

PERPETUAL HIGH GRADE FLOATING RATE FUND

For Institutional Investors

February 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: October 2001

Size of class: \$15.9 million as at 31 December 2023

Size of fund: \$209.1 million as at 31 December 2023**

APIR: PER0265AU

Mgmt Fee: 0.226% pa*

Benchmark Yield: 4.320% as at 29 February 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 29 February 2024

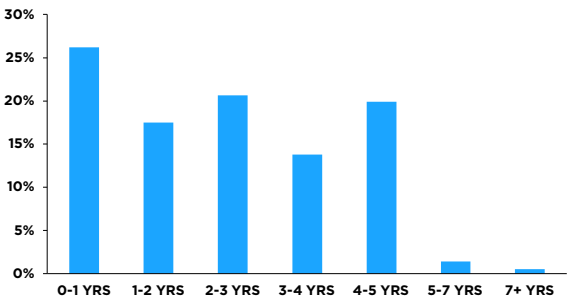
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual High Grade Floating Rate Fund	0.58	1.63	3.16	6.09	4.06	2.83	2.69	2.73	4.32
Bloomberg AusBond Bank Bill Index	0.34	1.09	2.12	4.10	2.92	1.95	1.47	1.58	3.59

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

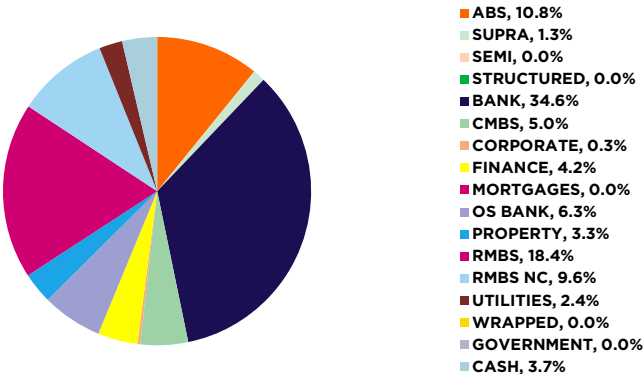
POINTS OF INTEREST

- US PCE stubborn; bond yields push higher;
- Domestic spreads rally; alongside their global counterparts;
- Primary markets back in full swing; demand robust;
- The outlook for credit remains to neutral.

MATURITY PROFILE



PORTFOLIO SECTORS



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	80.20%
Subordinated Debt	19.80%
Hybrid Debt	0.00%
Running Yield [#]	5.33%
Portfolio Weighted Average Life	2.42 yrs
Modified Duration	0.08
No. Securities	157

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

**The total size of the Fund includes all unit classes of the Fund. This includes a retail class.

MARKET COMMENTARY

February saw a typical 'risk-on' month with fixed rate bonds down and stocks up. Bonds were in the red on the back of pushed out & reduced rate cut expectations while stocks paid little attention. Stronger than expected US economic and inflation data pulled back expectations around the timing and scale of rate cuts resulting in rising bond yields over the month. US reported earnings, particularly from NVDA, helped keep the AI theme running propping up the overall equity market.

Domestic credit spreads participated in the global rally and tightened slightly in February, as the short end outperformed. Corporate spreads kept pace with 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 rose in February, in line with most global bond markets. Australian 10-year Government bond yields rose 12bps up to 4.14% while US 10-Year Treasury yields rose 30bps, back above 4% to close at 4.24%. UK and German government bonds were the global underperformers. Domestically, semi-government bonds underperformed Commonwealth government bonds.

Primary markets were active in February with issuers & arrangers back in full swing for the year. Kicking off the month, NAB came to market with dual-tranche tier-two \$1.75bn deal met with strong demand. Corporates also saw a healthy bid as Melbourne Airport raised €650m in a 10-year deal and Telstra raised \$1.2bn AUD in a dual-tranche transaction with strong investor demand, particularly in the 10 year tranche.

PORTFOLIO COMMENTARY

The Fund's yield premium above benchmark continues to be a significant contributor to outperformance. The Portfolio's allocation to securitised sectors, and domestic major bank paper contributed to income return. The portfolio running yield at month end was 5.3%, with the average credit spread measured at 1.2%.

The other key contributing factor to outperformance during February was credit spread contraction. Spreads continued their recent rally and the Fund's allocation to domestic banks and RMBS performed well, contributing to outperformance. RMBS spreads repriced as a result of resurgent primary issuance volumes meeting robust demand.

The Manager was active in primary and secondary markets during February and the Fund's sector and risk allocations were adjusted. The Manager elected to increase allocation to RMBS, adding via both secondary and primary markets. Credit risk in the portfolio was selectively reduced, with the Fund's AAA rated allocation increasing over the month. Elsewhere, the small semi-government and non-financial corporate exposures within the Fund were reduced.

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 improved to neutral in the first week of February before it was unchanged for the remainder of the month.

Valuation indicators remained marginally negative throughout February. 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. Secondary market equity raises show the markets are open, with equity raises executed with limited discounts. The Fed's Senior Loan Officer's survey released in February showed improving financial conditions while the resilient US economy eased the pressure on the outlook for spreads.

Market demand has improved providing a tailwind for credit, increasing the supply and demand outlook to neutral. 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 February with US credit and equity both positive, however, our equity volatility signal flipped from positive to neutral. Cash levels among real money accounts and intermediary positioning are neutral.

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MORE INFORMATION

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