Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

July 2024

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:	$25.6 million as at 30 June 2024
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 2024

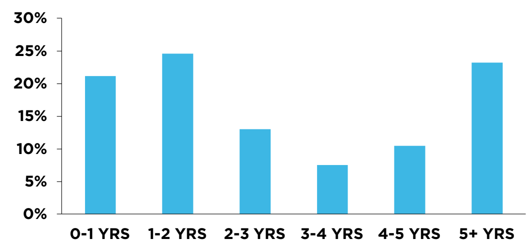
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.96	2.21	2.89	6.74	4.83	1.53	2.11	2.67	4.14
Bloomberg AusBond Composite/Bank Bill Blend	0.93	1.88	1.83	4.56	2.68	0.23	0.63	1.65	3.00

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.

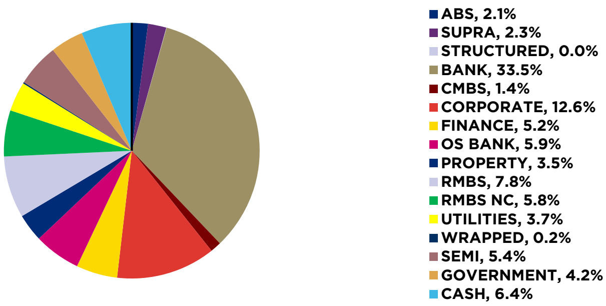
POINTS OF INTEREST

•Equities rise marginally, global bond yields rally;
•Credit spreads rangebound, tighten marginally;
•2Q CPI decelerating, reducing likelihood of further RBA hikes;
•Primary market volumes orderly;
•The outlook for credit is marginally negative

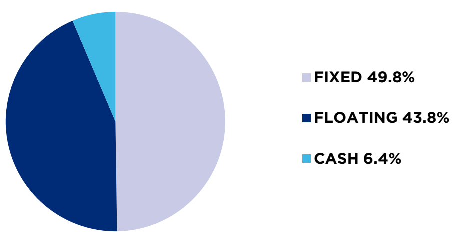
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	62.61%
Subordinated Debt	35.45%
Hybrid Debt	1.94%
Running Yield#	4.93%
Portfolio Weighted Average Life (yrs)	3.51
No. Securities	275
Modified Duration	2.11

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

MARKET COMMENTARY

Financial markets consolidated during July with global equities ending the month higher while bond yields fell. Markets were relatively subdued throughout July before below consensus expectations US non-Farm payroll data and the Bank of Japan's 31 July decision to increase interest rates precipitated a spike in volatility in the first days of August.

Domestic bond yields fell aligning with a broader global trend that saw bonds rally through July. 10-year Australian yields rallied 19bps while 10-year US yields led the way, falling 32bps. Slowing core inflation in the second quarter CPI print saw expectations of an August RBA rate increase ease. While inflation has been more subdued through the first half of 2024, there remains a long way back to the central banks target range, which is reflected in the hawkish pricing of potential rate cuts.

Domestic credit spreads consolidated during July tightening marginally. Euro denominated spreads also rallied slightly while USD spreads were close to flat during the month. Financial spreads outperformed corporates while trading in a tight range. Government adjacent spreads including semi-government and supranational spreads outperformed credit. While July was relatively subdued for credit markets, the first week of August saw a spike in spread volatility.

Primary issuance was mixed during July with a busy mid-month period bookended by a slow start and a late month calm as markets anticipated key economic data releases. A number of offshore financial issuers met strong demand including Toronto Dominion, Banco Santander, Cooperative Rabobank and Sumimoto Mitsui Banking Corporation. ANZ raised $1.9B in a fixed rate subordinated transaction which was heavily oversubscribed before moving wider after pricing. Westpac issued subordinated bonds, raising $1.5B early in July.

PORTFOLIO COMMENTARY

Income return remains the key component contributing to performance. Allocation to domestic and offshore banks alongside RMBS remain the key contributing sectors to the Fund's robust running income. The portfolio running yield was 4.9% at month end.

Duration positioning was the most substantial contributing factor to return over the month. Bond yields rallied and the curve steepened slightly over the month. Overweight allocation to longer dated bonds contributed strongly to performance as yields fell. The Portfolio's 2-2.5 year strategic target duration limits the impact of yield volatility while allowing the fund to participate as monetary policy begins to ease. The Manager is cognisant of ongoing risks to bond yields and uncertainty surrounding the path of monetary policy. The Fund's duration remains in line with the lower bound of the strategic target and the Manager will continue to assess tactical opportunities along the curve.

Credit spread contraction was constructive for performance during the month. Domestic spreads traded in range of recent levels, tightening on aggregate. The Fund's offshore bank allocation was a notable contributor including a number of EUR denominated positions. The Manger is comfortable with the current credit exposure of the Fund and there are no credits of concern. The AUD credit market continues to benefit from a strong regulatory environment, concentrated corporates, and a stable macroeconomic environment.

The outlook for credit is marginally negative. The Fund is well positioned to navigate an uncertain environment while continuing to collect and attractive running yield. The Manager remains focused on identifying relative value opportunities presented as the outlook improves and will continue to look for active duration opportunities along the curve.

OUTLOOK

The credit outlook declined in the second half of July (prior to the US non-farm payroll release, BOJ rate increase and ensuing volatility) to end the month with a slight negative reading.

Valuation indicators turned negative as tightening AUD swap rates and the USD/AUD basis swap detracting from the outlook.

The macro outlook remained very marginally positive throughout July. Lending conditions as expressed by the Senior Loan Officer survey remain negative. Meanwhile, access to equity market capital and the ratio of credit rating upgrades to downgrades remain supportive.

Supply and demand indicators declined, ending the month marginally negative. As highlighted in recent months, upcoming maturity volumes have fallen, impacting the outlook. Recent supply remains strong and while demand has matched the level of issuance thus far, the volume of year to date primary issuance is weighing on the outlook.

Technical indicators shifted throughout July. By month end, intermediary positioning and US equity market indicators were positively contributing, while cash levels of domestic real money accounts and US credit spread indicators were detracting from the overall outlook.

The team is actively monitoring the elevated volatility that has impacted markets since July month end. In the second week of August, the outlook declined further reflecting tightened liquidity 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.

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