

Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

December 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 31 December 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 December 2022

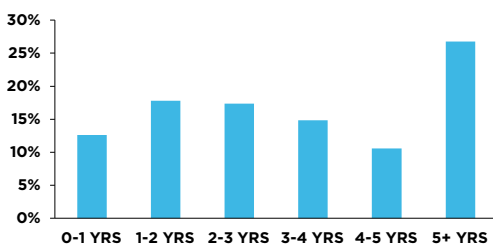
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	-0.24	0.85	0.96	-4.36	-1.83	-0.03	1.45	2.22	3.85
Bloomberg AusBond Composite/Bank Bill Blend	-0.90	0.57	0.48	-4.32	-2.87	-1.14	0.80	1.32	2.85

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.

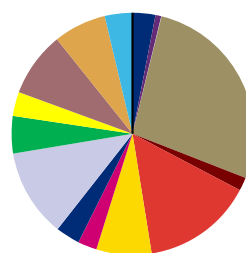
POINTS OF INTEREST

- Domestic spreads rangebound.
- Swap spreads marginally tighter.
- Bond yields rise; curve steepens slightly.
- Primary issuance subdued in line with seasonal expectations.
- The outlook for credit remains neutral.

MATURITY PROFILE

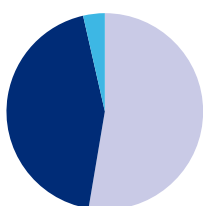


PORTFOLIO SECTORS



■ ABS, 3.0%
■ SUPRA, 0.7%
■ STRUCTURED, 0.1%
■ BANK, 27.1%
■ CMBS, 1.8%
■ CORPORATE, 14.8%
■ FINANCE, 7.3%
■ OS BANK, 2.6%
■ PROPERTY, 3.2%
■ RMBS, 11.8%
■ RMBS NC, 5.0%
■ UTILITIES, 3.2%
■ WRAPPED, 0.0%
■ SEMI, 8.7%
■ GOVERNMENT, 7.1%
■ CASH, 3.7%

FIXED AND FLOATING RATE BREAKDOWN



■ FIXED 52.6%
■ FLOATING 43.8%
■ CASH 3.6%

PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	64.97%
Subordinated Debt	32.02%
Hybrid Debt	3.01%
Running Yield [#]	4.02%
Portfolio Weighted Average Life (yrs)	4.08
No. Securities	270
Modified Duration	2.14

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

MARKET COMMENTARY

Credit markets were steady in December while global equities (with the notable exception of China) gave back some their fourth quarter gains, and bond yields rose on aggregate. December brought to a close an extremely challenging year for financial markets with almost all asset classes retreating and fixed rate bonds experiencing their worst performance in 40 years. The key contributing factor to this turmoil has been the aggressive tightening of monetary policy, headlined by the greatest calendar year increase of the Fed Funds rate in history. Global recession concerns and the timing of potential pivots from the Fed and other central banks are expected to dominate financial markets into 2023.

Yield rose sharply in December, outpacing offshore peers. The curve steepened slightly with long term yields pushing back above 4% by month end. The RBA elected to increase the target cash rate by 25bps during for the third consecutive month. The current rate of 3.1% represents the highest level in over a decade while still well behind the US. Minutes released during the month revealed that the possibility of no increase was discussed for the first time since the commencement of the tightening cycle. Swap rates rose less than bond yields and swap spreads tightened slightly over the month.

Domestic spreads traded in a tight range, narrowing slightly over the month. Steep expansion throughout 2022 leaves domestic spreads at their highest consistent level since 2013 (2020 COVID spike notwithstanding). Offshore peers also tightened with the exception of Japan which pushed wider as the BOJ considered loosening their rates targets. Issuance was subdued in line with seasonal expectations. Notable issuance included a \$1B benchmark deal from Suncorp Metway while Westpac saw strong demand for their 1-year senior unsecured issuance which raised \$1.7B. Securitisation volumes were steady including new RMBS deals from Resimac and Mystate Bank.

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. Over the past year, rising interest rates and expanding credit premia have contributed to increases in portfolio income. The portfolio running yield at month end was 4.0%.

Credit spread dynamics contributed to performance during December. Credit spreads traded in a tight range, narrowing over the course of the month. Credit spread performance was led by domestic and offshore banks with corporates and utilities also contributing. The Portfolio's exposure to USD denominated domestic bank debt performed well, led by Macquarie and Westpac USD hybrids.

Rising bond yields was the key determinant of the Fund's negative absolute return during the month. Bond yields rose sharply over the final weeks of the year giving back a substantial portion of their gains since October. The impact of rising long term yields was mitigated by the fund's relatively short strategic target duration. 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. 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 remained in marginally negative territory throughout the month. The Fund's duration increased slightly over the course of the month ending December marginally above 2 years.

Despite recent improvements in the credit outlook the manager remains cognisant of risks and selective in purchases made. The Fund remains defensively positioned while retaining the capacity to add risk as the outlook for credit continues to improve.

OUTLOOK

The credit outlook remains neutral.

Valuation indicators are marginally negative. Following a moderation in swap spreads, the majority of valuation indicators are in range of neutral levels. 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. Tightened financial conditions as described in the Fed's Senior Loan Officer survey continue to be a significant headwind.

Supply and demand have improved and are now neutral. Supply is expected to be subdued in line with seasonal patterns while an elevated volume of maturities in the new year is expected to be supportive.

Technical indicators remain supported by a noticeable recent 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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