Perpetual Investments

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A

September 2021

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.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of Strategy: $375.4 million as at 30 September 2021
APIR: PER8045AU
Management fee: 0.40%*
Suggested minimum investment period: Three years or longer

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.

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 30 September 2021

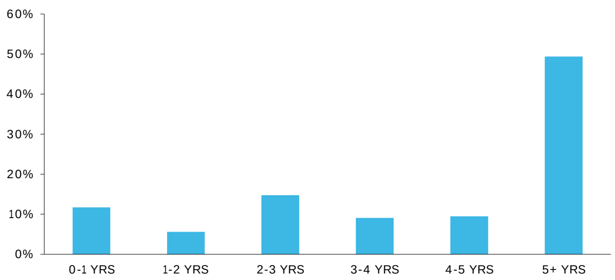
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A [1,3]	-1.43	0.33	1.93	-0.38	1.24	4.50	-	-	4.28
Perpetual Wholesale Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	3.55	4.41	5.78
Bloomberg Ausbond Composite Index	-1.51	0.31	1.84	-1.54	0.81	4.14	3.06	3.97	-

[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.

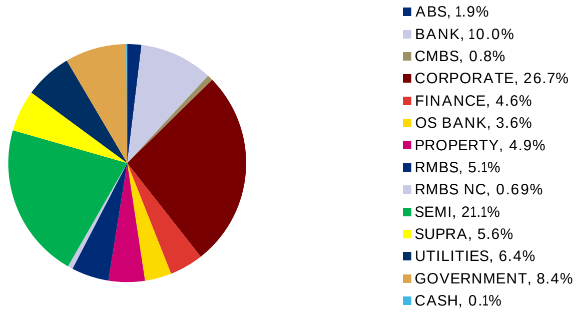
POINTS OF INTEREST

-Domestic spreads rangebound; spread volatility very low.
-Primary activity subdued; supportive supply and demand conditions.
-Global yields selloff on inflation and tapering concerns.
-Supply chain disruption impacting inflation & growth expectations;
-Credit outlook remains positive.

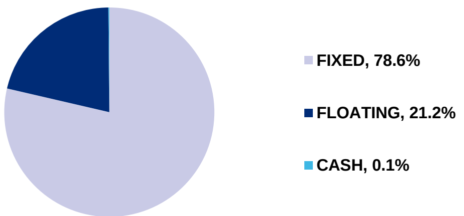
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	86.19%
Subordinated Debt	12.98%
Hybrid Debt	0.83%
Running Yield*	2.25%
Portfolio Weighted Average Life (yrs)	6.16
No. Securities	142
Modified Duration	5.49

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

*The methodology used to calculate Running Yield is derived from FactSet, and calculated as follows: The coupon rate of the security / the capital price of the security. Note that the exception is discounted securities, where a Yield to Maturity calculation is used.

MARKET COMMENTARY

Global financial markets receded in September, buffeted by a number of different factors. Global yields rose in September on the back of increasing taper concerns, persistent high US inflation and concerns over the Chinese economy. The selloff in bonds saw equities give up recent gains during the month. Commodity prices remain stressed by supply chain disruption with Iron Ore plunging while energy prices (led by natural gas) continued to soar. Rising energy prices alongside supply limitations on components such as semi-conductors continued to contribute to recent high US CPI prints.

Domestic yields rose in line with global peers during the month. Alongside the global macro factors impacting yields, the domestic curve steepened as the successful vaccine rollout brough forward the prospect of reopening in Sydney and Melbourne.

Credit spread volatility remained low during September. Spread movements were subdued with financial spreads marginally outperforming corporates. Australian dollar spreads were resilient to inflation fears and concerns surrounding the Chinese banking and property systems. Offshore spreads saw increased volatility with US dollar spreads widening over the month. Shorter dated credit outperformed as a result of rising long term yields globally with the credit curve steepening as a result.

Primary issuance remained subdued through September. Credit spreads continue to be supported by below trend issuance volumes meeting robust demand. During the month, Woolworths priced a $A700m sustainability linked bond across 6 and 10-year tranches. The deal was met with strong investor demand and followed a similar deal issued in EUR earlier in the month. Domestic banks were active during the month with senior continuing to return in the absence of the Term Funding Facility. Major bank senior spreads have remained resilient to increased supply over recent months. Securitisation issuance volumes remained on trend to end the year well above recent annual totals.

PORTFOLIO COMMENTARY

The portfolio continued to collect running income in excess of the benchmark. This contribution to positive carry was primarily associated with allocations to non-financial corporates and domestic banks.

Credit spread dynamics contributed to relative performance over the month. Credit spread volatility remains very low and spread contraction was subdued. In spite of a quiet month for spreads, security selection in non-financial corporate and domestic bank sectors contributed to relative performance. Similarly, security selection the semi-government sector contributed to outperformance. Portfolio running yield at month end was 2.25% with the spread measured at 0.72%.

Interest rate dynamics were marginally positive for relative performance. Domestic yields rose through the month as tapering speculation intensified and New South Wales prepared to emerge from COVID lockdown. The Fund benefitted from its short duration position relative to the benchmark. Portfolio duration was shortened marginally during the month remaining slightly below benchmark.

Sector allocation was actively managed throughout the month. The manager elected to increase exposure to utilities via new deals from Electranet and United Energy. Meanwhile, domestic bank and government bond exposures were trimmed. The manager elected to selectively increase the Fund's level of credit quality risk, increasing allocation BBB debt while AAA exposures were reduced. With the outlook for credit remaining positive, the fund remains well positioned to benefitted from constructive conditions for spreads.

OUTLOOK

The credit outlook remains strongly positive.

Valuation indicators remain neutral. Spreads have contracted significantly over the past year reaching below their pre COVID levels. Active management is crucial to identifying the areas of the credit market still offering attractive relative value.

The growth outlook remains strongly positive. Supply chain disruption continues to disrupt economic growth expectations as seen in a number of falling global PMIs (albeit from high bases). While growth expectations remain robust, they have cooled over the month. The accessibility of equity capital – as seen in the strong IPO pipeline – is supportive for spreads. The ratio of credit upgrades to downgrades remains a strong contributor to the positive credit outlook.

Demand and supply indicators are supportive for the overall credit outlook. Elevated upcoming maturities and a quiet primary market are expected to be supportive for spreads.

Technical indicators are neutral for the overall credit outlook. Investor cash balances have increased slightly. The team will continue to monitor technical and supply demand indicators to identify inflection points in investor risk sentiment.

The sustained rally in credit spreads continues to be supported by positive macroeconomic indicators and supportive supply and demand conditions. The portfolios remain well positioned to benefit from further spread contraction offered by the current conditions..

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