Perpetual Investments

PERPETUAL WHOLESALE DYNAMIC FIXED INCOME FUND

April 2021

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: $34.3 million as at 31 March 2021
APIR: PER0557AU
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 30 April 2021

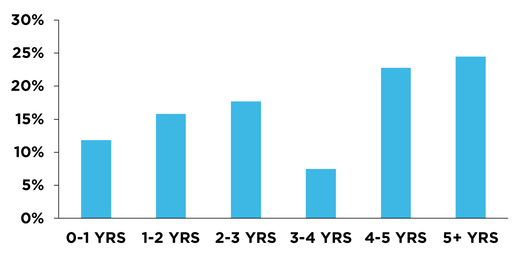
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Dynamic Fixed Income Fund	0.38	0.01	1.20	5.41	3.40	3.57	3.73	3.80	4.88
Bloomberg AusBond Composite/Bank Bill Blend	0.28	-1.12	-1.51	-0.54	1.58	2.68	2.45	2.97	3.75

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.

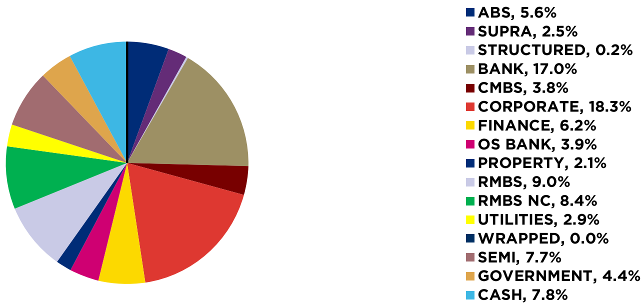
POINTS OF INTEREST

•Domestic spreads tighten; Corporates outperform financials;
•Economic growth indicators improving;
•Rates fall slightly; RBA maintains easing policy;
•The credit outlook remains supportive;

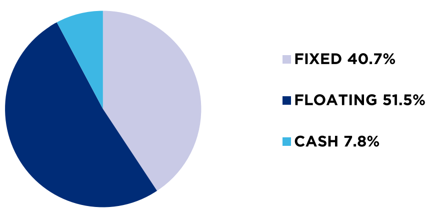
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	72.18%
Subordinated Debt	24.14%
Hybrid Debt	3.69%
Running Yield	1.41%
Portfolio Weighted Average Life (yrs)	4.27
No. Securities	295
Modified Duration	2.07

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

MARKET COMMENTARY

Financial markets continued their sustained rally through April, supported by strong macroeconomic indicators and robust US corporate earnings. Strong first quarter GDP print and a raft of promising global PMIs were supportive for risk assets. US first quarter earnings were constructive, headlined by strong beats by tech conglomerates including Apple, Facebook and Alphabet. The positive macroeconomic and corporate earnings results saw developed market shares rise, led by US equities. The continued optimism was offset somewhat by the surge in COVID-19 cases in India and its expected impact on global vaccine availability.

Domestic spreads remained in range of recent averages, ending the month tighter on aggregate. Spreads tightened through the first three weeks of the month before selling off marginally towards month end. Non-financial corporates outperformed financial spreads in spite of a busy month of corporate primary issuance. Spreads in commercial and residential real estate sub-sectors were particularly strong performers. Major bank spreads remained in range of recent averages and the recent rally in subordinated bank debt slowed in April. RMBS spreads tightened over the month, supported by the promising outlook and the continued hunt for yield.

Interest rate volatility continued to subside and long-term yields remained in range of recent levels. Domestic yields fell slightly, clawing back a small portion of the February selloff at the long end of the curve. The market continues to price some form of monetary tightening ahead of the RBA's guidance. This is despite subdued inflationary pressure with first quarter CPI returning below consensus expectations. The RBA left policy settings unchanged and reiterated guidance that the current cash rate and 3-year yield targets would remain in place until employment and inflation targets are met.

Primary credit market activity was mixed with subdued financial issuance offset by a busy month for corporates. Transurban Queensland Finance came to market for $200M via a senior secured fixed rate note. Network Finance Company (the financing arm of Endeavour Energy) priced $350M of 7-year senior secured paper which was met with strong demand and tightened on issue. The utilities sector was active with deals from Australian Gas Networks ($450M) and Victoria Power Networks ($700M). The securitisation market was also very busy for a second month running. Domestic major bank issuance remains impacted by the availability of the RBA's Term Funding Facility. As the TFF is yet to be fully drawn and remains accessible until June 30, major bank senior issuance is not expected until the second half of 2021. Bank of Queensland took the opportunity to issue $650M of senior and $500M of subordinated debt across multiple deals during the month.

PORTFOLIO COMMENTARY

The portfolio continued to collect strong running income across all sectors. This contribution to positive carry was primarily associated with allocations to non-financial corporates, domestic banks and RMBS. The running yield at month end was 1.4%.

Credit spread dynamics contributed to positive performance over the month. Credit spreads tightened on aggregate, reflecting strengthening global growth expectations and robust corporate earnings results. Drivers of credit spread return were broad based, led by non-financial corporates and offshore banks. Portfolio exposure to semi government spreads also contributed to performance. In spite of elevated issuance, semi-government securities have performed well recently on the back of improvements to interstate mobility and the economic growth outlook.

Interest rate dynamics were benign for performance. Long term yields fell slightly, regaining a small portion of their February and March losses. Portfolio duration remains close to the target strategic duration of 2 years. The relatively short target strategic duration protects the portfolio from interest rate volatility such as the rising yields seen in February.

Alongside the strategic target, duration is managed in line with signalling from our proprietary tactical asset allocation model. The model is used to determine valuation, economic cycle and technical indicators, and the combined signal remained negative throughout the month. The portfolio retains a diversified profile and is well positioned to take advantage of the constructive credit outlook.

OUTLOOK

The credit outlook is positive.

Valuation indicators are neutral to the overall credit outlook. Investment grade credit spreads have tightened significantly over the last year with spreads below their pre-COVID levels on aggregate. Domestic spreads are broadly in line with offshore peers.

The growth outlook remains very constructive for credit spreads. Leading economic indicators have continued to surge with the ISM US manufacturing PMI reaching its highest activity level since 1983. First quarter GDP growth figures were strong although coming from a lower base as the economic recovery from the COVID pandemic continues. The volume of equity market capital raising also positively contributes to the macroeconomic outlook. Strong US first quarter earnings results saw an increase in the ratio of upgrades to downgrades as ratings agencies continued to roll back post COVID downgrades as earnings rebound.

Demand and supply indicators have further improved, continuing to support the overall credit outlook. A busy upcoming maturity scheduled paired with expectations of corporate issuance taking a breather in the near term is expected to be supportive for spreads. While non-financial issuance has been elevated recently, overall aggregate credit issuance is in line with expectations. Demand for primary issuance remains robust with multiple deals meeting strong demand and, pricing tighter than guidance and tightening in secondary.

Technical indicators remain positive for the overall credit outlook. Tightening US credit spreads alongside robust equity valuations and volatility are all supportive for domestic credit.

The sustained rally in credit spreads continues to be supported by positive leading and trailing macroeconomic indicators, supply and demand conditions and technical factors. The team remains well positioned to benefit from further spread contraction offered by the current conditions.

*** 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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