Perpetual Pure Series Funds

# PERPETUAL PURE CREDIT ALPHA FUND CLASS W

July 2024

## FUND FACTS

**Investment objective:** The Fund aims to provide investors with a positive return above the cash rate over rolling three-year periods (before fees and taxes) by primarily investing in and actively trading fixed income securities and related derivatives.

**Benchmark:** RBA Cash Rate
**Inception date:** March 2012
**Size of fund:** $495.6 million as at 30 June 2024
**Mgmt Fee:** 0.85% pa*
**Benchmark Yield:** 4.350% as at 31 July 2024
**Suggested minimum investment period:** Three years or longer

## FUND BENEFITS

Perpetual aims to meet its objective by utilising an active and risk aware investment process that leverages the full use of the Perpetual Credit team's experience. The strategy allows the team discretion to invest in areas of the market or a company's capital structure where they see relative value. The portfolio is diversified, takes into account changes in market-wide and security-specific credit margins while seeking to maximise returns from liquidity premiums.

## FUND RISKS

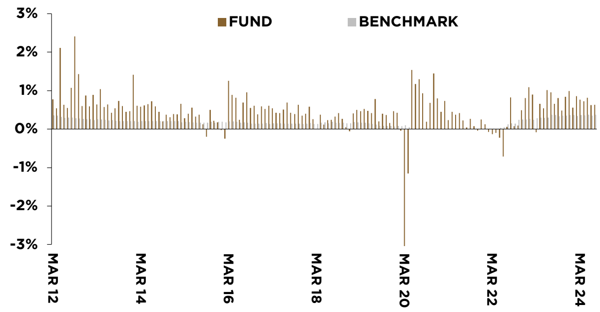
All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

## TOTAL RETURNS % (AFTER FEES) AS AT 31 July 2024

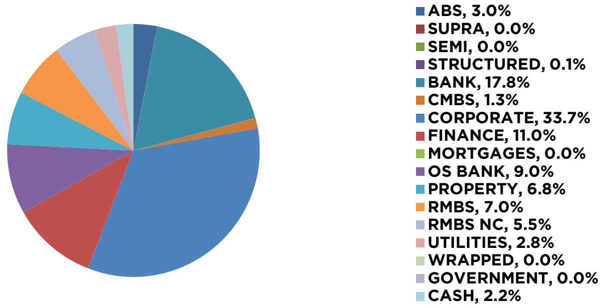
| | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 2 YRS PA | 3 YRS PA | 5 YRS PA | 7 YRS PA | INCEPT PA |
|---|---|---|---|---|---|---|---|---|---|
| Perpetual Pure Credit Alpha Fund W Class | 0.63 | 2.08 | 4.50 | 9.12 | 8.37 | 5.35 | 4.55 | 4.51 | 5.79 |
| RBA Cash Rate | 0.37 | 1.10 | 2.19 | 4.39 | 3.80 | 2.61 | 1.71 | 1.65 | 1.98 |

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.

## MONTHLY PERFORMANCE SINCE INCEPTION




## PORTFOLIO SECTORS




## PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---|---|
| Senior Debt | 53.49% |
| Subordinated Debt | 39.39% |
| Hybrid Debt | 7.12% |
| % Geared | 0.00% |
| Running Yield# | 7.04% |
| Portfolio Weighted Average Life | 3.24 yrs |
| No. Securities | 210 |
| Long | 97.79 |
| Short | 0.00 |
| Net | 97.79 |

## GEOGRAPHIC LOCATION OF MATERIAL ASSETS

The Fund holds no single international asset representing more than 10% of the Fund's net asset value.

* 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 was the most substantial contributing factor to return over the month. The Fund's yield advantage remains primarily attributable to non-financial corporates with support from domestic banks and RMBS. The Fund's running yield was 7.0% at month end, with the average spread measured at 2.7%.

Credit spread contraction was positive for performance during the month. While spreads traded in a tight range throughout July, the portfolio benefitted from tightening among domestic and offshore bank exposures alongside property trusts. Spread performance among non-financial corporates was more mixed.

Sector allocations were broadly maintained during July. Allocation to domestic and offshore banks were increased over the month. The Fund took part in new deals from ANZ and Banco Santander. The Fund also added exposure to the non-bank financial sector via a new loan from consumer and small business debt purchaser.

The outlook for credit was marginally negative at July month end and worsened in the early days of August. The team is actively monitoring the elevated volatility that has impacted markets since July. Accordingly, the portfolio remains defensively positioned and retains the capacity to take advantage of relative value opportunities as they arise.

## 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.

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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.
** UBS Australian Bond Index changed to Bloomberg AusBond Bank Bill Index effective 26 September 2014

## MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au