

## Perpetual Investment Funds

# PERPETUAL DYNAMIC FIXED INCOME FUND

July 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:** \$35.1 million as at 30 June 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 31 July 2023

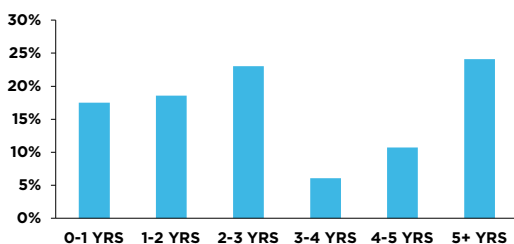
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.70	0.74	1.88	2.96	-0.97	0.58	1.88	2.28	3.94
Bloomberg AusBond Composite/Bank Bill Blend	0.45	-0.84	0.57	0.83	-1.87	-1.15	0.93	1.12	2.88

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.

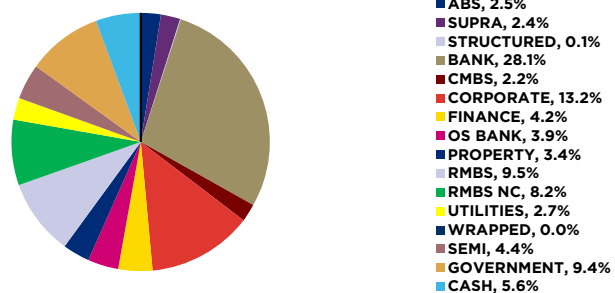
### POINTS OF INTEREST

- RBA on hold; Yield curve flattens;
- Domestic credit spread tightens; Bank sub outperforms;
- Primary market issuance very light; secondary demand robust
- The outlook for credit has improved to neutral.

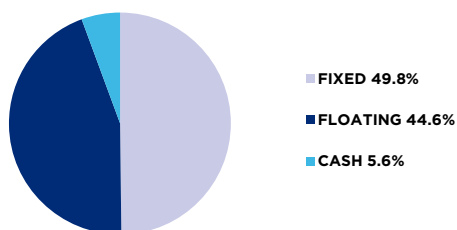
### MATURITY PROFILE



### PORTFOLIO SECTORS



### FIXED AND FLOATING RATE BREAKDOWN



### PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	63.63%
Subordinated Debt	34.65%
Hybrid Debt	1.72%
Running Yield <sup>#</sup>	4.64%
Portfolio Weighted Average Life (yrs)	3.71
No. Securities	258
Modified Duration	2.14

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

## MARKET COMMENTARY

Global financial markets consolidated on a strong first half for risk assets in July. Equities continue to grind higher, while credit spreads tightened across multiple markets. Bond yields were mixed with domestic yields sedate following the RBA's decision to hold in early July, while US long term yields moved higher, responding to further tightening from the Fed.

The RBA elected to keep rates on hold at 4.1% in July following the surprise hike in early June. 2nd quarter CPI released during the month showed moderating headline inflation however inflation in services sectors remains intractable and employment data remains robust. Futures markets at month end had priced an imminent peak in tightening suggesting less than one 25bps increase remaining. The domestic yield curve steepened during the month with long-term yields rising marginally while the short end rallied. US 10-year yields sold off as the Fed continued to raise rates and maintained its hawkish outlook and rhetoric.

Domestic credit spreads tightened over the month supported by improving investor risk appetites. Corporate and tier 2 financial spreads saw the most substantial tightening reflecting lack of supply in primary. Euro and US Dollar spreads continued to outperform domestic peers, rallying during July.

Primary issuance was subdued relative to average monthly volumes over the last 12 months. July saw the lowest aggregate monthly volume thus far in 2023. While this reflects seasonal trends – domestic issuers typically come to market after reporting season – it represents a significant cooling of issuance activity relative to the strong start to the year. Securitisation volumes remained resilient with Bank of Queensland pricing \$1B of RMBS while Think Tank raised \$500M in a CMBS deal.

## PORTFOLIO COMMENTARY

The Fund's running income was the most substantial contributor to relative return over the month. The Fund's floating rate exposures have benefitted from rising base rates over recent periods, contributing to the improved running yield. The portfolio running yield at month end was 4.6%.

Interest rate dynamics were positive for performance during the month. Short term yields rallied following the RBA's decision to keep rates on hold while long term yields sold off marginally. The Fund's exposure to the very short end was rewarded while longer dated fixed rates exposures detracted slightly as the yield curve steepened. The Fund's exposure to the short The Fund's duration remains in line with the strategic target duration of 2-2.5 years.

Credit spread tightening contributed to return during July. Domestic spreads narrowed over the month on supportive supply dynamics and increasing investor risk appetites. The Fund's domestic bank exposures were the most substantial contributor to credit spread return during the month. Subordinated bank exposures performed well as tier 2 and hybrid paper tightened reflecting elevated secondary market demand and a paucity of new issues. Elsewhere, non-financial corporates and utilities were constructive.

While the outlook for credit has improved, the Manager remains conscious of the challenging macro environment and the risks associated with tightening financial conditions. The Fund will continue to actively manage duration and credit exposures to mitigate risks while taking advantage of relative value opportunities presented as the outlook improves.

## OUTLOOK

The Credit outlook improved to neutral over the course of the month.

Valuation indicators remain negative. While spreads remain in range of historical averages across Australian and US investment grade, tightening US high yield spreads no longer offer attractive value relative to recent levels. Widening USD AUD basis swaps increase the attractiveness of domestic markets for issuers, continuing to detract 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 weigh 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. While primary market activity eased in July, the elevated pace of issuance observed through the first 6 months of the year continues to weigh on the outlook.

Technical indicators have improved, providing a solidly positive signal by month end. Cash levels of real money accounts remain benign while intermediary demand is supportive. US credit, equity and equity volatility indicators are supportive for the credit outlook.

---

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Group means Perpetual Trustees Australia Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry or exit fees or taxation (except in the case of superannuation funds, as applicable).

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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)

