

Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

June 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: \$35.8 million as at 31 March 2023

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 June 2023

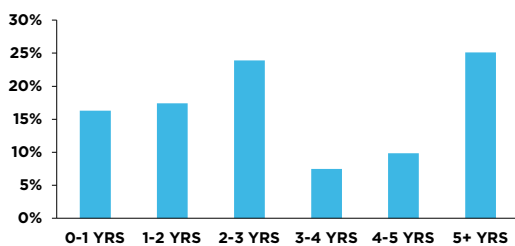
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.31	0.44	2.64	3.62	-0.99	0.68	1.80	2.27	3.91
Bloomberg AusBond Composite/Bank Bill Blend	-0.83	-1.03	1.64	2.13	-1.66	-1.23	0.87	1.12	2.87

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.

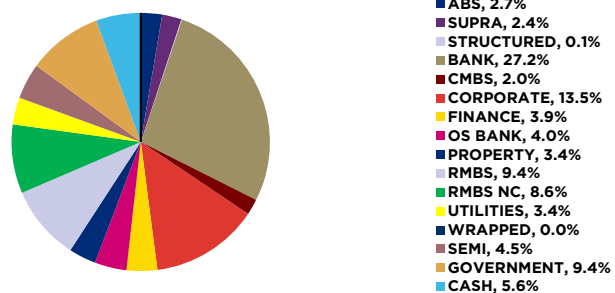
POINTS OF INTEREST

- Bond yields selloff sharply; yield curve flattens;
- RBA increases cash rate; 400 bps of hikes in 13 months;
- Credit spreads rangebound; narrow slightly;
- Swap spreads tighten; primary market orderly.
- The outlook for credit is negative.

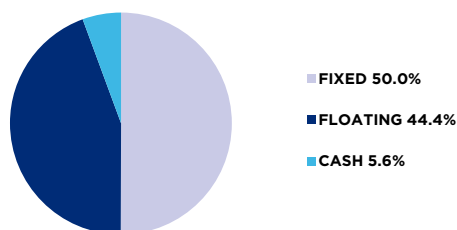
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	63.18%
Subordinated Debt	33.76%
Hybrid Debt	3.06%
Running Yield [#]	4.69%
Portfolio Weighted Average Life (yrs)	3.83
No. Securities	261
Modified Duration	2.23

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

MARKET COMMENTARY

Global financial markets were mixed during June with equities continuing to rise and credit markets strengthening while bond yields sold off as investors parsed hawkish central bank rhetoric.

Domestic bonds sold off along the curve over the month. Australian 10-year yields rose 42bps to end the month back above 4.0%. The 3-year tenor saw the sharpest upward move with the curve ending the month inverted between 3-and-10 year yields. The selloff in bonds was attributable in part to the 25bps rate increase agreed upon at the RBA's June meeting which defied consensus expectations. Since May 2022, the RBA has increased the target cash rate by 400 bps in the most aggressive rate tightening cycle in memory. The US AU 10-year spread returned to positive following the selloff in Australian bonds with the US 10-year rising less sharply over the month to 3.8%.

Domestic floating rate credit outperformed traditional fixed interest throughout the month as yields rose while credit spreads tightened. Domestic spread narrowed across most sectors while remaining in range of recent averages. Financial spreads performed well, led by offshore banks. US dollar and Euro spreads outperformed Australian dollar denominated credit, continuing to recover from the spike observed during March.

Primary market issuance was orderly, with multiple deals pricing across financials, corporates and securitised sectors. Westpac came to market with its first Australian Dollar denominated subordinated deal in over two years (The bank has issued tier-2 debt in USD during this period). The \$2.9B book broke the previous record volume for AUD tier-2 major bank issuance. Corporate issuance extended its nascent resurgence with new deals from Endeavour Energy, Transpower New Zealand and Australian Gas infrastructure Group who raised \$400M in a 7-year 6.109% fixed rate bond.

PORTFOLIO COMMENTARY

The Fund's positive net return was notable in a month where domestic yields rose sharply along the curve. The Fund's active duration management and relatively short strategic target duration, diversified exposure to floating rate credit and robust running yield combined to mitigate the impact of yield volatility.

The Fund's running income was the most substantial contributor to relative return, offsetting the impact of rising bond yields. The running yield has improved substantially over the past 12 months, driven by the Fund's floating rate exposures which benefitted from 400bps of rate rises since May 2022. The portfolio running yield at month end was 4.7%.

Rising bond yields detracted from return during the month. Domestic yield rose sharply as investors priced in further RBA rate increases, while the curve flattened further, inverting at the 3 and 10-year tenors for the first time since the GFC. The Fund began the month with just 0.6 years of duration, short of the strategic target range of 2-2.5 years. This positioning mitigated the impact of rising bond yields following the RBA's decision to increase the target cash rate at their June meeting, a decision that defied consensus expectations. As bond yields sold off, the Manager elected to lengthen the Fund's duration, adding back 1.7 years to be in line with the strategic target range by month end.

Credit spread dynamics were constructive during June as domestic credit spreads narrowed on aggregate while remaining in range of recent levels. The Fund benefitted from exposure to foreign denominated domestic bank hybrids which recovered following the dramatic selloff observed in March. Elsewhere, credit spread performance was broad based with spreads contracting across the portfolio's exposure to utilities, infrastructure, mining, energy and telecommunications. Narrowing semi-government spreads also contributed substantially.

In line with the challenging outlook for credit, the Manager remains cognisant of risks and the Fund remains defensively positioned. The fund will continue to actively manage duration and credit exposures to mitigate risks while taking advantage of relative value opportunities.

OUTLOOK

The Credit outlook remains marginally negative.

Valuation indicators are marginally negative. Spreads remain in range of historical averages across Australian investment grade, US investment grade and high yield. Widening USD AUD basis swaps increase the attractiveness of domestic markets for issuers, detracting slightly from the outlook.

Macro indicators remain negative. The slowing pace of economic growth and tightening financial conditions as described in the Fed's Senior Loan Officer continue to weight on the outlook.

Supply and demand indicators have improved over the month and are now marginally positive. Demand has been robust across primary and secondary markets with a number of new deals oversubscribed and performing well on the break. Meanwhile, the elevated pace of issuance observed through the first 6 months of the year weighs on the outlook.

Technical indicators have moderated while remaining positive. Cash levels of real money accounts and intermediary demand are benign. US equity and equity volatility indicators are supportive for the credit outlook.

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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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