Perpetual Investments

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A

June 2019

FUND FACTS

Investment objective: To outperform the Bloomberg AusBond Composite Index by 0.50% to 1.00% p.a. (before fees) through actively investing in fixed interest securities, primarily corporate bonds.

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: $428.9 million as at 30 June 2019
APIR: PER8045AU
Management fee: 0.45%*
Suggested minimum investment period: Three years or longer

TOTAL RETURNS % (AFTER FEES) AS AT 30 June 2019

	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]	1.09	3.25	6.98	9.66	6.46	-	-	-	6.39
Perpetual Wholesale Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	4.85	5.50	5.66	6.39
Bloomberg Ausbond Composite Index	1.04	3.05	6.59	9.57	6.28	4.23	5.06	4.88	-

[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.

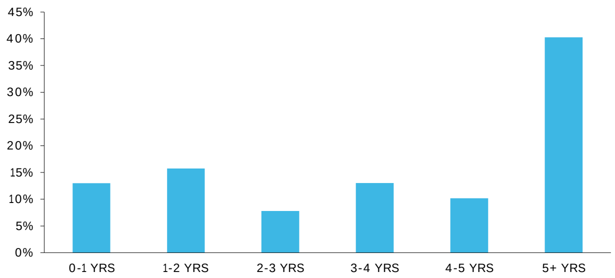
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has 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.

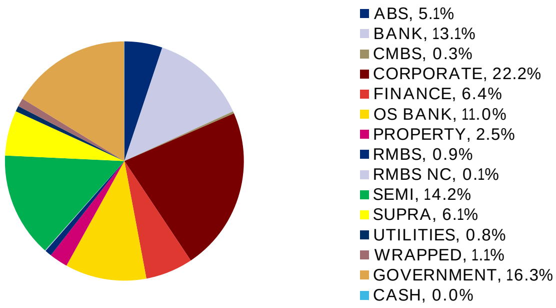
POINTS OF INTEREST

•Cash bond spreads tighten over the month, particularly pronounced in offshore credit
•RBA reduce cash rate by 25bps; bank bills lower; domestic yield curve shifts lower; swap spreads mixed, higher at longer maturities
•A$9.6bn of domestic (including SSA) issuance; three new securitisation deals price
•The outlook for credit is modestly cautious

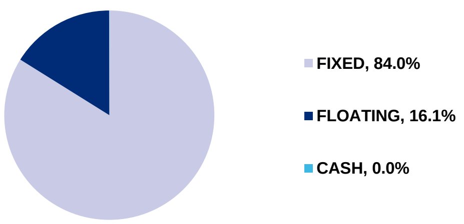
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	96.59%
Subordinated Debt	3.41%
Hybrid Debt	0.00%
Running Yield	1.88%
Portfolio Weighted Average Life (yrs)	5.32
No. Securities	126
Modified Duration	5.50

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

MARKET COMMENTARY

June was a positive month across broader risk assets. Global markets benefitted from the prospects of further accommodative monetary settings across major jurisdictions while an apparent de-escalation of US - Sino trade tensions also encouraged investors. Offshore credit spreads tightened and outperformed their Australian counterparts, while significant new issuance to the domestic cash bond market was dominated by financial companies. June saw domestic issuance of A$9.6bn print across corporate and SSA issuers. Robust demand absorbed these investment opportunities efficiently, with many deals pricing tighter of initial guidance.

The prospects of further accommodative monetary policy conditions underpinned improved sentiment across risk assets. Dovish statements regarding monetary policy settings pointed to co-ordinated interest rate cuts by global central banks followed a swathe of weakened inflation and employment data. Weak data prints caused global bond yields dropped as investors scrambled for yield, while traditional safe-haven assets also rallied.

Talks around trade between the US and China appeared constructive, with diminishing prospects of further protectionist policies through trade tariffs. This served to underpin an improvement in investor sentiment. Threats of tariffs on Mexican imports into the US were revoked following an apparent deal between both governments.

In Australia, the cash rate was reduced by 25bps early in the month to 1.25% in an effort to both support employment growth and also improve the prospects for inflation to meet its medium-term target.

PORTFOLIO COMMENTARY

The portfolio continued to collect running income in excess of the benchmark. This contribution from positive carry was mainly associated with large portfolio exposures to non-financial corporates and banks, both domestic and offshore.

Credit spread dynamics were positive for performance. In line with the broad-based improvement in sentiment towards risk assets as a result of the increased likelihood of further accommodative monetary settings across major global jurisdictions alongside the de-escalation of US – Sino trade tensions, credit spreads tightened during the month. This was particularly notable in portfolio exposures to corporates and domestic banks.

Portfolio interest rate duration positioning detracted from relative performance. Bonds rallied significantly across the curve following weak data prints observed alongside the the dovish stance assumed by the global central banks.

Portfolio positioning was actively managed while maintaining a focus on risk and relative value in opportunities seen during the month. Given the cautious outlook score observed during the month and potential geopolitical headwinds present, the portfolio remains invested and defensively positioned. Credit weighted average life was maintained at a reduced level. Exposure to offshore banks was trimmed at attractive levels, while exposure to property was increased. Primary market activity included taking a position in the five-year tenor of National Australia Bank's deal alongside the five year floating rate tranche of Barclays Kangaroo deal. The running yield at month end was approximately 1.9% with the spread measured at 0.6% above the benchmark.

OUTLOOK

The outlook for credit is modestly cautious. All valuation indicators are now at fair value levels. From a relative valuations perspective, spread differentials between domestic and offshore paper have returned to being clustered. Both domestic and offshore cash bonds continue to trade tight of their long-term averages in investment grade and high yield spaces.

Supply and demand dynamics are more evenly balanced given valuations are neutral. Market demand has picked up, as evidenced by recent new issue deals pricing tighter of initial guidance. However, support from the technical environment has diminished in line with the increase of issuance to the domestic market in the pipeline.

The supportive nature of the macroeconomic outlook continues to ease. A blend of softening global Purchasing Manager Indices (PMI) readings in addition to a weakened domestic GDP print and downgraded growth expectations underpin the less compelling outlook. While credit fundamentals in the investment grade space remain robust, the ratio of upgrades to downgrades in the non-investment grade space has deteriorated.

Support from market metrics also remains less supportive. While intermediary demand for inventory remains, domestic accounts continue to display evidence of elevated cash holdings. Recent episodes of volatility across risk assets is reducing the supportive nature of market technicals.

Given the recent shifts in sentiment towards risk assets from market participants, we remain vigilant regarding tail risks associated with a fragile economic and geopolitical landscape. 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