Perpetual Investments

PERPETUAL DYNAMIC FIXED INCOME

December 2018

FUND FACTS

Investment objective: Aims to provide regular income and consistent returns above a composite benchmark comprising the Bloomberg AusBond Composite 0+ Yr Index (50%) and the Bloomberg AusBond Bank Bill Index (50%) over rolling three-year periods (before fees and taxes) by investing in a diverse range of income generating assets.

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.

Benchmark: 50% Bloomberg AusBond Composite Index/50% Bloomberg AusBond Bank Bill Index
Mgmt Fee: 1.53%*
Buy / Sell spread: 0.20% / 0.00%
Suggested minimum investment period: Three years or longer

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

TOTAL RETURNS % (AFTER FEES) AS AT 31 December 2018

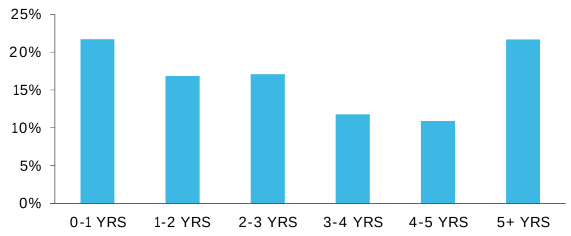
	APIR	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perp. WealthFocus Allocated Pension	PER0740AU	0.004	-0.18	0.15	0.49	1.73	2.29	-	-	1.94
Perp. WealthFocus Term Allocated Pension	PER0740AU	0.004	-0.18	0.15	0.49	1.73	2.29	-	-	1.94
Perp. WealthFocus Super	PER0743AU	0.016	-0.18	0.35	0.62	1.68	2.12	-	-	1.64
Perp. WealthFocus Investment Advantage	PER0738AU	-0.003	-0.18	0.29	0.68	1.90	2.40	-	-	1.88
Bloomberg AusBond Composite/Bank Bill Blend		0.828	1.36	1.90	3.23	2.96	2.81	-	-	4.15

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.

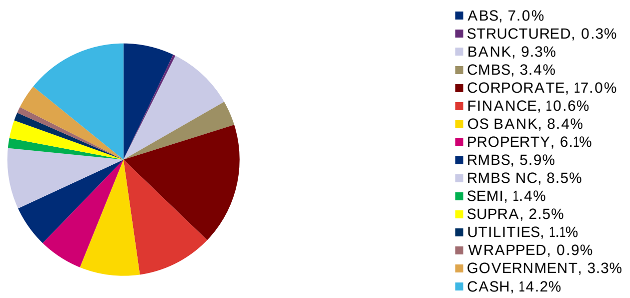
POINTS OF INTEREST

•Domestic and offshore credit spreads push wider
•RBA on hold; bank bills higher; domestic yield curve flattens and shifts lower; swap spreads higher
•Quiet month of issuance sees one new corporate deal price; two new securitisation deals
•The outlook for credit is negatively biased

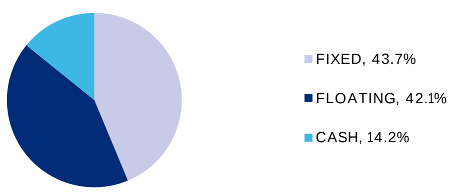
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	85.23%
Subordinated Debt	10.71%
Hybrid Debt	4.06%
Running Yield	3.42%
Portfolio Weighted Average Life (yrs)	3.39
No. Securities	261
Modified Duration	1.61

MARKET COMMENTARY

A marked deterioration in investor sentiment during December underpinned increased volatility across broader risk assets. The combined impact of elevated geopolitical uncertainty in Europe, continued trade frictions between the US and China and fears of potential monetary policy error by the US Federal Reserve led to the broader risk off tone. Both Australian and US bond yields shifted lower as the weight of concerns about political and economic uncertainty intensified. While resilient relative to their offshore counterparts, domestic cash bond spreads widened, where subdued levels of liquidity in the domestic market intensified other widening pressures observed.

Lingering pessimism around the prospects of a truce in the US – Sino trade war and the prospects of escalating protectionist policies between both nations weighed on sentiment. Concerns in Europe remained, with tension around Brexit negotiations persisting, while disagreements between the European Union and Italy regarding the budgetary deficit continued to occupy newswires. Emerging markets struggled on continued trade war concerns and tightening US financial conditions.

Domestic economic data printed below expectations however was not particularly poor. Australian third quarter GDP grew a sluggish 0.3% for the quarter. US economic data was mixed but remained positively biased. As expected, the Federal Reserve hiked the federal funds rate target range to between 2.25% – 2.5%, which in turn exacerbated the sell-off in risk assets, leading credit spreads wider.

Domestic primary market corporate activity was particularly light, with only one deal printing during December. Activity in the domestic securitised market saw two primary deals price. Domestic cash bonds outperformed their synthetic iTraxx equivalents, which were more volatile as a result of the risk off bias in broader risk assets generally.

PORTFOLIO COMMENTARY

The portfolio collected strong running income across all corporate and collateralised sectors, primarily associated with large portfolio exposures to corporates alongside banks and financials, both domestic and offshore.

Credit spreads widening detracted from performance. A marked deterioration in investor sentiment underpinned by geopolitical uncertainties, US-Sino trade tensions and fears associated with potential policy error in the US saw episodes of increased volatility across broader risk assets. As a result, credit spreads trended wider. Subdued levels of liquidity in the domestic market intensified these widening pressures observed.

Portfolio duration was actively managed over the period in line with signalling from our proprietary tactical asset allocation model. This is used to determine valuation, economic cycle and technical indicators, with appropriate duration positioning based on the cumulative result of each of these signals. While valuations have remained negative and the cycle indicators at neutral, technical indicators improved during the month to end the period positively biased. As such, portfolio duration ended the period modestly below with the strategic target duration of two years. Maintaining a duration exposure during the period contributed positively to performance, as bond yields shifted further lower on weaker market sentiment.

OUTLOOK

The credit outlook is mildly negative. Despite the prevalence of a supportive macroeconomic environment, deteriorating market driven metrics alongside unbalanced supply and demand dynamics underpin the negative bias observed. Valuation indicators are modestly negative. From a relative valuation perspective, a slight divergence in spreads relative to offshore equivalents has been observed, where offshore paper has trended wider. Despite recent spread widening, both domestic and offshore cash bonds continue to trade tight of their long-term averages in investment grade and high yield spaces.

Support from market metrics has stalled on the back of recent increased volatility in both equity and bond markets. This has caused some credit buyers to pull back and raise cash in anticipation of buying at better technical levels. In addition, intermediary appetite for credit appears to have waned recently.

Supply and demand dynamics have also become less supportive. While primary activity was almost non-existent in recent weeks, a flurry of issuance in the preceding months put a floor under any meaningful near-term tightening expectations. Recent demand for primary issuance has become somewhat lacklustre with diminished liquidity levels in the market. Somewhat tempering the negative biases observed is strength in the macroeconomic outlook.

Although the fundamentally strong economic environment remains positive for credit, we remain vigilant regarding the fragility of the geopolitical landscape. Trade friction is appearing to dampen the outlook for global economic growth. Uncertainty around potential policy error in the United States, Brexit related volatility and concerns around the pace of unwind of quantitative easing in place is also apparent. We continually monitor data and information flows that may influence market sentiment and, in such situations, retain sufficient flexibility to appropriately and actively manage portfolio risk exposures.

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