Perpetual Investments

PERPETUAL WHOLESALE DYNAMIC FIXED INCOME FUND

June 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: $34.1 million as at 30 June 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 June 2021

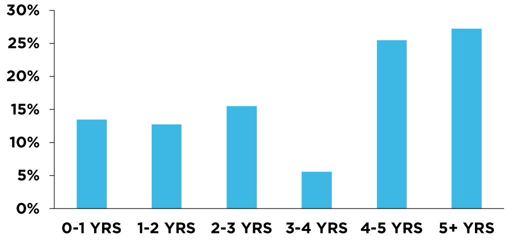
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Dynamic Fixed Income Fund	0.41	1.04	0.90	4.11	2.99	3.70	3.61	3.67	4.86
Bloomberg AusBond Composite/Bank Bill Blend	0.35	0.76	-0.85	-0.37	1.06	2.59	2.25	2.85	3.74

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.

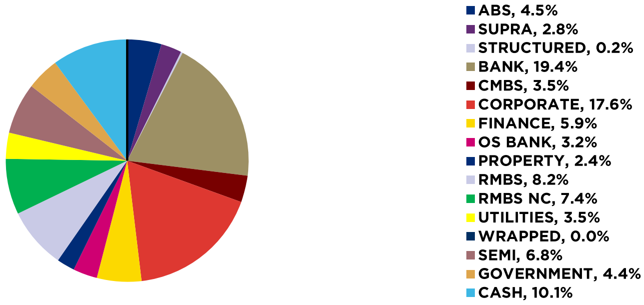
POINTS OF INTEREST

•Domestic spreads tighten slightly; Financial spreads outperform.
•Credit curve steepens; Primary market activity orderly.
•Economic indicators remain strong;
•Inflation concerns subsiding; Yield curve flattens
•Credit outlook remains strongly positive.

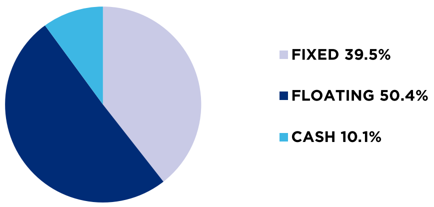
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	73.15%
Subordinated Debt	23.54%
Hybrid Debt	3.31%
Running Yield	1.42%
Portfolio Weighted Average Life (yrs)	4.62
No. Securities	298
Modified Duration	2.09

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

MARKET COMMENTARY

Financial markets continued to rise through June on the back of strong economic growth expectations, supportive monetary and fiscal policy and the continued COVID-19 vaccine rollout and reopening. Valuations were supported during June by easing inflation concerns which saw long term bond yields dip. Markets were resilient to COVID-19 concerns including the spread of the delta variant and a late June lockdown in NSW.

Domestic spreads continued to grind tighter through June. Shorter dated credit performed well and the credit curve steepened over the month. Sector performance was mixed with financials outperforming corporates. The best performing sectors were energy – on the back of the surging oil price – consumer sectors and industries leveraged to reopening including universities. Corporate sector performance was sensitive to recent issuance volumes with sectors that have seen elevated issuance including utilities and listed property underperforming.

Yields were broadly stable over the month. The AUD yield curve flattened with longer tenors outperforming significantly. Inflation concerns subsided as the Australian CPI came in below expectations and the recent spike in CPI was considered transitory by investors. Semi-government spreads widened slightly over the month. Spread expansion was led by NSW as a result of reintroduced lockdowns and the announcement of a larger than expected borrowing program for the 2022 financial year.

Primary market activity was increased in June following a very quiet May. Corporate issuance was active, led by utilities and listed property sectors. AGI Finance – the financing arm of the Australian Gas infrastructure group – came to market for $575M across two tranches. The deal met strong demand and priced tighter than guidance. Wesfarmers raised $1B across 7 and 10-year tranches. The bond was Wesfarmers first sustainability linked issue and was significantly oversubscribed. Financial issuance was more subdued. Macquarie Bank, priced $750M of tier-2 subordinated paper. Goldman Sachs raised $325M in a senior unsecured deal.

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, domestic banks and RMBS. The running yield at month end was 1.42%.

Credit spread compression contributed to performance during June. Spreads continued their steady grind tighter over the month. Portfolio allocation to domestic banks, non-financial corporates, and offshore banks were the key contributing sectors to performance. Portfolio allocation to the energy sector performed particularly well as the oil price continued its extended rally. The portfolio's exposure to credit markets continues to perform well in a low yield environment.

Duration positioning contributed to performance in June. Specifically, curve positioning was the key determinant of interest rate performance over the month. The yield curve flattened as inflation concerns eased despite the strong economic outlook. The fund's exposure to 7 to 10 year tenors was the key contributor to interest rate performance.

Portfolio duration was maintained throughout June at near 2 years, in line with the target strategic duration. The relatively short target strategic duration protects the portfolio from interest rate volatility. 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 was neutral throughout June. In the first week of the month technical indicators improved to raise the bond score out of negative territory for the first time in multiple months. The outlook for credit remains positive and the manager is comfortable with the funds current balance of fixed and floating rate exposures.

OUTLOOK

The credit outlook remains strongly positive. Valuation indicators have degraded slightly and are now marginally neutral. Spreads have contracted significantly over the past year reaching below their pre COVID levels. US high yield in particular now appears expensive relative to medium term averages and is detracting from the overall credit outlook.

The growth outlook remains strongly positive. Leading and trailing economic indicators suggest conditions for explosive economic growth and robust support for spreads. During the month the ratio of credit upgrades to downgrades improved further on the back of strong commodity price tailwinds and positive economic growth expectations.

Demand and supply indicators have continued to support the overall credit outlook. Reduced primary market activity over the recent months and reduced pipeline for issuance are supportive for credit spreads. Demand is orderly with spreads being sensitive to issuance volume. Technical indicators remained positive for the overall credit outlook. Broker inventories remain somewhat reduced and intermediaries are adding selectively. 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 portfolios remain 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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