Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

June 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:	$26.2 million as at 31 March 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 30 June 2024

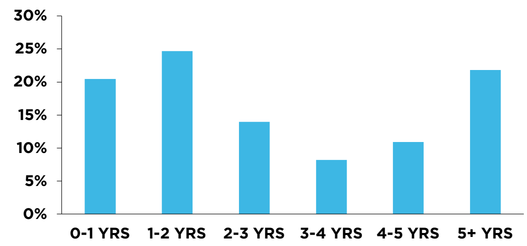
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.58	0.78	2.40	6.47	5.04	1.44	2.05	2.60	4.10
Bloomberg AusBond Composite/Bank Bill Blend	0.56	0.12	1.18	4.06	3.09	0.21	0.55	1.54	2.95

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.

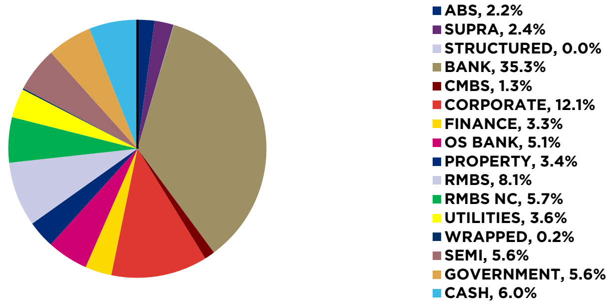
POINTS OF INTEREST

•RBA on hold; Bond yields rally slightly;
•Monthly inflation surprises to the upside;
•Credit spreads rally marginally;
•Primary market subdued in line with seasonal expectations.
•The outlook remains neutral.

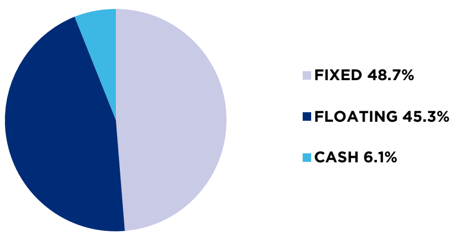
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	63.27%
Subordinated Debt	35.00%
Hybrid Debt	1.74%
Running Yield#	4.98%
Portfolio Weighted Average Life (yrs)	3.56
No. Securities	276
Modified Duration	2.12

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

MARKET COMMENTARY

Financial markets strengthened through June with credit, bonds and equities posting gains. Softening economic data eased concerns around ongoing inflation pressure globally, supporting risk assets.

Domestic long term bond yields rallied over the month with 10-year bond yield falling 10 bps. The Yield curve flattened however with shortened (1-3y) yields rising reflecting successive above consensus expectation monthly inflation prints. Q2 CPI will be crucial for understanding the path of monetary policy with futures markets shifting during June to price an 50% chance of another increase at the August meeting by month end. The RBA elected to maintain the cash rate at the June meeting however their commentary was increasingly hawkish.

Domestic credit spreads traded in range of recent levels grinding marginally tighter throughout the month. Financials outperformed corporate, led by offshore banks. Semi government spreads performed well, tightening materially over the month.

Primary issuance was relatively light in June reflecting seasonal factors including end of financial year. Issuance typically eases towards the end of June and dynamic was exacerbated by the late month release of above expectation monthly inflation data. Earlier in June, ANZ raised $4.25B in senior debt across multiple fixed and floating tranches. Elsewhere, primary market volumes were supported by robust securitisation flow. Lastly, during June the Commonwealth government issued their inaugural green bond in a $7B 10-year deal.

PORTFOLIO COMMENTARY

The Fund continues to collect a healthy running yield and income was the most substantial contributor to performance during the month. Income return was centred around domestic and offshore banks alongside securitised assets. The portfolio running yield was 5.0% at month end.

Duration positioning contributed to return during June with the Fund's marginally over 2-year duration contributing to return as long term yields rallied. Curve positioning was also constructive with the Fund's focus on longer dated fixed rate securities balanced with floating rate exposures benefitting from the flattening yield curve. The Portfolio's 2-2.5 year strategic target duration allows the Fund to participate as yield rally while limiting the impact of yield volatility. The Manager is cognisant of ongoing risks to bond yields as we approach the peak of the monetary policy tightening cycle and the Fund's duration remains in line with the lower bound of the strategic target.

Credit spread dynamics were mixed for performance during the month. Domestic spreads traded in range of recent levels and spread contraction among AUD denominated positions was marginally positive for performance. The portfolio was impacted however by expanding EUR spreads which rose sharply in early June (as a result of the surprise snap elections called in France) before ending the month higher (as strong polling for the far-right National Rally party escalated concerns around rising government debt and deficits). Elsewhere, allocation to semi-government securities benefitted from tightening semi-government spreads.

Sector allocations were broadly maintained over the month. The outlook for credit remains delicately poised. 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 remained consistent throughout June and continues to offer a neutral overall score.

Valuation indicators improved over the latter half of the month with AUD swap and basis swap levels normalising. At month end, each of the value indicators were in neutral territory, remaining in range of recent and historic averages.

Our macro-outlook remains marginally positive. 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 remain neutral. Elevated upcoming maturity volumes in the near term are constructive however this support is expected to dissipate over the remainder of the year as maturity volumes decline. Recent supply has been 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 indictors declined during the month offering a neutral score by month end. Cash balances among real money accounts are below recent levels, reflecting the busy issuance schedule thus far in 2024. US equity and equity volatility indicators continue to support the outlook.

*** 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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