Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

August 2024

FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in a portfolio of diversified fixed income securities which are predominantly corporate and government bonds; and outperform the Bloomberg AusBond Composite 0+Yr Index (before fees and taxes) over rolling three-year periods.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of Strategy: $427.1 million as at 30 June 2024
APIR: PER8045AU
Management fee: 0.40%*
Suggested minimum investment period: Three years or longer

FUND BENEFITS

Active management of credit risk through sector and sub sector rotation, curve positioning and relative value trading. Strategically maintain duration at benchmark, tactical overlay at extremes.

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 August 2024

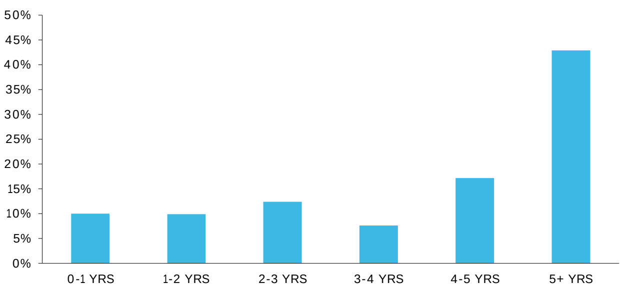
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Active Fixed Interest Fund Class A [1,3]	1.19	3.71	3.74	6.80	4.97	-1.17	-0.01	2.10	2.33
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.78
Bloomberg Ausbond Composite Index	1.21	3.50	2.99	5.15	3.45	-1.79	-0.55	1.67	-

[1] Class A of the Perpetual Active Fixed Interest Fund (Fund) has been operating since February 2017. This row represents the actual past performance of Class A of the Fund.
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been calculated by subtracting the fees for Class A from the actual gross past performance for Class W.
[3] Past performance is not indicative of future performance.

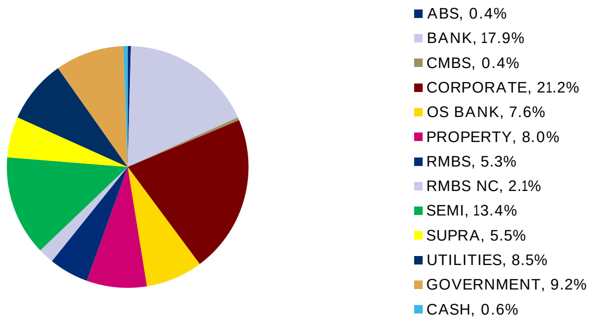
POINTS OF INTEREST

•Volatility spikes on US jobs data and BOJ rate hike;
•Bonds rally; credit spreads recover;
•Credit liquidity impacted early before normalising;
•Primary market activity resurgent after earnings season blackout;
•The outlook for credit is negative.

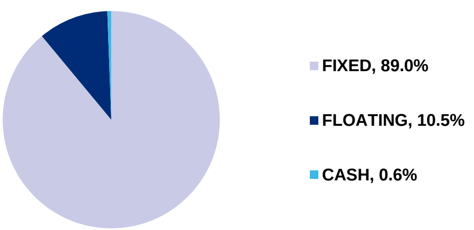
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	87.86%
Subordinated Debt	11.17%
Hybrid Debt	0.97%
Running Yield*	4.34%
Portfolio Weighted Average Life (yrs)	5.55
No. Securities	159
Modified Duration	4.96

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

*The methodology used to calculate Running Yield is derived from FactSet, and calculated as follows: The coupon rate of the security / the capital price of the security. Note that the exception is discounted securities, where a Yield to Maturity calculation is used.

MARKET COMMENTARY

Volatility spiked in August with financial markets selling off sharply early before recovering over the remainder of the month. Softer than anticipated US jobs data triggered the Sahm rule and associated recession fears saw equities selloff and credit spreads widen globally. This was exacerbated by the Bank of Japan's decision to raise interest rates (by 15bps) for the second time since the GFC (Feb 2007). A strong rally in the Yen ensued and the subsequent unwinding of carry trades contributed to the elevated financial market volatility. The turnaround in sentiment was swift, supported by strong retail sales and corporate earnings alongside doveish comments from Fed Chair Powell at the Jackson Hole conference.

Bond yields moved sharply lower as US recession fears spiked in early August. Domestic 10-year yields fell below 4% after rallying 14bps over the month. The yield curve steepened as short end (2-5 year) yields rallied further. The RBA held rates at 4.35% in line with expectations, continuing to stress that policy will need to remain restrictive to lower inflation over time to sustainably settle in the target range.

Domestic credit spreads sold off in the first week of August before rallying to end the month within range of their starting level. Synthetic spreads tightened further with the iTraxx Australia 5 year spread narrowing 5 bps to 61bps by month end. Swap to bond spreads also contracted during the month remaining tight relative to historical levels.

In August, credit market issuance experienced a brief slowdown as a result of heightened volatility alongside seasonal factors including reporting season and the NSW bank holiday. Despite this, the market saw a number of securitisation deals successfully priced. As the blackout period for banks and corporates ended, issuance picked up pace. CBA raised $4.35B in senior debt while Macquarie Bank ($1.25B) and BNP Paribas ($800M) issued subordinated notes. Additionally, NBN Co set a record with the largest-ever volume by an Australian corporate issuer in the domestic market with their $1.75B deal.

PORTFOLIO COMMENTARY

The Perpetual Active Fixed Interest Fund in the month of August delivered a return of 1.2%, marginally outperforming its benchmark.

The Fund's robust running yield was the key contributor to relative performance, outweighing the impact of relative duration and credit spread return. The Fund's yield advantage is led by overweight allocations to non-financial corporates, Banks and Real Estate alongside off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.3% with the spread measured at 1.1%.

While falling bond yields were the key determinant of absolute return, duration positioning detracted slightly from outperformance during the month. The Fund's underweight exposure to short end yields detracted as the curve steepened with 2-4y yields falling furthest during August. The Manager maintains that the short end of the curve offers less attractive yield relative to cash, reflecting the markets expectations for RBA cuts despite sticky inflation and resilient economic data. As such, the Fund remains close to benchmark duration with an underweight exposure to the short end, balanced with allocation to off benchmark floating rate notes.

Credit spread dynamics were mixed for performance during August. The Fund's overweight allocation to domestic and offshore bank spreads credit performed well. Security selection detracted marginally from outperformance, most notably among non-financials corporate and real estate sectors. The Fund maintains it's elevated exposure to corporate credit , led by overweight exposures to domestic banks, non-financial corporates and securitised sectors. The Manager is comfortable with the current credit exposure of the Fund and there are no credits of concern.

During August, the Manager elected to trim government bond exposures as well as a small number of longer dated major bank bonds. The Fund took part in the new 5-year senior deal from Commonwealth Bank.

The outlook for credit remains challenged. 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 continued to decline during August, ending the month with a firmly negative reading.

Valuation indicators remained negative on the back of narrow swap to bond spreads and the wide AUD USD basis swap.

The macro-outlook remained very marginally positive during August. Although concerns around US growth peaked in early August, access to equity capital and the ratio of credit rating upgrades to downgrades remained supportive. Lending conditions as expressed by the Senior Loan Officer survey also improved to neutral for the first time in 24 months.

Supply and demand indicators degraded further during August, ending the month with a strong negative reading.

A paucity of upcoming maturities aligned against a heavy pipeline of new issuance are weighing on the outlook. Year to date issuance remains robust, contributing to the negative supply outlook.

Technical indicators remain marginally negative. Intermediary positioning and US equity market indicators are positively contributing, while cash levels of domestic real money accounts and US credit spread indicators are detracting from the overall outlook.

MORE INFORMATION
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