Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

March 2025

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: $26.3 million as at 31 December 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 31 March 2025

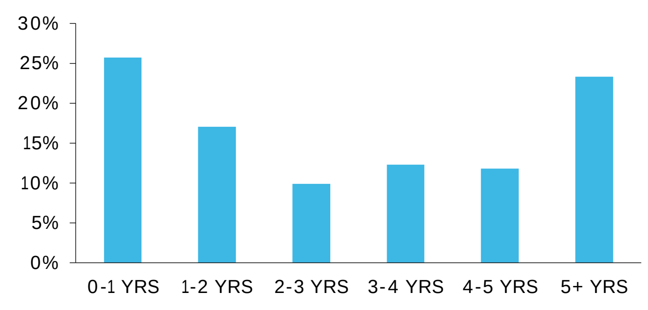
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.08	1.26	2.04	5.02	5.57	3.89	3.22	2.83	4.18
Bloomberg AusBond Composite/Bank Bill Blend	0.26	1.18	1.62	3.85	3.35	2.65	0.85	1.82	3.06

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.

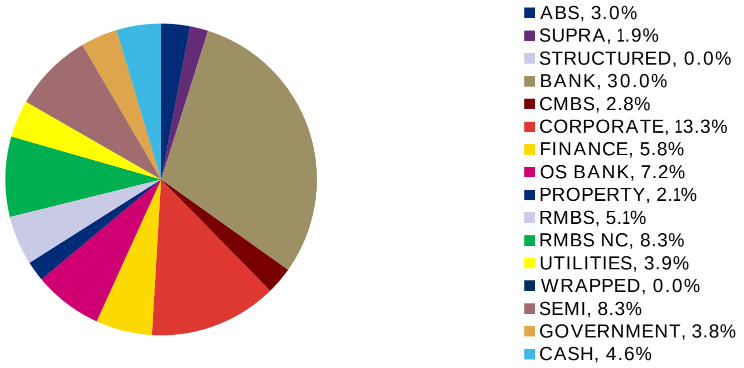
POINTS OF INTEREST

•Elevated volatility on US trade and growth outlook;
•Long term yields rise. AU yield curve steepens.
•Domestic credit spreads widen;
•Primary market volumes resilient;
•The credit outlook deteriorates further, remains negative.

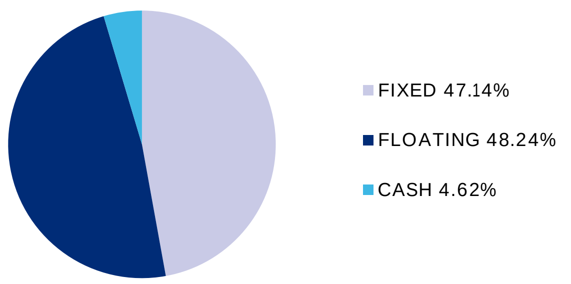
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	57.16%
Subordinated Debt	38.42%
Hybrid Debt	4.43%
Running Yield#	5.03%
Portfolio Weighted Average Life (yrs)	3.54
No. Securities	298
Modified Duration	2.06

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

MARKET COMMENTARY

Financial markets weakened broadly during March. Equities – led by US stocks – sold off on the softening outlook for US growth alongside concerns surrounding US trade policy and the anticipation of further tariffs.

Domestic bond yields were mixed and the yield curve steepened with long term yields rising while the short end rallied marginally. The RBA held the Target cash rate unchanged at their April 1st meeting, retaining a cautious outlook despite the continued decline in underlying inflation. Futures markets continued to price in an expected May rate cut. In the US, the Federal Reserve maintained rates at the current level with minimal changes to the dot-plot projections and US bond yields edged higher. The most notable move in global bonds yields was in Germany where 10-year bund yields rose 30bps following the announcement of increased infrastructure and defence spending.

Credit spreads widened during March as successive tariff and foreign policy announcements led to elevated volatility. The Australian iTraxx Credit Default Swap index moved sharply higher while physical spreads were more muted, also ending the month higher. Corporate spreads – led by infrastructure – and utilities saw the most substantial spread widening. Financial spreads, led by major banks were somewhat more resilient. Swap to bond spreads moved further into negative territory, reaching a historic low in mid-March before reverting marginally by month end.

Primary market issuance remained orderly throughout March, even as spread volatility was heightened. Transgrid printed a $1.4B corporate hybrid which was well received. NAB came to market with a senior unsecured deal raising $2.75B across fixed and floating tranches. Securitisation deal flow was robust and continued to meet demand. Towards the end of March, the impact of economic uncertainty and market volatility was felt via smaller volumes and a delayed corporate deal from Worley.

PORTFOLIO COMMENTARY

The Perpetual Dynamic Fixed Income Fund in the month of March delivered a return of 0.12%.

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

Duration positioning detracted from performance over the month. The Fund's allocation to the long end detracted as domestic yield curve steepened. Over the month, the Fund's duration was shortened in line with a decline in Perpetual's tactical bond score. By month end, portfolio duration wass close to the strategic target level and the Manager continues to opportunistically look for opportunities for tactical duration management presented by elevated financial market uncertainty. The Portfolio's 2-2.5 year strategic target duration allows the Fund to participate as yield rally while limiting the impact of month-to-month yield volatility.

Credit spread dynamics detracted from performance during March. Spreads expanded on aggregate with higher beta sectors including subordinated and hybrid widening more sharply. Subordinated offshore bank exposures were the key detractors from credit spread return. A small number of EUR denominated Additional Tier 1 bank hybrids also widened. Among non-financial corporate, exposure to Railroad and Infrastructure sectors detracted from performance. The impact of spread volatility was marginally offset by tightening securitised spreads. The Fund retains an elevated exposure to RMBS alongside CMBS and ABS which were resilient in March.

The outlook for credit worsened throughout March and ended the month with a strong negative signal. Spread volatility observed in March has persisted into early April following the US announcement levying tariffs against a broad array of trading partners. In the current conditions, risk management is paramount, however elevated volatility also provides relative value opportunities as spreads widen. The portfolio is defensively positioned and Manager remains focused on identifying relative value opportunities presented by the current conditions and will continue to look for active duration opportunities along the curve.

OUTLOOK

The credit outlook deteriorated further during March, ending the month with a solidly negative reading.

Valuation indicators remain marginally negative. While spreads widened over the month, US investment grade, high yield and domestic investment grade spreads remain at the tighter end of their historical ranges. Negative swap to bond spreads continue to weigh on the valuation outlook. Recent market conditions have discouraged offshore and opportunistic domestic issuers during March, returning the indicator to neutral.

The macroeconomic outlook remains negative reflecting softening growth data and disruptive US trade policy. The ratio of upgrades to downgrades normalised during March.

Supply and demand indicators decline to negative during the month. Market demand has softened in a context of rising volatility and economic uncertainty. Elevated recent issuance volumes continue to weigh on the outlook.

Technical indicators worsened across the board during March, ending the month with negative aggregate score. Intermediary positioning, US credit spreads, equity markets and equity market volatility indicators entering negative territory.

In a context of heightened volatility across credit markets and mounting macroeconomic pressure, the team remains vigilant in assessing and actively managing portfolio risks.

*** 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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