Perpetual Investments

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A

September 2020

FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in fixed income securities, primarily corporate bonds. Outperform the Bloomberg AusBond Composite Index (before fees and taxes) over rolling three year periods.

FUND BENEFITS

Active management of credit risk through sector and sub sector rotation, curve positioning and relative value trading. Strategically maintain duration at benchmark, tactical overlay at extremes.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of Strategy: $457.9 million as at 30 June 2020
APIR: PER8045AU
Management fee: 0.45%*
Suggested minimum investment period: Three years or longer

TOTAL RETURNS % (AFTER FEES) AS AT 30 September 2020

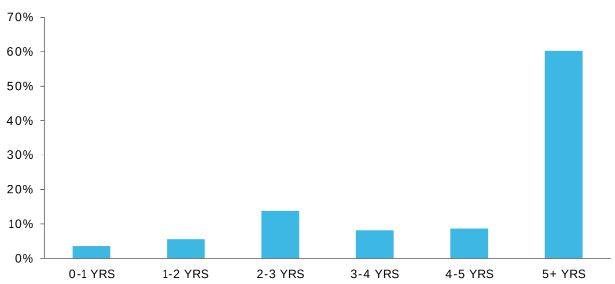
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A [1,3]	1.04	1.48	3.11	2.88	7.04	5.94	-	-	5.59
Perpetual Wholesale Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	4.93	5.44	6.20
Bloomberg Ausbond Composite Index	1.08	1.02	1.55	3.21	7.10	5.96	4.53	5.08	-

[1] Class A of the Perpetual Active Fixed Interest Fund (Fund) has been operating since February 2017. This row represents the actual past performance of Class A of the Fund.
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been calculated by subtracting the fees for Class A from the actual gross past performance for Class W.
[3] Past performance is not indicative of future performance.

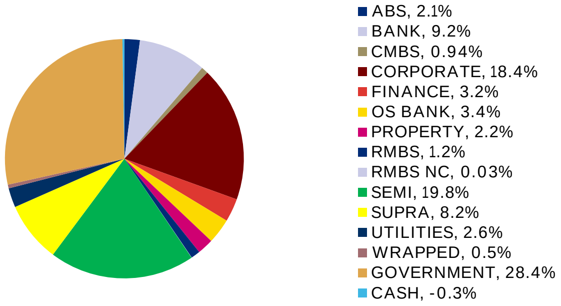
POINTS OF INTEREST

•Domestic spreads widen on aggregate; sector performance mixed;
•Primary market activity robust;
•Yields fall on further QE speculation;
•The outlook for credit is neutral.

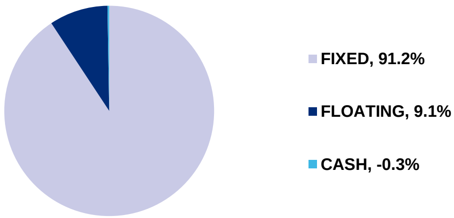
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	95.28%
Subordinated Debt	4.72%
Hybrid Debt	0.00%
Running Yield	1.15%
Portfolio Weighted Average Life (yrs)	7.80
No. Securities	133
Modified Duration	5.95

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

MARKET COMMENTARY

The sustained rally in credit spreads and equities slowed through September. Led by an early month selloff in US technology s tocks, equities gave back some of the gains made during the recent recovery. Uncertainty surrounding a number of macro factors also influenced investor risk appetites. Synthe tic spreads widened through the month, as a result of increasing demand for credit risk insurance. The approaching US election and debate surrounding further fiscal stim ulus contributed to uncertainty. In Europe, lockdowns were reimplemented to slow the second wave of the coronavirus.

Domestic credit spreads widened on aggregate in September, giving back some of the gains from the recent rally while remainin g within range of recent averages. Non-financial corporate spreads outperformed financials during through the month. Throughout the recent rally, financial spreads – supported by monetary stimulus – have outperformed corporates. Swap spreads widened in September while remaining negative.

Government bond yields fell globally over the month. The target cash and three-year yield remained unchanged at the RBA's September meeting. A subsequent speech from deputy governor Debelle entertained the extension of quantitative easing or further rate cuts of less than 25bps. Australian yields outperformed global peers as the market began to price in further monetary easing from the RBA.

Primary market activity was robust during September. During September, the RBA increased and extended its Term Funding Facili ty. The TFF continues to reduce the need for major bank issuance of senior paper. Following an active August for the majors, Commonwealth bank was the only bank to come t o market in September, pricing a $1.4B tier 2 subordinated issue early in the month. Late in September, DBS Bank launched a $300M floating rate note which priced tighter t han guidance. The securitisation market was active with deals from Mortgage House ($400M), Liberty ($600M) and Resimac ($1B).

PORTFOLIO COMMENTARY

The portfolio collected running income in excess of the benchmark across all corporate and collateralised sectors. This contr ibution to positive carry was primarily associated with allocations to non-financial corporates, and domestic banks. The running yield at month end was 1.15% with the spread measured at 0.69% above the benchmark.

Credit dynamics were positive for relative performance. Despite domestic credit spreads widening on aggregate, issuer selecti on and sector positioning allowed the portfolio to record a positive relative credit spread return against trend. Swap spread widening was a significant detractor to relative p erformance over the month. Swap spreads were markedly wider – while remaining in negative territory – which impacted the portfolio's positions in corporate credit.

Interest rates fell marginally through September. While the RBA kept policy rates in place, speculation of an October cut or further quantitative easing pushed the curve lower. The portfolio benefitted from the falling rates while remaining close to benchmark duration.

Sector allocations were actively managed throughout the month. The manager increased allocation to semi-government spreads rebalancing state exposures. Support of central bank and federal policy and regulations continue to support semi-government spreads. Exposure to government debt was reduced throughout September with the manager trimming a number of shorter dated Australian government positions. In the corporate space, issuer exposures were rot ated within the Domestic and offshore bank sectors. The manager took part in subordinated deals from DBS Bank and Commonwealth Bank which priced in September.

The Fund remains defensively positioned while retained the capability to exploit relative value opportunities presented by th e recent market dislocation.

OUTLOOK

The credit outlook has improved to neutral. Valuation indicators remain balanced. Domestic and international spreads remain i n range of medium-term averages. Cross currency swap levels remain supportive for the valuation outlook. Domestic swap spreads are negative at a number of tenors de tracting slightly from the valuation outlook.

Macro indicators remain negative though there have been some improvements. Global PMIs show improving industrial and services activity. Despite this, growth expectations remain a significant impediment to the credit outlook. Economic growth and corporate earnings concerns are reflected in corpo rate credit ratings. Credit downgrades still significantly outnumber upgrades and issuers with a negative credit watch classification are at their highest of all time. Co nditions remain supportive for equity capital raising which has a slightly positive impact on the macro outlook.

Supply and demand factors are neutral. The domestic primary market remains well supported with deals attracting robust intere st. The light upcoming maturity schedule detracts slightly from the overall outlook. Market positioning and technicals remain positive. US credit, equity and equity volatility indicators are all contributing to the positive credit outlook.

While the global economic outlook has been significantly impacted by COVID-19, central bank support and improved trading conditions have supported valuations. The macro outlook remains the most significant impediment to credit performance while technical indicators are supportive. The team mai ntains a defensive bias while exploiting relative value opportunities presented by recent market conditions.

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