

Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

November 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 30 November 2022

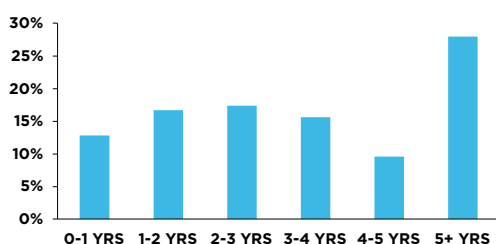
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.93	0.46	0.07	-3.95	-1.47	-0.10	1.50	2.30	3.90
Bloomberg AusBond Composite/Bank Bill Blend	0.90	0.87	0.68	-3.40	-2.49	-1.10	0.95	1.49	2.95

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.

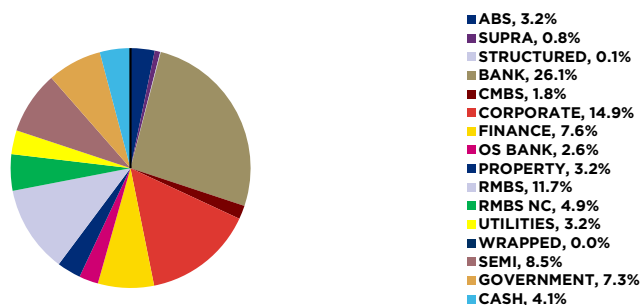
POINTS OF INTEREST

- Domestic spreads mixed; Financials outperform corporates.
- APRA disrupts subordinated financial sector.
- Bond yields rally; Swap spreads tighten.
- Banks headline primary issuance market.
- The outlook for credit has improved to neutral.

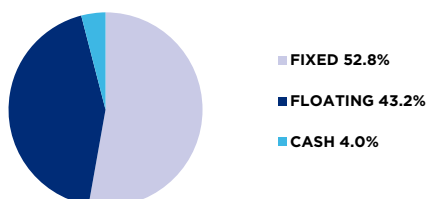
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	65.60%
Subordinated Debt	31.42%
Hybrid Debt	2.98%
Running Yield [#]	3.86%
Portfolio Weighted Average Life (yrs)	4.14
No. Securities	276
Modified Duration	2.03

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

MARKET COMMENTARY

Financial markets continued their recent rally as investors priced in a slower pace of monetary policy tightening and lower terminal rates.

Bond yields broadly moved lower over the month, supported by slowing growth indicators, below expectation CPI results and hawkish commentary from central banks including the Fed. Domestic yields performed well, falling throughout the month following a 25bps rate increase from the RBA which was in line with market expectations. Long term yields outperformed as the curve flattened. Swap spreads tightened over the month retracing their recent expansion.

Domestic credit spreads ended the month in range of recent levels. Spread dynamics were mixed by sector with financial spreads outperformed corporates on aggregate. There was increased volatility among subordinated financials as APRA published guidance on the expectations for callable instruments. The increased scrutiny spooked markets and subordinated bank and insurance paper widened sharply and saw dramatically reduced liquidity. By month end, subordinated spreads had normalised ending the month lower.

Primary market issuance continues to be dominated by the return of Major bank senior issuance. NAB came to market for \$4.75B, matching the recently set domestic market record. Elsewhere, ING raised \$1.25B via a covered bond issuance. Securitisation deal flow remains robust while non-financial corporate issuance continues to be very light.

PORTFOLIO COMMENTARY

Income return was a significant contributor factor to 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. Following a year of expanding credit premia and rising interest rates, the Fund's running yield continues to increase. The portfolio running yield at month end was 3.90%.

Credit spread dynamics were constructive for performance during the month. Credit spread tightening was mixed by sector with financial and utilities spreads contributing while non-financial corporate exposures were marginally negative. The Fund's allocation to Euro spreads contributed to return over the month via strong performance from EUR denominated hybrids and exposure to the Euro XOVER CDS index. The Fund's exposure to semi-government debt was increased over the month, contributing to return as semi spreads tightened.

Duration return was the most substantial determinant of performance during the month. Domestic yields rallied on expectations of a slowed pace of RBA tightening. The Fund began the month short of the strategic target duration. While duration was positive for performance, this positioning limited the participation in the continued rally in bond yields during the month. Portfolio duration is managed 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 combined score began the month in negative territory before recovering on the back of improving technicals. During the month, the Manager added back duration, ending the month in line with the strategic target of 2-years. Throughout 2022, the Fund's relatively short strategic duration has been effective in limiting the impact of the dramatic rise in bond yields, contributing to the limited drawdown and short expected time to recover.

The Fund remains defensively positioned while retaining the capacity to add risk as the outlook for credit continues to improve.

OUTLOOK

Conditions have improved over the month and the outlook for credit has returned to neutral for the first time since the first quarter of 2022.

Valuation indicators remain neutral to the overall credit outlook. Recent swap spread expansion continues to contribute to the 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. The ratio of upgrades to downgrades has reached an inflection point and is no longer providing support for the growth outlook. Moderation in the oil price during the month was constructive.

Supply and demand continue to marginally detract from the overall credit outlook. Conditions in financial sectors have normalised somewhat while issuance and secondary market liquidity in corporate sectors remains disrupted.

Technical indicators have improved on the back of a noticeable uplift in cash across real money accounts and improving trends in US credit and equity markets.

While the outlook for credit spreads has improved considerably, the team remains cognisant of the risks associated with tightening financial conditions and slowing economic growth.

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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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