Perpetual Investments

PERPETUAL
DYNAMIC FIXED INCOME

August 2019

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 August 2019

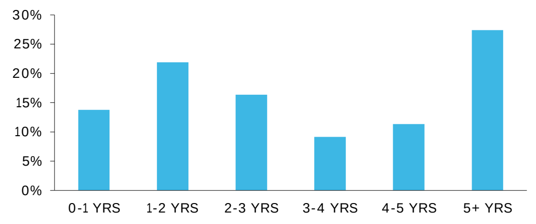
	APIR	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	10 YRS PA
Perp. WealthFocus Allocated Pension	PER0740AU	0.55	1.72	3.78	4.67	3.18	2.95	-	-	-
Perp. WealthFocus Term Allocated Pension	PER0740AU	0.55	1.72	3.78	4.67	3.18	2.95	-	-	-
Perp. WealthFocus Super	PER0743AU	0.49	1.37	3.20	3.98	2.85	2.65	-	-	-
Perp. WealthFocus Investment Advantage	PER0738AU	0.55	1.75	3.81	4.71	3.30	3.08	-	-	-
Bloomberg AusBond Composite/Bank Bill Blend		0.80	1.93	4.13	6.42	4.62	3.25	-	-	-

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.

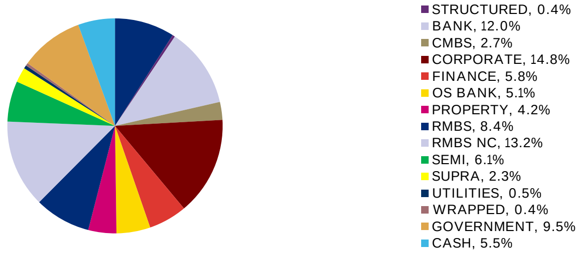
POINTS OF INTEREST

•Domestic credit spreads widened over the month
•The RBA kept the cash rate at 1% after two previous successive months of 25bps interest rate reductions;
•Corporate issuance during August was dominated by financial institutions as corporates remained on the sidelines due to local earnings end of financial year reporting.
•The outlook for credit is cautious

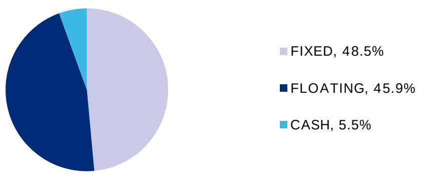
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	83.13%
Subordinated Debt	12.76%
Hybrid Debt	4.11%
Running Yield	2.21%
Portfolio Weighted Average Life (yrs)	3.95
No. Securities	262
Modified Duration	2.12

MARKET COMMENTARY

Domestic credit spreads widened during the month as investor sentiment across risk assets became concerned about softer economic data and geopolitical rhetoric over several issues. This resulted in fixed income yields falling across the board in some cases to record lows. Domestic primary market issuance for credit last month was robust but met with tepid demand as some investors chose to stay on the sidelines and increase cash levels until the outlook becomes clearer. These new deals were predominantly driven by large domestic financial institutions.

Softer global economic data prevailed with indicators pointing to subdued growth evidenced by a raft of global PMI's falling. Alongside this, inflation observations remained sluggish. Both domestic and offshore government yield curves rallied during the month on the weaker economic data prints. The geopolitical events also made it difficult for investors to invest with confidence as the US-China trade disputes continued to occupy newswires; the possible implosion of Hong Kong democracy; the Italian and British Governments both in disarray with one due to its budget deliberations and the other an increasing likelihood of a disorderly Brexit. Furthermore, President Trump added to the escalation in rhetoric by demanding the US Federal Open Markets Committee (FMOC) immediately cut interest rates by 1%. These ongoing events all had an impact on investor sentiment.

