Perpetual Investment Funds

PERPETUAL HIGH GRADE FLOATING RATE FUND - CLASS R

January 2024

FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in deposits, money market and fixed income securities, and outperform the Bloomberg AusBond Bank Bill Index on an ongoing basis before fees and taxes.

Benchmark:	Bloomberg AusBond Bank Bill Index
Inception date:	March 2011
Size of fund:	$192.0 million as at 31 December 2023
APIR:	PER0562AU
Mgmt Fee:	0.30% pa*
Benchmark Yield:	4.327% as at 31 January 2024

Suggested minimum investment period: One year or longer

FUND BENEFITS

Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed and liquid investment.

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

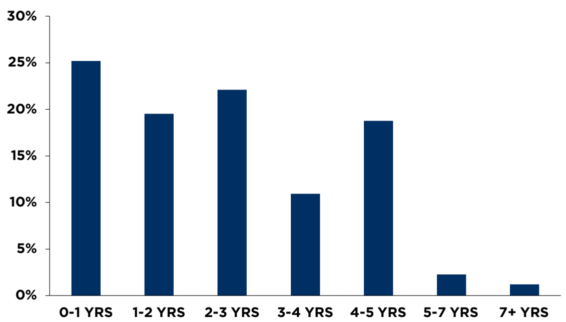
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual High Grade Floating Rate Fund - Class R	0.43	1.52	3.11	5.93	3.60	2.58	2.56	2.62	3.44
Bloomberg AusBond Bank Bill Index	0.37	1.09	2.15	4.00	2.75	1.83	1.44	1.55	2.25

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.

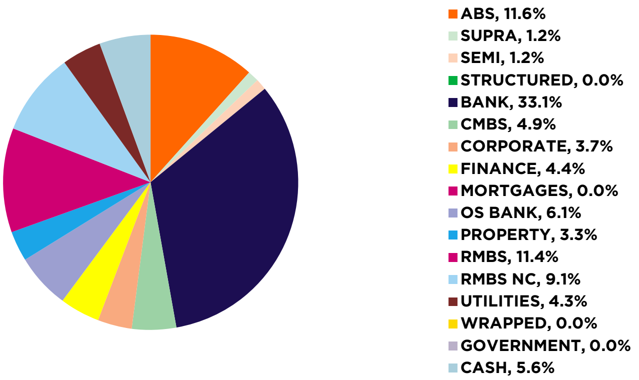
POINTS OF INTEREST

•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



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	81.10%
Subordinated Debt	18.90%
Hybrid Debt	0.00%
Running Yield#	5.21%
Portfolio Weighted Average Life	2.44 yrs
Modified Duration	0.09
No. Securities	156

* 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 most substantial contributor to outperformance over the month remained the Fund's yield premium above benchmark. The Portfolio's allocation to securitised sectors, and domestic major bank paper remain the key contributors to income return. The portfolio running yield at month end was 5.2%, with the average credit spread measured at 1.2%.

Credit spread dynamics contributed to performance. During month where spread contraction was relatively subdued, the Fund benefitted from exposure to real estate and utilities sectors.

The Manager was active in primary and secondary markets during the month. The Manager elected to rotate the Fund's domestic bank exposures trimming shorter dated positions and taking part in new domestic major bank senior and subordinated deals. Names within the offshore bank and financial sectors were similarly rotated while the Fund also trimmed exposure to regional banks.

The outlook for credit is improving but remains delicately balanced. The Fund remains defensively positioned, retaining the capacity to take advantage of relative value opportunities should the outlook improve.

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.

MORE INFORMATION

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