreads remain in range of medium-term averages. Cross currency swap levels are positive for the valuation outlook.

Macro indicators are marginally negative. The macro outlook has improved significantly over the last months of 2020. Expectations for economic growth have risen on the back positive vaccine news and the US election result. Conditions remain supportive for equity capital raising which has a slightly positive impact on the macro outlook. Credit downgrades remain the main impediment to the macro outlook.

Supply and demand factors remain supportive for spreads. Credit supply is being impacted by seasonal factors and domestic banks' access to the RBA's Term Funding Facility. Market positioning and technical indicators remain marginally positive. Increasing US credit and equity valuations alongside equity volatility are also supportive for spreads.

The outlook for credit spreads is positive. The macroeconomic outlook has improved while central bank support and improved trading conditions continue to support valuations. The team remains well positioned to exploit relative value opportunities while defending capital.

Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry or exit fees or taxation (except in the case of superannuation funds, as applicable).

Past performance is not indicative of future performance.

*** The benchmark for the Fund was previously reported as both the Bloomberg AusBond Bank Bill Index and the Bloomberg AusBond Composite Index. As at 29 April 2015, the benchmark for reporting was updated to a composite benchmark comprising 50% Bloomberg AusBond Bank Bill Index & 50% Bloomberg AusBond Composite Index. The change in benchmark was to better reflect the investment strategy. The performance table above reflects the change in benchmark applied across all periods.

MORE INFORMATION

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