The Reserve Bank of Australia (RBA) paused the official cash at 1% in August having previously delivered two successive cuts in the previous months. In the RBA's official statement, they indicated that if employment conditions deteriorated further, they stood ready to initiate further rate cuts. The money market continued to believe further rate cuts are warranted and built into yield curves another two rate cuts as Commonwealth Government Bond yield maturities out to twelve years fell below the RBA cash rate of 1%. Credit spreads benefitted from this increasingly accommodative monetary rhetoric.

August saw the first issuance by the major banks following the Australian Prudential Regulation Authority (APRA) Total Loss Absorbing capacity (TLAC) announcement. The regulator now requires Authorised Deposit Taking Institutions (ADI's) to increase their total capital buffer by 3% via issuance of tier two junior or sub-ordinated debt. For the major banks this means increased debt issuance of approximately AUD $50 billion. Westpac was the first bank with two tier 2 deals to meet TLAC requirements and this was followed by ANZ with a senior bond deal. Other financial institutions followed including Volkswagen Financial Services Australia, Suncorp Metway, Liberty Financial, Bendigo and Adelaide Bank as well as Macquarie Bank. There was very little issuance by corporates due to earning reporting season. The securitised market had heavy issuance in August with four registered mortgage back securities (RMBS) and three asset back securities (ABS) deals. Given conservative market sentiment, investors carefully selected which issues to participate in.

PORTFOLIO COMMENTARY

The Perpetual Dynamic Fixed Income Fund in the month of August delivered a positive return, continuing to perform in line with its long-term absolute positive return investment objective. This is despite challenging market conditions.

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

Credit spreads widened over the month but continued to be positive for absolute performance This was evident in the portfolio allocation to property and domestic banks. Relatively greater volatility was seen last month in US corporate financial names whereas Australian non-financial corporate credit spreads remained resilient. Exposure to the credit spread widening was reduced by having protection from credit default hedges. This credit spread widening was also partially offset by a positive contribution from swap spreads which added value to the portfolio. Demand for and supply of domestic new debt issues for credit was orderly over the month, despite domestic corporate credit spreads drifting wider but remaining tighter than offshore credit spreads. The running yield at month end was 2.21%.

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. Valuations are negative and technical indicators remained positive during the month, while the cycle score remained positively biased during the month following less supportive economic data and escalating geopolitical uncertainties. As such, portfolio tactical positioning was maintained in line with the strategic target duration of two years. As a result, Interest rate duration positioning over the month was positive with the fund benefitting in absolute terms from the strong rally in interest rates.

OUTLOOK

The outlook for credit is cautious.

The recent global macro markets volatility has resulted in domestic credit spreads remaining in a consolidation phase as valuation indicators remain slightly expensive. In particular, the physical domestic and offshore corporate credits continue to trade relatively tight to their historical long-term averages in both investment grade and high yield securities. In contrast, some over the counter (OTC) credit spread derivatives remain slightly expensive resulting in in slightly overall negative outlook from valuation indicators.

The global macroeconomic outlook continues to ease. A blend of softening global manufacturing Purchasing Manager Indices (PMI) readings in addition to weaker production prints underpin the less compelling outlook. While credit fundamentals in the investment grade space remain solid, the ratio of upgrades to downgrades in the non-investment grade space have deteriorated. As a result the overall outlook for credit is slightly negative.

Demand and supply dynamics have deteriorated recently with securities issuance being met with tepid demand for corporate paper. Given recent market volatility, professional investors have taken a conservative approach to credit investing and have been rebuilding their cash reserves. This leads to a lowering of our demand and supply component score to a negative outlook.

Support from market technicals has also deteriorated. Although domestic accounts continue to display evidence of elevating cash holdings, market volatility has marginally increased and as such is reducing the supportive nature of market metrics. Recent widening of credit spreads in offshore markets is a further drag on the broader credit outlook.

In line with the cautious credit outlook, we remain vigilant regarding tail risks associated with a fragile economic and heightened geopolitical landscape. We continually monitor data and information flows that may influence market sentiment and, in such situations, retain enough flexibility to appropriately and actively manage portfolio risk exposures.

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