Perpetual Investment Funds

# PERPETUAL DYNAMIC FIXED INCOME FUND

January 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 January 2024

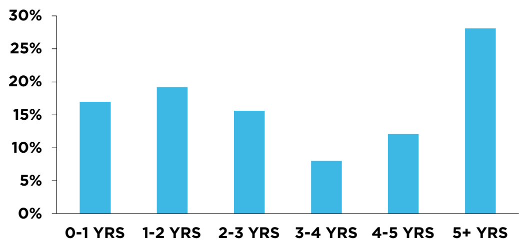
| | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 2 YRS PA | 3 YRS PA | 5 YRS PA | 7 YRS PA | INCEPT PA |
|---|---|---|---|---|---|---|---|---|---|
| Perpetual Dynamic Fixed Income Fund | 0.47 | 3.80 | 3.74 | 5.69 | 1.49 | 1.02 | 2.39 | 2.57 | 4.08 |
| Bloomberg AusBond Composite/Bank Bill Blend | 0.29 | 3.51 | 2.68 | 3.27 | 0.40 | -0.30 | 1.03 | 1.58 | 2.98 |

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.

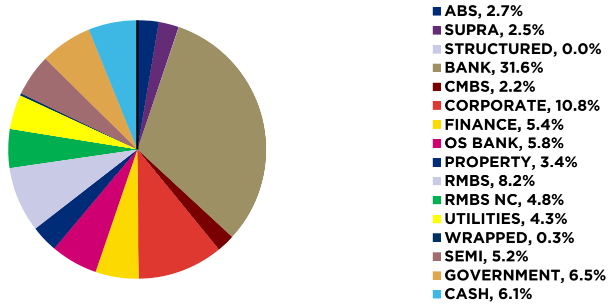
## POINTS OF INTEREST

•Bond yields consolidate, domestic yield curve steepens;
•Domestic spreads rangebound; USD and EUR spreads tighten;
•Primary market unseasonably busy; demand robust;
•The outlook for credit improves to neutral.

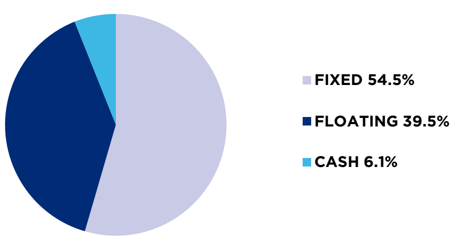
## MATURITY PROFILE




## PORTFOLIO SECTORS




## FIXED AND FLOATING RATE BREAKDOWN




## PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---|---|
| Senior Debt | 63.19% |
| Subordinated Debt | 35.86% |
| Hybrid Debt | 0.95% |
| Running Yield# | 4.78% |
| Portfolio Weighted Average Life (yrs) | 3.96 |
| No. Securities | 248 |
| Modified Duration | 2.02 |

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

## MARKET COMMENTARY

Financial markets remained buoyant throughout January, consolidating on a strong finish to 2023 for credit, bonds and equities. The easing macroeconomic outlook, the substantial repricing of US monetary policy expectations and the subsequent fall in discount rate has fuelled the robust rally in risk assets. Equity markets continued to rally with the recent fall in bond yields contributing to strong outperformance for higher duration cyclical growth sectors.

Domestic credit spreads were placid following a strong rally in the fourth quarter of 2023. Corporate spreads outperformed financials, bucking the recent trend which has seen sustained outperformance of financial spreads, led by domestic and offshore banks. Offshore spreads continued to rally with Euro denominated credit performing notably well.

Domestic bond yields were subdued in January. The yield curve steepened slightly as 10-year yields rose marginally to be back above 4% by month end. Global long term yields also saw rises most notably the UK where 10-year yield lifted 36bps. Most global yield curves remain inverted despite the easing recession concerns.

Primary markets were active during January – counter to the typical seasonal trend – with a number of financial issuers taking advantage of robust demand. Westpac and ANZ raised $5.1B and $5B respectively, of senior paper. Tier-two issuance was also robust with ANZ ($2.285B) and NAB ($1.75B) coming to market with subordinated deals.

## PORTFOLIO COMMENTARY

The substantial majority of the Fund's return over the month was attributable to income. The Fund's substantial allocation to credit and exposure to floating rate securities continue to benefit the running yield. The portfolio running yield was 4.8% at month end.

Credit spread dynamics were constructive for performance over the month. Domestic credit spreads traded in range of recent levels, while offshore spreads – most notably EUR denominated – continued to rally. Allocation to domestic and offshore banks, Non-financial corporates, REITs and utilities all contributed to return. The Fund's exposure to domestic and offshore banks was the most significant contributing sector, led by USD and EUR denominated subordinated paper. Note that all foreign currency exposures are hedged. Overweight allocation to credit across banks, real estate, non-financial corporates, and utilities all contributed to relative return. This was further amplified by security selection within REITs and utilities.

Interest rate dynamics were marginally negative for performance during the month. Long term yields rose slightly while the yield curve steepened further. As constructive inflation data continue to increase anticipation of 2024 rate cuts, the Portfolio's 2-2.5 year strategic target duration allows the Fund to participate as yields 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.

The outlook for credit is improving however the Manager remains cognisant of the challenging macro environment and the risks associated with tighter lending conditions. The Fund is defensively positioned, and the manager remains focused on identifying relative value opportunities presented as the outlook improves.

## OUTLOOK

The credit outlook remained unchanged in January before improving to neutral in the first week of February.

Valuation indicators remained marginally negative throughout January. US High Yield spreads are tight relative to recent levels, detracting from the outlook. Domestic swap spreads have widened from their recent lows and are now neutral.

Robust economic print and improving lending conditions have reduced the negative impact of macro indicators. The Fed's Senior Loan Officer's survey showed improving financial conditions while the resilient US economy and better-than-expected inflation data eased the pressure on the outlook for spreads.

Market demand has improved providing a tailwind for the credit, increasing the supply and demand outlook to neutral. Above seasonal trend issuance volumes over recent months continue to weigh on the outlook although market demand is healthy reflected in oversubscribed primary market deals and robust secondary market liquidity.

Technical indicators remained positive in January with US credit, equity and equity volatility all positive. Cash levels among real money accounts and intermediary positioning are neutral.


*** 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

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au