Perpetual Investments

PERPETUAL WHOLESALE DYNAMIC FIXED INCOME FUND

August 2022

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:	$35.3 million as at 30 June 2022
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 2022

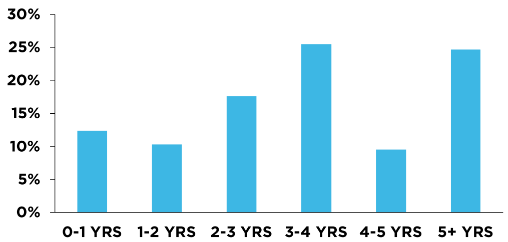
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Dynamic Fixed Income Fund	-0.61	-0.38	-3.43	-5.43	-1.02	-0.08	1.66	2.21	3.94
Bloomberg AusBond Composite/Bank Bill Blend	-1.19	-0.19	-3.21	-5.68	-2.60	-1.37	0.98	1.37	2.93

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.

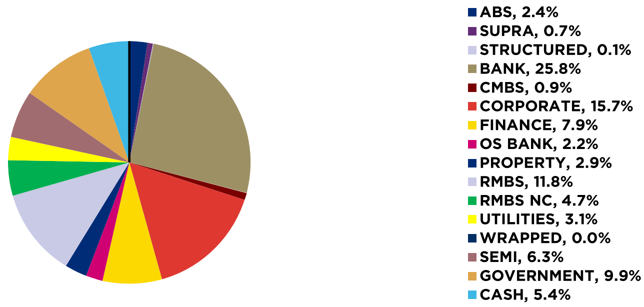
POINTS OF INTEREST

•Hawkish tone from Jackson Hole sees markets falter.
•Bond yields rise; remain short of June highs.
•Domestic spreads rangebound; Earnings results robust.
•Primary market sees elevated domestic bank issuance.
•The outlook for credit remains challenged.

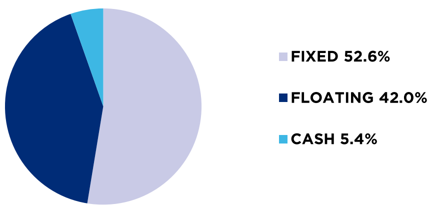
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	67.19%
Subordinated Debt	29.73%
Hybrid Debt	3.08%
Running Yield#	3.23%
Portfolio Weighted Average Life (yrs)	4.05
No. Securities	260
Modified Duration	2.33

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

MARKET COMMENTARY

The reversal in fortunes of financial markets observed during July slowed during August. Bond yields rose throughout the month while equities fell over the second half as hawkish central bank commentary saw investor sentiment weaken. Whereas in July, markets priced in less aggressive monetary policy tightening, hawkish comments from Fed chair Jerome Powell saw investors move to reduce risk towards the end of the month.

Credit spreads were rangebound over the month. Spreads rallied through the first two weeks of August before widening over the second half, ending the month slightly tighter on aggregate. Robust earnings season results were supportive as well as improved liquidity conditions in the secondary market. A busy month in the domestic bank primary market was headlined by Commonwealth Bank's $4.5B multi tranche senior unsecured transaction, which was met with a record order book. Westpac also issued senior debt, pricing a $1.55B floating rate note in the first week of the month. Offshore banks were also active with a number of smaller deals pricing during August. Elsewhere, Suncorp-Metway raised $750M across fixed and floating tranches. Non-financial corporate issuance was notably quieter.

Domestic bond yields rose throughout August gaining more than 50bps at most tenors along the curve. The RBA maintained its aggressive tightening cycle, raising the target cash rate by 50bps in the first week of August, marking 175bps of increases since the start of May. Alongside the domestic monetary policy tightening, rates markets also adjusted in anticipation of Powell's comments at the Jackson Hole Economic Symposium. The RBA has a somewhat more favourable predicament - relative to the US – with less severe inflation and wages growth as well as greater consumer sensitivity to policy rates as a result of highly leveraged households and the prevalence of variable rate mortgages. While the Australian economy looks robust thus far, the RBA does have a delicate balance to maintain. Inflation remains above the target rate and labour conditions are very tight, but forward indicators suggest slowing growth.

PORTFOLIO COMMENTARY

Income return was the most substantial contributing factor to absolute performance during the month with the Portfolio collecting robust running income across all sectors. Allocations to non-financial corporates, domestic banks and RMBS were the most significant contributors to income return. The portfolio running yield at month end was 3.23%.

Interest rate dynamics detracted from absolute return over the month. Yields rose over the month, returning a portion of the gains made since mid-June. The RBA reiterated its dedication to their aggressive tightening cycle, including a 50bps interest rate increase early in August. The impact of rising yields over the month was mitigated by the Fund's relatively short strategic target duration. The short strategic duration has thus far offset the impact of the dramatic rise in bond yields over the year to date, contributing to the limited drawdown and short expected time to recover. August demonstrated the potential for ongoing volatility as the RBA executes on its aggressive monetary tightening and limiting duration risk will remain crucial in the near term.

Credit spread tightening contributed to performance during August. Domestic spreads were rangebound, ending the month marginally tighter on aggregate. Allocation to non-financial corporates, domestic banks and utilities were the key contributors to credit spread return. While AUD spreads were subdued, the Fund benefitted from exposure to a number of EUR denominated positions which continued to recover from their sharp June selloff.

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. The combined score remained neutral throughout August before a deterioration in technical indicators led to a negative reading towards month end. The Manager elected to lengthen the Fund's tactical duration while remaining close to the two-year strategic target. 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 negative.

Valuation indicators have improved while remaining marginally negative. Credit spreads are at neutral levels relative to historical averages and offshore peers. The USD AUD basis swap remains elevated relative to long term averages, detracting from the credit outlook.

The growth outlook reduced during the month. Recession risks continue to escalate with a number of forward indicators deteriorating over the month. While the ratio of upgrades to downgrades remains robust, the trend is starting to turn as financial conditions tighten and corporate earnings see increasing pressure.

Supply and demand indicators remain mixed. There has been a noticeable improvement in demand across secondary and primary markets. At the same time, recent supply has been heavy and the upcoming maturity schedule is light both of which detract from the outlook for spreads.

Technical indicators have improved and are now positively contributing to the overall credit outlook. Intermediaries have been more active, contributing to improvements in secondary market liquidity. Strengthening US equity markets and increased equity volatility are also contributing to the positive technical score.

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.

*** 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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