Perpetual Investments

PERPETUAL WHOLESALE DYNAMIC FIXED INCOME FUND

July 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 30 June 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 July 2022

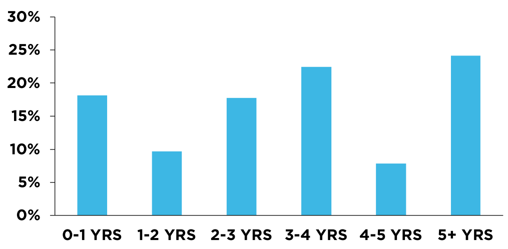
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Dynamic Fixed Income Fund	1.36	-0.31	-3.55	-4.75	-0.59	0.33	1.82	2.34	4.03
Bloomberg AusBond Composite/Bank Bill Blend	1.74	0.58	-2.63	-4.49	-2.12	-0.71	1.24	1.61	3.06

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.

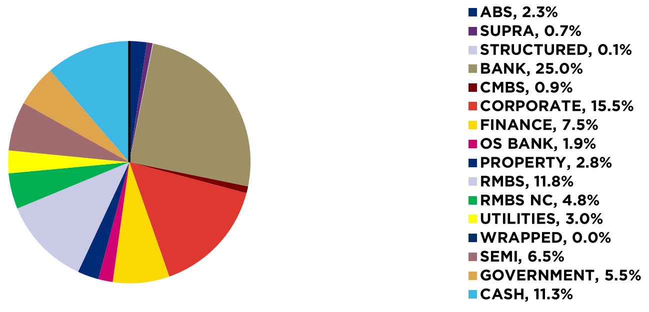
POINTS OF INTEREST

•Financial markets rebound on moderating monetary policy expectations;
•Domestic yields fall. Yield curve flattens;
•AUD spreads widen slightly; USD and EUR spreads tighten;
•Primary issuance orderly;
•The outlook for credit remains challenged.

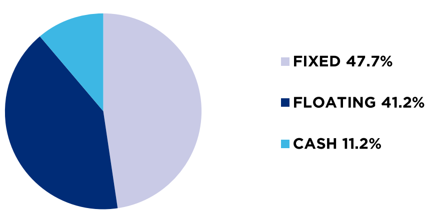
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	68.30%
Subordinated Debt	28.76%
Hybrid Debt	2.94%
Running Yield#	2.88%
Portfolio Weighted Average Life (yrs)	3.83
No. Securities	269
Modified Duration	2.00

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

MARKET COMMENTARY

Financial markets rebounded during the month with equities and bond yields clawing back a portion of their first half losses. As recession risks continued to rise, markets were buoyed by the softening of monetary policy tightening expectations.

During the month, investors reacted to slowing economic growth by anticipating a deceleration of rate increases from central banks. Two successive quarters of negative GDP growth confirmed a technical recession in the US which saw financial markets rally on expectations the Fed's aggressive tightening cycle would ease. Employment data remains constructive and corporate earnings have proven thus far resilient. Forward looking indicators are less constructive, with profit guidance revised down and Purchasing Manager Indices (PMIs) indicating contraction.

Credit spread dynamics were predominantly benign during July as the expansion of credit spreads observed over recent months slowed. While AUD spreads ended the month slightly wider, USD and especially EUR spreads tightened, the latter recovering a portion of the dramatic selloff observed in June. Primary issuance was orderly during July. NAB issued $1.25B of 10-year non-call 5 tier 2 fixed and floating rate notes. In the corporate space, John Deere Financial priced a 3 year $300M deal. Swap spreads tightened slightly over the month following persistent widening over recent months.

Domestic bond yields ended the month lower after a strong rally in the last week of July. The Australian 10-year is more than 100bps down from the June peak. The Reserve Bank of Australia (RBA) has continued its aggressive tightening cycle, having increased the target cash rate by 175bps between the start of May and the 2nd of August. Inflation remains the key concern for the central Bank with trimmed mean inflation – the RBA's preferred measure – rising to 4.9% yoy during the June quarter, remaining well outside of the target range. While surging inflation will provide little comfort to the central bank, the print came in short of estimates and saw monetary tightening expectations ease as a result. At the same time, the labour market remains robust and wage growth is expected to accelerate.

PORTFOLIO COMMENTARY

Income return contributed to absolute 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. Rising yields over the first half of 2022 have contributed to the increase in the Portfolio's running yield which ended the month at 2.9%.

Interest rate dynamics were most significant determinant of return over the month. Bond yields rallied on rising recession concerns and moderating monetary policy tightening expectations. Falling yields contributed to performance as fixed rate bonds regained a portion of their year to date losses. The Fund's relatively short strategic duration has thus far offset the impact of the dramatic rise in bond yields over the year to date, contributing to the limited drawdown and short expected time to recover. The 2-year strategic target duration is also expected to mitigate the impact of ongoing rate volatility. With a lower terminal rate and less aggressive monetary policy tightening already full priced in, the relatively short strategic duration limits the Fund's sensitivity to further rate increases and policy error or execution risks.

Credit spread dynamics were marginally negative for performance. Domestic credit spreads continued to grind wider during July although the rate of expansion slowed. Domestic financial s and RMBS were the key detracting sectors from credit spread return. Offshore spreads performed better, with EUR spreads in particular tightening sharply, regaining a portion of their June selloff. The Fund's exposure to EUR spreads – via a long CDS index position – contributed to return, offsetting the impact of domestic spread widening.

Alongside the strategic target, duration is managed in line with signalling from our proprietary tactical asset allocation model. The model is used to determine valuation, economic cycle and technical indicators. The combined bond score turned marginally negative during the month before recovering to a neutral reading. The Manager elected to shorten the fund's tactical duration while remaining close to the strategic target of two years. With ongoing uncertainty in rates markets and the outlook for credit remaining negative, risk management is paramount. The Manager elected to de-risk the portfolio, reducing floating rate credit exposures. The Fund remains defensively positioned while retaining the capacity to add risk at attractive valuations presented by recent volatility.

OUTLOOK

The credit outlook remains challenged with a number of indicators degrading over the month.

Valuation indicators remain somewhat negative. US investment grade and high yield alongside Australian Investment grade and swap spreads remain at neutral levels relative to historical averages. The domestic credit market remains expensive relative to offshore markets across relative spread and basis swap indicators.

The growth outlook remains delicately poised with slowing economic growth and the elevated oil price offset by the robust ratio of upgrades to downgrades.

Supply and demand indicators have worsened, detracting from the overall credit outlook. Market demand remains disrupted with secondary markets seeing reduced volumes and primary deals meeting selective demand. Primary issuance volumes have been rising and are now at robust levels relative to recent trends. The upcoming maturity schedule is slightly elevated and expected to be constructive for spreads.

Technical indicators remain negative. Intermediaries continue to limit risk to their balance sheets, impacting secondary market liquidity and detracting from the outlook for spreads. US credit and equity indicators remain negative while equity volatility indicators have improved.

With a challenging outlook for spreads, risk management remains paramount. The team continues to position to defend capital while evaluating opportunities presented by the current market conditions.

*** 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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