

## Perpetual Investment Funds

# PERPETUAL DYNAMIC FIXED INCOME FUND

August 2023

### 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:** \$35.1 million as at 30 June 2023  
**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 31 August 2023

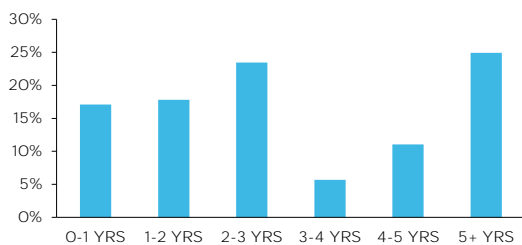
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.66	1.68	2.57	4.27	-0.70	0.71	1.92	2.30	3.97
Bloomberg AusBond Composite/Bank Bill Blend	0.55	0.17	1.68	2.61	-1.62	-0.90	0.94	1.15	2.91

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

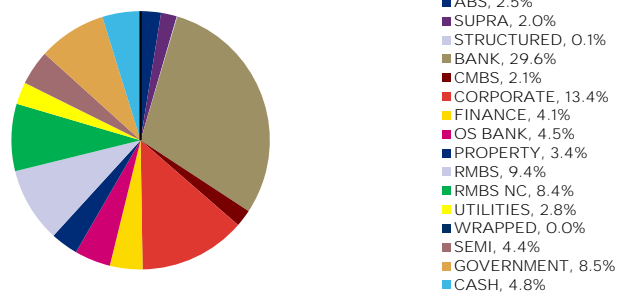
### POINTS OF INTEREST

- Domestic credit spreads grind tighter;
- Primary market issuance resurgent, led by major bank senior;
- RBA cash rate unchanged; global bond yield volatility rises;
- Yield curve steepens; short end rallies.
- The outlook for credit is neutral.

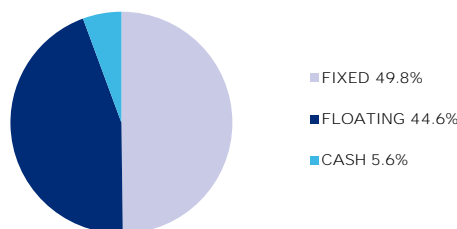
### MATURITY PROFILE



### PORTFOLIO SECTORS



### FIXED AND FLOATING RATE BREAKDOWN



### PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	62.38%
Subordinated Debt	35.90%
Hybrid Debt	1.73%
Running Yield <sup>†</sup>	4.74%
Portfolio Weighted Average Life (yrs)	3.72
No. Securities	266
Modified Duration	2.08

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

## MARKET COMMENTARY

Global financial markets saw increased volatility in August as markets attempted to assess the impact of shifting economic growth prospects on the path of monetary policy tightening. Stronger-than-expected US data led to a sharp rise in bond yields which impacted global equity markets over the first half of the month before moderating.

Domestic long term bond yields remained relatively unchanged at month end after the RBA held the target cash rate at 4.10% during the August meeting. The domestic yield curve flattened with short end yields rallying over the month.

**Domestic credit spreads extended their rally, supported by stronger than anticipated corporate earnings results. The RBA's pause** has also contributed to the increased optimism in credit market. Tightening was broad based with Banks, real estate, diversified financial and corporate sectors all benefitting spread contraction. Following a slight expansion during July, swap spreads reverted during August, tightening over the first week of the month as swap rates fell.

Primary credit markets were very busy during August with ~\$25B in new credit supply. This represented a normalisation of volumes following a notably quiet July. The month was headlined by a pair of record setting senior unsecured deals from first CBA (\$5.0B) and in then ANZ (\$5.5B) in the last week of August. Notably, these deals had substantially larger bookbuilds, demonstrating resilient demand despite elevated volumes. Demand for senior unsecured major bank paper will continue to be tested as three-year TFF funding matures, requiring refinancing in public markets. Non-financial sectors were somewhat more subdued. NBN Co issued \$850M of senior unsecured green bonds. Securitisation issuance volumes picked up over the second half of the month, headlined by deals from Heritage and People's Choice, ING Bank Australia and Firstmac.

## PORTFOLIO COMMENTARY

The Fund's running income was the most substantial contributor to relative return over the month. The income generated by the Fund's exposure to floating rate notes and allocation to cash have benefitted from the aggressive increase in base rates over the past 16 months. The portfolio running yield at month end was 4.7%.

Interest rate dynamics were positive for absolute return during a month of elevated volatility for bond yields. Long term yields sold off over the first half of August before recovering while the short end rallied throughout the month. The Fund's duration remains close to the strategic target level of 2-years. While markets have priced in the peak of the tightening cycle, the Manager is cognisant of ongoing risks to bond yields. This is supported by the signal from Perpetual's proprietary tactical asset allocation model. The model is used to determine valuation, economic cycle and technical indicators and remained negative throughout August, predicated on negative readings from the cycle indicator.

Credit spread contraction was a significant contributing factor to performance during the month. Spreads continued to grind tighter, supported by better-than-expected corporate earnings and the slowed pace of monetary policy tightening. The Fund's allocation to RMBS and domestic banks were the key contributors to credit spread return. This positive contribution was partially offset by widening spreads among a number of Euro denominated bonds across diversified financials, real estate and non-financial corporate sectors.

The outlook for credit is balanced, the Manager remains cognisant of the challenging macro environment and the risks associated with tighter lending conditions. The Fund is defensively positioned and the manager remains focused on identifying relative value opportunities presented as the outlook improves.

## OUTLOOK

The Credit outlook remains neutral.

Valuation indicators are balanced with no decisive signals across a range of indicators. Spreads across domestic investment grade as well as US investment grade and high yield are in range of historical levels.

Macro indicators remain the most significant drag on the outlook for credit spreads. Challenging economic growth expectations and tightening financial conditions as described in the Fed's Senior Loan Officer survey continue to weigh on the outlook.

Supply and demand indicators moderated during August and are neutral at month end. Issuance volumes rose during August, meeting robust demand. While the light upcoming maturity schedule is supportive, the year to date and trailing 12-month pace of issuance remains elevated, weighing on the outlook.

Technical indicators remain supportive, continuing to provide a strong positive signal. Accommodative intermediary positioning and robust demand are positive for the outlook. US credit, equity and equity volatility indicators all remain supportive.

---

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Group means Perpetual Trustees Australia Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's 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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)



