

Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

March 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: \$30.8 million as at 31 December 2023

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 March 2024

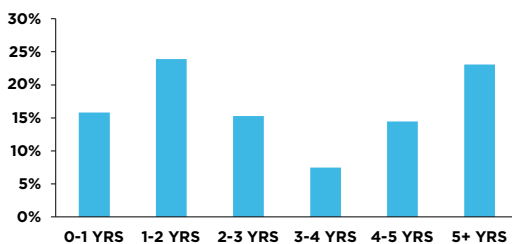
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.79	1.61	4.50	6.11	3.32	1.52	2.28	2.64	4.12
Bloomberg AusBond Composite/Bank Bill Blend	0.74	1.06	3.52	2.86	2.05	0.43	0.88	1.63	3.00

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.

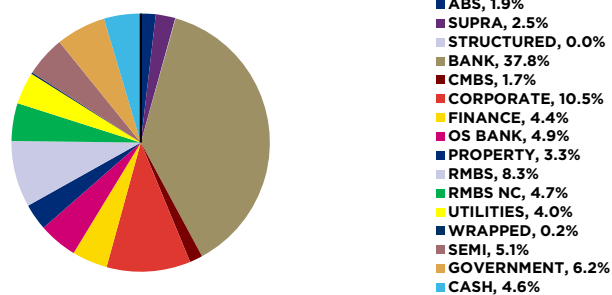
POINTS OF INTEREST

- Bond yields rally, RBA on hold;
- Credit spreads extend rally; Corporate spreads keep up with financials;
- Primary demand remains strong; issuance orderly.
- The outlook has improved to marginally positive

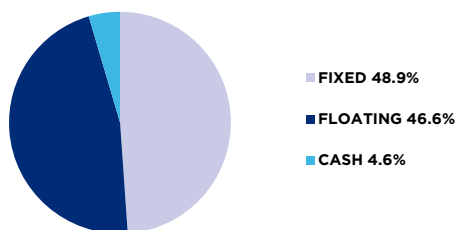
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	61.67%
Subordinated Debt	37.69%
Hybrid Debt	0.65%
Running Yield [#]	4.92%
Portfolio Weighted Average Life (yrs)	3.78
No. Securities	258
Modified Duration	2.06

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

MARKET COMMENTARY

March saw both government & credit securities rally as global economic data continues to surprise on the upside, raising hopes that a soft economic landing is still on the horizon. Despite nominal growth surprising to the upside, the US Federal Reserve left rates unchanged in March but, importantly, the “dot plots” of expected future rates continued to indicate three cuts before the year’s end.

Domestic credit spreads participated in the global rally and tightened in March, as the short end outperformed. Corporate spreads kept pace with Financials, while Utilities also performed strongly. March saw Moody’s upgrade of the Australian banks following their Advanced Loss Given Failure analysis and coinciding methodology change. Offshore spreads continued their strong performance with Australian domiciled, Euro denominated credit performing notably well.

Domestic bond yields rallied in March ahead of most global bond markets. Australian 10-year Government bond yields rallied 17bps breaking the 4% mark settling at 3.97% to end the month. US 10-Year Treasury yields meanwhile rallied 4bps to 4.20%. Domestically, semi-government bonds underperformed Commonwealth government bonds.

Primary markets were active during March. The Tier 2 market saw a high-volume month boosted by a \$1.5bn AUD 10NC5 deal from HSBC that generated a \$5.8bn orderbook, one of the largest subordinated debt orderbooks in the Australian market’s history. We also saw new deals from Infrastructure names (such as Transurban), Telecommunications (such as National Broadband Network) and Utilities issuers (Ausgrid).

PORTFOLIO COMMENTARY

The Fund’s running income was the most substantial contributor to performance during the month. The portfolio running yield was 4.9% at month end.

The Fund’s duration contributed to return to performance during the month as bond yields rallied and the domestic yield curve flattened. 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 a substantial contributor to performance as domestic & offshore spreads extended their rally. Domestic and offshore banks were the most significant contributing sector, driven by exposure to subordinated paper. The Fund’s exposure to securitised assets also added a significant contribution to performance, led by RMBS. The Fund’s exposure to subordinated debt has performed well throughout the recent rally during the month, the Manager took profit on a small number of strong contributors.

Sector allocations were broadly maintained over the month. Exposure to subordinated domestic bank paper was increased marginally. The Portfolio’s weighted average life was also shortened slightly. The outlook for credit has turned positive, and the Manager remains focused on identifying relative value opportunities presented as the outlook improves.

OUTLOOK

The credit outlook improved from neutral to positive in the first week of April following upgrades to some of our indicators.

Valuation indicators were upgraded to neutral coming into April. US High Yield spreads widened relative to recent levels, improving the valuation outlook. Meanwhile, Australian & US investment grade indicators remain neutral.

Robust economic growth prints turned our macro-outlook marginally positive. Manufacturing PMIs are showing signs of improvement in the US, UK & China with all 3 PMIs now in expansionary territory, while leading growth indicators in the US also improved.

Meanwhile, we saw no change to our market supply and demand indicators. High issuance volumes over recent months were met with robust market demand reflected in oversubscribed primary market deals and robust secondary market liquidity. However, while demand appears strong, the market is beginning to become a bit saturated with investors increasingly funding primary market purchases out of secondary market sales.

Technical indicators remained positive in March with US credit and equity both positive, however, our equity volatility signal flipped from neutral to negative. Intermediary positioning appears balanced with brokers showing modest inventories.

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Past performance is not indicative of future performance.

*** 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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