

Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

September 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 30 September 2023

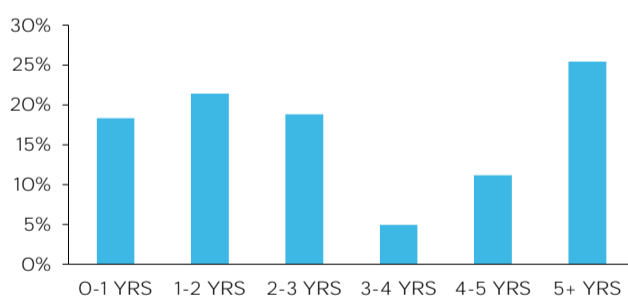
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	-0.26	1.10	1.54	4.65	-0.63	0.50	1.87	2.28	3.92
Bloomberg AusBond Composite/Bank Bill Blend	-0.59	0.40	-0.64	2.63	-1.54	-1.27	0.84	1.07	2.84

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.

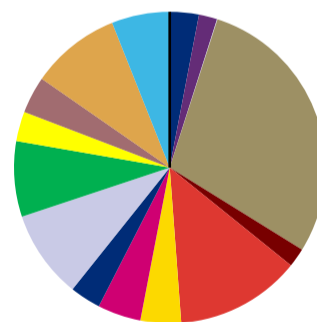
POINTS OF INTEREST

- Domestic credit spreads 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

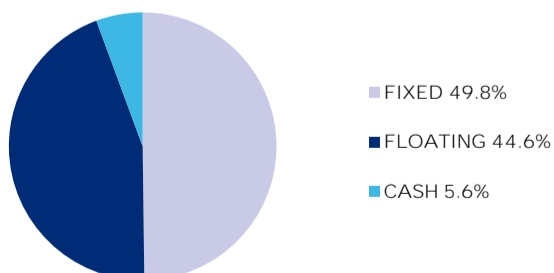


PORTFOLIO SECTORS



ABS	3.0%
SUPRA	1.9%
STRUCTURED	0.1%
BANK	28.9%
CMBS	2.0%
CORPORATE	13.0%
FINANCE	4.2%
OS BANK	4.5%
PROPERTY	3.2%
RMBS	9.2%
RMBS NC	7.8%
UTILITIES	3.1%
WRAPPED	0.0%
SEMI	3.8%
GOVERNMENT	9.3%
CASH	6.0%

FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	63.07%
Subordinated Debt	35.33%
Hybrid Debt	1.60%
Running Yield [#]	4.63%
Portfolio Weighted Average Life (yrs)	3.69
No. Securities	267
Modified Duration	1.99

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

MARKET COMMENTARY

Bond yields surged during September, precipitating a selloff in global equities. Australian yields rose along the curve despite the RBA remaining on hold at their September meeting. The board retained its tightening bias, noting that more time is required to assess the impact of recent rate increases. US bond yields surged as US economic data showed resilience and investors prepared for a higher-for-longer interest rate paradigm. At the same time, the looming government shutdown and leadership dispute in congress alongside rising oil prices put further pressure on bond yields.

Credit spreads consolidated through the first two weeks for the month before selling off in the final days of September. This was in line with the global shift in risk sentiment with synthetic spreads rising as investors moved to purchase credit protection. Non-financial corporate spreads widened in late September, reflecting the pricing of higher-for-longer rates as well as an increase in monthly CPI indicators and corporate earnings growth concerns. Financial spreads were mixed with subordinated major bank spreads outperforming senior.

Primary market issuance was orderly through September following a very busy August. The flurry of senior unsecured financial deals continued with Macquarie pricing \$1.75B across fixed and floating tranches. Suncorp raised \$600M in the first Australian dollar tier 2 deal this quarter which was met with very strong demand. Financial deal flow continued to dominate while corporate issuance remained very light. A \$550M fixed rate bond from Westconnex was the exception, pricing in the last week of the month.

PORTFOLIO COMMENTARY

The Perpetual Dynamic Fixed Income Fund in the month of September delivered a return of -0.2%.

The Fund's robust running income was the key positive contributor to return over the month, partially offsetting the impact of rising bond yields. The running yield has improved substantially over the past 12 months, driven by the Fund's floating rate exposures which benefitted from 400bps of rate rises since May 2022. The portfolio running yield at month end was 4.6%.

Rising bond yields were the key factor impacting return during the month. Bond yields sold off throughout the month as markets priced an extended **period of restrictive rates, in line with hawkish central bank rhetoric. The Fund's reasonably low sensitivity to bond yields** – as a result of its relatively short 2-year strategic target duration – mitigated the impact of the selloff in bonds. 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 while cycle indicators improved marginally, the combined signal remained negative throughout September.

Credit spread dynamics were mixed for performance. Spreads consolidated through September before widening towards the end of the month. Issuers in the energy and rail sectors performed well, alongside select Euro denominated financial exposures. Elsewhere, the Fund benefitted from **tightening semi government spreads and the Portfolio's small allocation to state government bonds was the key contributor to credit spread return during the month.**

The outlook for credit is negative and 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 deteriorated during September, turning negative by month end.

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. Tightening swap spreads are marginally negative for the outlook.

Macro indicators remain the most significant drag on the outlook for credit spreads. The surging oil price contributed to the negative growth picture. **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 are marginally negative. Heavy issuance both recently – as a result of elevated August volumes – and on a 12 month rolling basis weigh on the outlook for spreads.

Technical indicators have moderated, remaining marginally positive. Accommodative intermediary positioning and robust demand are positive. US equity and equity volatility indicators have worsened as rising bond yields saw equities selloff and volatility spike.

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*** 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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