Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

January 2025

FUND FACTS

Investment objective: Aims to provide capital stability and regular income by investing in a diversified range of income generating assets, and a positive return (before fees and taxes) irrespective of market conditions over a rolling three-year period.

Benchmark:	50% Bloomberg AusBond Composite Index/50% Bloomberg AusBond Bank Bill Index
Inception date:	November 2010
Size of fund:	$26.3 million as at 31 December 2024
APIR:	PER0557AU
Mgmt Fee:	0.45% pa*
Suggested minimum investment period:	Three years or longer

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.

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

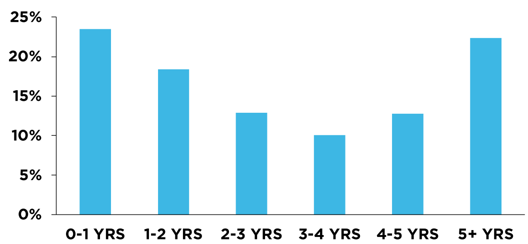
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.43	1.72	2.38	5.35	5.52	2.76	2.25	2.76	4.17
Bloomberg AusBond Composite/Bank Bill Blend	0.28	1.48	1.85	3.71	3.49	1.50	0.75	1.79	3.03

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.

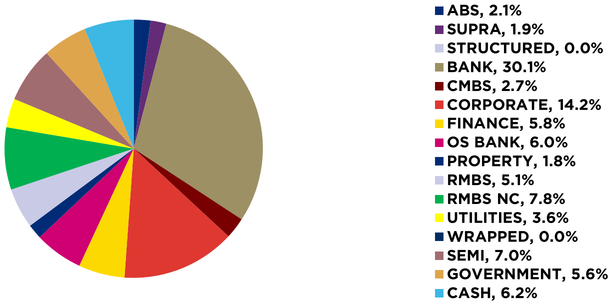
POINTS OF INTEREST

•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.

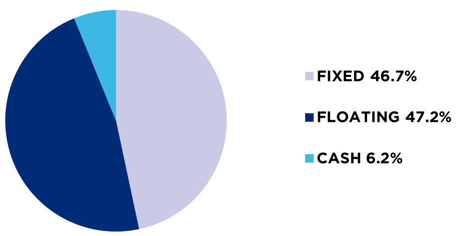
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	58.56%
Subordinated Debt	37.62%
Hybrid Debt	3.82%
Running Yield#	5.13%
Portfolio Weighted Average Life (yrs)	3.50
No. Securities	283
Modified Duration	2.09

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

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

The Fund continues to collect a healthy running yield and income was the most substantial contributor to performance during the month. The Fund's income return is generated from the underlying fixed rate and floating rate income strategies alongside direct investments. Domestic and offshore banks, RMBS and non-financial corporates are the key contributing sectors to income return. The portfolio running yield was 1.0% at month end.

Duration return was predominantly benign for performance during January. The Fund remains close to the 2-year strategic target duration which continues to limit the impact of month-to-month bond yield volatility. Curve positioning was rewarded with the portfolio's short end credit exposures benefitting from the steepening of the domestic yield curve. Perpetual's Tactical Asset Allocation bond score – a quantitative input to the fund duration management process – continued to offer a marginally positive reading throughout January.

Credit spread contraction was constructive for performance over the month. While domestic spreads traded in range of recent levels, EUR denominated spreads rallied on an improving economic outlook and better than expected 4th quarter earnings guidance among corporates. The Fund's allocation to EUR denominated debt was constructive, most notably among European bank subordinated and hybrid exposures.

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 to take advantage of duration opportunities along the curve and at meaningful dislocations.

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.

*** The benchmark for the Fund was previously reported as both the Bloomberg AusBond Bank Bill Index and the Bloomberg AusBond Composite Index. As at 29 April 2015, the benchmark for reporting was updated to a composite benchmark comprising 50% Bloomberg AusBond Bank Bill Index & 50% Bloomberg AusBond Composite Index. The change in benchmark was to better reflect the investment strategy. The performance table above reflects the change in benchmark applied across all periods.

MORE INFORMATION
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