Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND - CLASS A

January 2025

FUND FACTS

Investment objective: The Perpetual Active Fixed Interest Fund aims to outperform the Bloomberg AusBond Composite Index (before fees and taxes) by actively investing in fixed interest securities, primarily corporate bonds.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of fund: $496.6 million as at 31 December 2024
APIR: PER8045AU
Mgmt Fee: 0.40% pa*
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 31 January 2025

	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Active Fixed Interest Fund Class A [1,3]	0.27	2.04	1.86	4.31	4.18	0.40	-0.02	2.03	2.29
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.71
Bloomberg Ausbond Composite Index	0.19	1.84	1.44	2.91	2.68	-0.39	-0.60	1.58	-

[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.

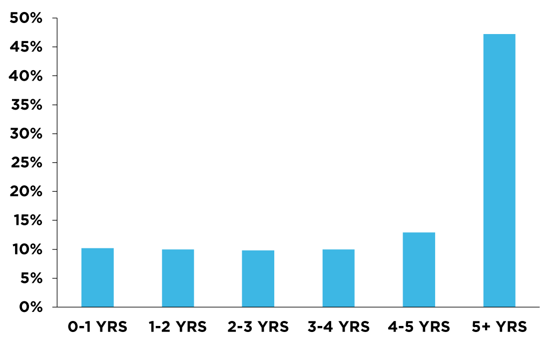
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has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

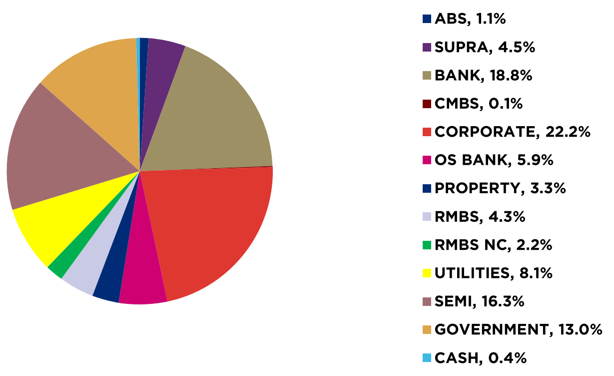
POINTS OF INTEREST

•Trump tariffs / US jobs data spark bond-market volatility;
•Inflation eases; February RBA rate cut expectations firm;
•Domestic spreads rangebound, tighten marginally;
•Primary market disrupted by seasonal factors; Banks, semis and supras active;
•The credit outlook is balanced.

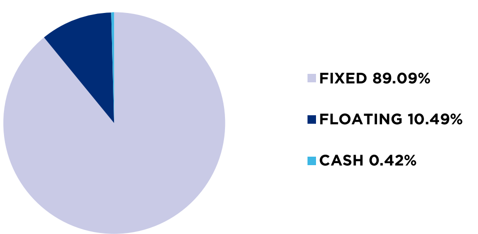
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	90.95%
Subordinated Debt	7.47%
Hybrid Debt	1.57%
Running Yield#	4.33%
Portfolio Weighted Average Life (yrs)	5.61
No. Securities	153
Modified Duration	4.83

* 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

Financial markets performed well during January, notwithstanding elevated volatility among global bond yields. Uncertainty around the implications of the second Trump presidency remained a driving force for global markets. Declining domestic inflation was a key theme locally with December quarter CPI data below expectations and nearing the midpoint of the RBA's target band. Improved inflation print alongside a run of soft economic data and slow wages growth saw expectations firm for the RBA to commence monetary policy easing as early as February.

Bond markets saw elevated volatility during January as strong US employment data saw long term yields spike before retracing. Domestic bond yields also rose mid-month before receding. The yield curve steepened slightly with the very short end rallying - reflecting the market increasingly pricing in a February RBA rate cut – while longer tenors ended the month marginally higher.

Domestic credit spreads contracted through January, led by industrial corporates and real estate sectors. Spreads remain supported by low recession risks and resilient employment data, despite softer economic growth. Default rates – while rising – remain low and the possibility of lower interest rates during 2025 is constructive. Globally, USD spreads traded in a tight range, remaining close to historically tight levels, while EUR denominated spreads rallied.

Primary market volumes were bumpy through January with a rapid pace set in the first full week of the year before easing over the remainder of the month and pausing in the last week as the January public holiday and lunar new year disrupted deal flow. Westpac raised $2.5B of senior paper across fixed and floating tranches, while CBA came to market for $3.0B. Deal flow was notable among government adjacent sectors, with elevated volumes of kangaroo supranational issuance alongside a number of domestic semi-government deals. There were no new securitisation deals during January, following record breaking volumes printed in 2024.

PORTFOLIO COMMENTARY

Credit spread contraction contributed to outperformance throughout January as spreads ended the month tighter. The Fund's overweight allocation to non-financial corporates, domestic banks and utilities were all rewarded. Security and issuer selection within the utilities sector was also constructive with the Fund's mix of assets tightening materially more than the benchmark.

Duration positioning detracted slightly from relative performance during January. Yields moved higher early in the month before rallying and ending within range of their starting level. The Fund's duration was shorter than the benchmark over the last 2 weeks of January as yields rallied, detracting from outperformance. This short position was closed by month end and the Fund maintains its near benchmark duration.

Income return contributed to outperformance over the month. The Fund continues to collect a healthy yield in excess of the benchmark, led by overweight allocations to non-financial corporates, banks and off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.3% with the spread measured at 0.9%.

During January, the manager took the opportunity to adjust the Fund's sector and capital structure risk allocations. The Fund's increased exposure to non-financial corporates while trimming semi-government allocations. Exposure to subordinated bonds was also reduced. The Fund was active in primary markets during the month, taking part in the fixed rate tranches of senior unsecured deals from Commonwealth Bank and Westpac. The Manager also took the opportunity to increase exposure to the property sector via a new deal from Vicinity Centres Trust.

The outlook for credit remained neutral through the first month of the year. The Manager remains focused on identifying relative value opportunities presented as the outlook improves and will continue to look for active duration opportunities along the curve.

OUTLOOK

The credit outlook remained neutral at the first meeting of 2025.

Valuation indicators are marginally negative. US high yield spreads are trading below the fair value range and AU swap spreads remain very tight.

The growth outlook remains neutral. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain slightly challenging.

Supply and demand indicators remain marginally negative. While recent issuance volumes, the maturity schedule and market demand are benign, a heavy pipeline of new deals weigh on the outlook.

Technical indicators continued to improve, remaining in positive territory. Intermediary positioning is supportive with street inventory looking particularly light for RMBS. Cash levels among real money accounts remains elevated, supporting the outlook. US credit spreads, equity markets and equity market volatility indicators are all constructive.

MORE INFORMATION

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

Perpetual