Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

February 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 28 February 2023

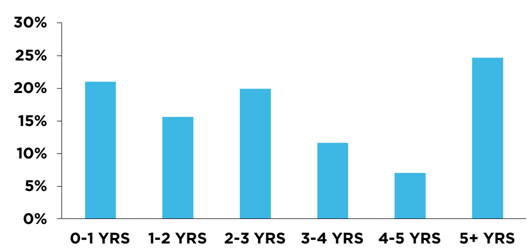
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	-0.02	1.19	1.66	-1.83	-0.82	0.09	1.64	2.40	3.92
Bloomberg AusBond Composite/Bank Bill Blend	-0.54	0.05	0.92	-2.32	-1.41	-1.37	0.97	1.26	2.89

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.

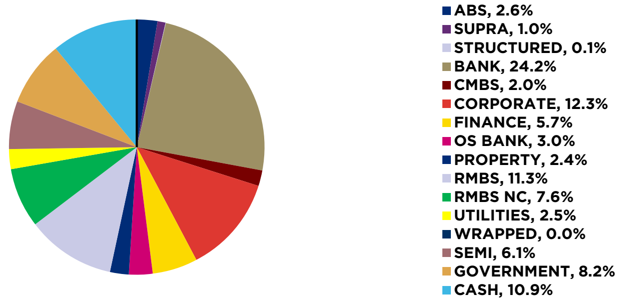
POINTS OF INTEREST

•Economic outlooks improves; US inflation exceeds expectations;
•Increasing terminal rate expectations; Bond yields rise;
•Credit spreads tighten moderately;
•Primary market issuance robust; Financials dominate new deals;
•The outlook for credit is neutral.

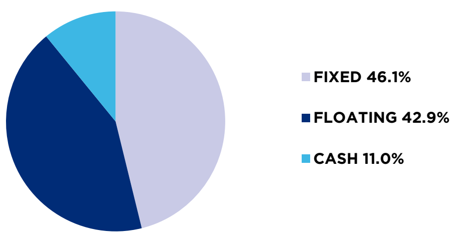
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	67.24%
Subordinated Debt	30.24%
Hybrid Debt	2.52%
Running Yield#	3.85%
Portfolio Weighted Average Life (yrs)	3.64
No. Securities	267
Modified Duration	1.89

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

MARKET COMMENTARY

Equity and bond markets slowed in February following a strong start to the year as a series of strong economic data saw a repricing of central bank interest rate expectations. While markets reacted positively to the improving economic outlook in January, February saw increasing caution as robust PMIs, tight labour market data and elevated inflation prompted markets to anticipate further monetary policy tightening and higher terminal rates.

Domestic credit spreads were resilient, grinding tighter through February while remaining in range of recent levels. The primary issuance market remained mixed through February. There continued to be elevated volumes in the financial sector while non-financial corporate and securitisation activity was subdued. Westpac priced $4.25B of senior unsecured paper across 3 and 5-year tranches. ANZ raised $1B in a fixed rate tier 2 transaction that was notable for its unusual 15-year non-call 10 structure. Offshore bank, supranational and agency issuers were also active during the month. Signs point towards an emergence of corporate issuance with Telstra launching a $650M fixed rate bond in the final days of the month.

Bond yields rose giving back late 2022 and January gains. Strong economic data alongside hawkish central bank commentary released during the month led to increasing terminal rate expectations. The domestic yield curve flattened as short end yields sold off sharply. While the US yield curve is deeply inverted (reaching its deepest inversion in 40 years during the month), the slope of the domestic curve remains in positive territory. The RBA elected to increase the target cash rate by 25bps in early February with minutes later revealing that a 50bps increased was discussed. Similarly, the Fed minutes revealed a hawkish tone and discussion of a 50bps increase.

PORTFOLIO COMMENTARY

During a month where fixed rate bonds sold off, the combination of the Fund's robust running income and the contribution of credit and swap spread tightening fully offset the impact of rising bond yields. Income return was the most 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 substantial contributors to income return. The portfolio running yield at month end was 3.9%.

Credit spread dynamics were constructive for performance during the month as spreads tightened on aggregate. The Fund's allocation to financials – most notably domestic and offshore banks – were the key contributors to spread return during February. Over the month, the Fund's credit risk was actively managed with A and BBB rated exposures being reduced while allocation to AAA rated credit was increased.

Interest rate dynamics detracted from returns over the month as bond yields rose on anticipation of an extended monetary policy tightening cycle and rising terminal rate expectations. The Fund's relatively short strategic target duration of 2-years continues to minimise the impact of yield curve volatility. 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. Curve positioning was also constructive during February as the Fund's limited exposure to very short end yields mitigated the impact of curve flattening as the short end sold off sharply.

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 began the month in positive territory before declining on the back of degrading valuation and technical indicators. At month end, Fund duration was in line with the strategic target of 2-years. The Fund remains defensively positioned while retaining the capacity to add risk should the outlook for credit improve.

OUTLOOK

The Credit outlook is neutral after briefly reaching the first positive reading in 12 months during early February.

Valuation indicators remain marginally negative. While the majority of indicators are in neutral territory, 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. Tightened financial conditions as described in the Fed's Senior Loan Officer survey continue to be a significant headwind. Meanwhile, the ratio of credit rating upgrades to downgrade has turned and is now detracting.

Supply and demand indicators have improved and are slightly positive. An elevated volume of maturities in the first quarter is expected to be supportive of credit spreads. While market demand has been positive, recent elevated issuance volumes detract from the outlook.

Technical indicators continue to be supportive for the overall credit outlook with each individual indicator in positive territory. There remain elevated levels of cash across real money accounts while demand from intermediaries has been healthy. At the same time, improving trends across US credit and equity and equity volatility are all supportive.

*** 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
www.perpetual.com.au