

## Perpetual Investment Funds

# PERPETUAL DYNAMIC FIXED INCOME FUND

October 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 September 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 October 2022

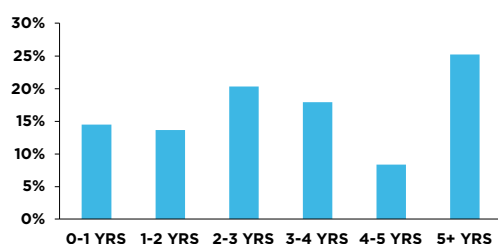
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.16	-1.07	-1.38	-4.24	-1.70	-0.30	1.40	2.13	3.85
Bloomberg AusBond Composite/Bank Bill Blend	0.58	-1.22	-0.65	-3.27	-2.95	-1.24	0.87	1.30	2.89

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.

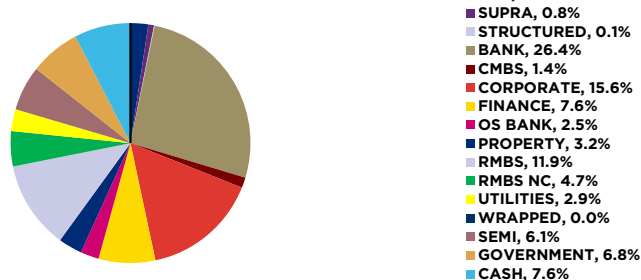
### POINTS OF INTEREST

- Domestic spreads rangebound; Swap spreads surge.
- Bond yields rally as RBA slows rate hikes.
- Domestic banks headline primary issuance market.
- The outlook for credit remains negative.

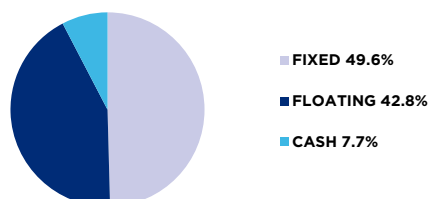
### MATURITY PROFILE



### PORTFOLIO SECTORS



### FIXED AND FLOATING RATE BREAKDOWN



### PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	65.95%
Subordinated Debt	31.19%
Hybrid Debt	2.86%
Running Yield <sup>#</sup>	3.60%
Portfolio Weighted Average Life (yrs)	3.86
No. Securities	269
Modified Duration	0.60

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

## MARKET COMMENTARY

Financial markets were supported during October by speculation that the pace of central bank policy tightening might slow and that the Fed was nearing a potential pivot. Risk sentiment remains closely tied to the path of central banks, as tightening financial conditions, rampant inflation and slowing growth weigh on markets.

Domestic credit spreads widened slightly over the month, remaining in range of recent levels. Slowing economic growth, rising recession concerns and tightening financial conditions continue contribute to rising credit risk premia. The domestic credit market has recently seen a marked reduction in liquidity as financial conditions have tightened. Meanwhile, swap spreads moved sharply wider during October. Swap rates surged as investors reduced risk while at the same time bond yields rallied. As a result, 3 year and 10 year swap spreads saw elevated volatility, reaching their widest levels in a decade.

Primary market activity was headlined by major bank issuance during October. ANZ came to market for a record breaking \$4.75B senior deal while CBA priced \$2B of subordinated debt. The deals represent the largest senior unsecured and tier two deals respectively in the Australian credit market. The deals were notable for the volume but also the spreads; both printing wide of recent transactions. Elsewhere, non-financial corporate issuance remained very subdued while securitisation activity also slowed.

Domestic bond yields rallied through October. Bond yields fell as the pace of monetary policy tightening slowed. The RBA increased the target cash rate by 25bps in October and November following a series of 50bps increases since June. Bond yields at the 3-10 year tenors rallied while the short and very long end was more subdued. This came against a backdrop of sharply rising inflation with 3rd quarter CPI beating expectations. With the impact of monetary tightening operating on long and variable lags, it remains to be seen how much further the central bank has to go in order to rein in inflation.

## 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 3.60%.

Credit spread dynamics were slightly negative for performance during October. Credit spreads were rangebound, ending the month slightly wider on aggregate. Domestic banks and non-financial corporates were the most significant detractors from credit spread return, while RMBS exposures were constructive. A small CDS exposure to Euro denominated corporates performed well as Euro spreads tightened. Notably, swap spreads widened sharply during October, impacting the Fund's fixed rate credit exposures. The Fund's allocation to semi-government debt detracted from return as semi spreads moved wider over the month.

Interest rate dynamics were constructive for return during the month. Domestic bond yields rallied as the pace of monetary policy tightening slowed. The Fund began October in line with the strategic target duration of 2 years. The relatively 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.

Over the month, the Manager shortened the duration of the portfolio in line with signalling from Perpetual's proprietary tactical asset allocation model. The model is used to determine valuation, economic cycle and technical indicators. The value indicator worsened during the month, contributing to the negative combined score. With persistent high inflation and the RBA retaining the capacity to surprise markets managing duration risk remains crucial. At month end, the Fund's duration was marginally above half a year.

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 challenged.

Valuation indicators have improved slightly and are now neutral. Over the month, the expansion of swap spreads contributed to the improvement in the valuation outlook. The USD AUD basis swap remains elevated relative to long term averages, detracting from the credit outlook.

Growth indicators continue to detract from the overall credit outlook. Recession risks remain prominent and financial conditions are notably tighter. While the ratio of upgrades to downgrades remains robust, the team is cognisant of risks as financial conditions tighten and corporate earnings see increasing pressure.

Supply and demand indicators have degraded over the month. Secondary markets have seen sharply reduced liquidity, with lowered demand weighing on spreads. Meanwhile, recent primary issuance volumes have been slightly elevated, detracting from the outlook. Technical indicators are mixed with elevated investor cash balances but reduced demand from intermediaries.

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.

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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

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)

