

## Perpetual Investment Funds

# PERPETUAL DYNAMIC FIXED INCOME FUND

January 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:** \$35.3 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 January 2023

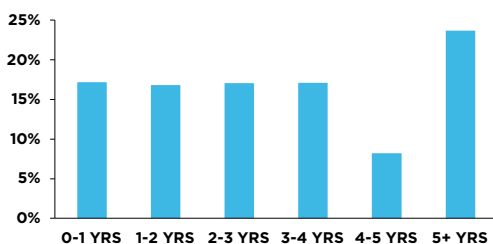
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	1.46	2.15	1.06	-2.53	-1.24	0.13	1.68	2.43	3.95
Bloomberg AusBond Composite/Bank Bill Blend	1.51	1.50	0.26	-2.38	-2.03	-1.04	1.12	1.43	2.95

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.

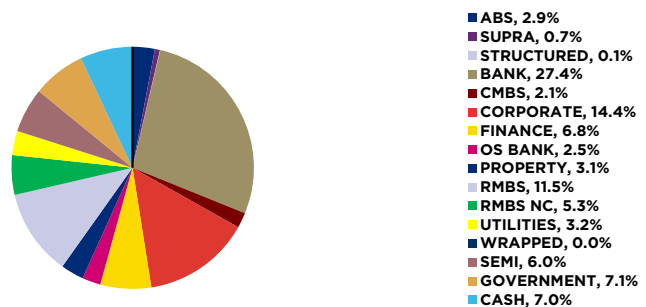
### POINTS OF INTEREST

- Global economic outlook improves; Inflation moderates;
- Bond yields rally sharply; Credit spread tighten;
- Primary market issuance robust; led by domestic banks;
- The outlook for credit is neutral.

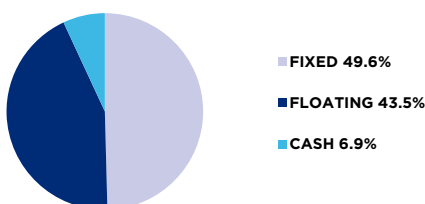
### MATURITY PROFILE



### PORTFOLIO SECTORS



### FIXED AND FLOATING RATE BREAKDOWN



### PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	66.55%
Subordinated Debt	30.61%
Hybrid Debt	2.84%
Running Yield <sup>#</sup>	3.90%
Portfolio Weighted Average Life (yrs)	3.74
No. Securities	271
Modified Duration	1.90

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

## MARKET COMMENTARY

Financial markets surged in January on an improved global growth outlook, moderating inflation and anticipation of a slowing rate of central bank policy tightening. Falling energy prices and resilient demand saw the economic outlook for Europe improve dramatically. At the same time, reopening, monetary stimulus and easing regulations in China were supportive for the economic growth outlook. Investors took comfort from confirmation that US inflation was moving in the right direction and that the US Federal Reserve and other central banks (including the RBA) would soon pause their monetary policy tightening cycles.

Bond yields fell precipitously during the month with the Australian 10-year government yield rallying 50bps. Moderating inflation was the key catalyst for the rally with increasing expectations that central bank tightening would slow as inflation rolled over. Global yields also performed well with 10-year US (-35bps), UK (-31bps) and German (-22bps) bonds all rallying.

Domestic credit spreads ground tighter throughout January as the economic outlook improved and discount rates were lowered. Market technicals were also supportive with investors deploying excess cash accumulated over the holiday period. After moving materially wider from their post COVID-19 low, credit spreads remain in sight of their highest levels in a decade (notwithstanding the March 2020 selloff).

Primary market issuance volumes were robust early in January before calming as the January 26 public holiday and lunar new year disrupted the issuance pipeline. A number of domestic financials moved to take advantage of beneficial conditions to raise capital in the new year. Commonwealth Bank launched the new record largest (by volume) domestic credit transaction with its \$5B 3 and 5 year senior unsecured deal. This was followed by a pair of regional bank deals with Bendigo and Adelaide bank (\$750M) and Bank of Queensland (\$800M) issuing 4-year senior unsecured bonds. Meanwhile a steady stream of offshore issuers across supranational, sovereign and agency sectors tapped the domestic market. The securitisation market was very quiet in line with seasonal expectations.

## PORTFOLIO COMMENTARY

Income return remains a significant contributing factor to performance 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 3.90%.

Credit spread tightening was a substantial contributor to performance over the month. In a strong month for credit, spreads narrowed as the outlook for global growth improved while investors also priced in a slower pace of monetary tightening from central banks. The key contributing sectors to credit spread outperformance were domestic and offshore banks, non-financial corporates and utilities. The Fund's exposure to USD and EUR denominated debt performed well across a number of sectors including domestic banks, infrastructure and utilities. While the Fund retains the capability to invest in offshore credit markets, all foreign denominated exposures are hedged back to AUD. As the credit outlook improves, the Manager is comfortable with the current credit exposure of the fund and its capacity to take advantage of upcoming opportunities.

Interest rate dynamics were the most significant contributor to absolute return during the month as domestic yields fell sharply on moderating inflation data. Duration positioning was actively managed throughout the month with the manager electing to shorten duration, selling into strength as yields rallied. At month end, the Fund was in line with the strategic target duration of 2 years. Throughout the last 12 months of rising interest rates, 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.

Alongside the strategic target duration, 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 improved over the month, reflecting strengthening valuation indicators.

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

## OUTLOOK

As of the end of January, 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. While recession risks have eased somewhat, there remain risks to economic growth. Tightened financial conditions as described in the Fed's Senior Loan Officer survey continue to be a significant headwind.

Supply and demand indicators are neutral. While an elevated volume of maturities in the first quarter is expected to be supportive, robust recent issuance volumes detract from the outlook.

Technical indicators remain supported by a noticeable uplift in cash across real money accounts and improving trends across US credit and equity and equity volatility.

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Past performance is not indicative of future performance.

\*\*\* 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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