Perpetual Investment Funds

# PERPETUAL ACTIVE FIXED INTEREST FUND CLASS A

March 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:** $384.0 million as at 31 December 2023
**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 March 2024

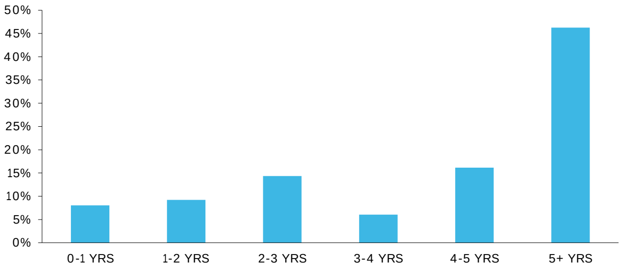
| | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 2 YRS PA | 3 YRS PA | 5 YRS PA | 7 YRS PA | INCEPT PA |
|---|---|---|---|---|---|---|---|---|---|
| Perpetual Wholesale Active Fixed Interest Fund Class A [1,3] | 1.24 | 1.41 | 5.76 | 3.34 | 1.76 | -0.87 | 0.65 | 1.99 | 2.12 |
| Perpetual Wholesale Active Fixed Interest Fund Class W [2,3] | - | - | - | - | - | - | - | - | 4.75 |
| Bloomberg Ausbond Composite Index | 1.12 | 1.03 | 4.85 | 1.47 | 0.91 | -1.29 | 0.17 | 1.59 | - |

[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.

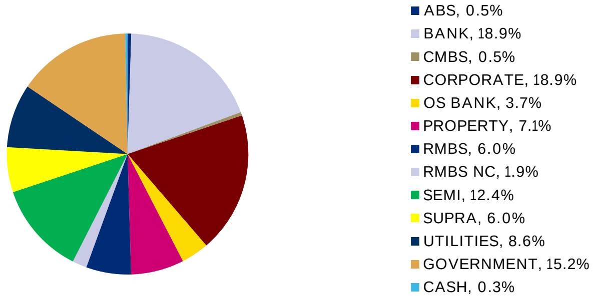
## POINTS OF INTEREST

•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

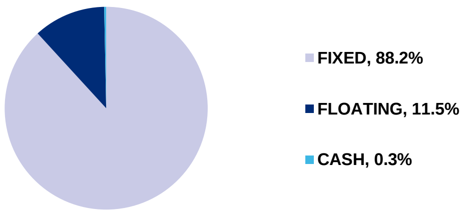
## MATURITY PROFILE




## PORTFOLIO SECTORS




## FIXED AND FLOATING BREAKDOWN




## PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---|---|
| Senior Debt | 87.43% |
| Subordinated Debt | 11.60% |
| Hybrid Debt | 0.97% |
| Running Yield* | 4.19% |
| Portfolio Weighted Average Life (yrs) | 5.87 |
| No. Securities | 153 |
| Modified Duration | 4.86 |

* 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

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 income returns was the most substantial contributor to outperformance over the month. The Fund continues to collect a significant yield premium above benchmark, attributable to overweight exposures to non-financial corporates, Banks and Real Estate alongside off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.2% with the spread measured at 1.1%.

Interest rate dynamics were benign for relative performance during the month. The Fund is close to benchmark duration with an underweight exposure to the short end, balanced with allocation to off benchmark floating rate notes. The Manager sees the short end of the curve as offering a unattractive yield relative to cash, reflecting the markets near term expectations for RBA cuts despite sticky inflation and resilient economic data.

Credit spread tightening was constructive for outperformance during March. Spreads continued to rally, consolidating recent gains. The Fund's overweight allocation to credit was rewarded, compounded by security selection across non-financial corporates, real estate and securitised sectors. 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. Domestic bank exposures were lengthened with the Manager trimming short dated paper and redeploying into a new senior unsecured deal from NAB. Elsewhere, the Manager elected to take part in the new deal from Brisbane airport. Exposure to government bonds was trimmed slightly during the month at 5 year tenor.

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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