Perpetual Pure Series Funds

# PERPETUAL PURE CREDIT ALPHA FUND CLASS W

February 2025

## FUND FACTS

**Investment objective:** The Fund aims to provide investors with a positive return above the cash rate over rolling three-year periods (before fees and taxes) by primarily investing in and actively trading fixed income securities and related derivatives.

**Benchmark:** RBA Cash Rate
**Inception date:** March 2012
**Size of fund:** $657.7 million as at 31 December 2024
**Mgmt Fee:** 0.85% pa*
**Benchmark Yield:** 4.100% as at 28 February 2025
**Suggested minimum investment period:** Three years or longer

## FUND BENEFITS

Perpetual aims to meet its objective by utilising an active and risk aware investment process that leverages the full use of the Perpetual Credit team's experience. The strategy allows the team discretion to invest in areas of the market or a company's capital structure where they see relative value. The portfolio is diversified, takes into account changes in market-wide and security-specific credit margins while seeking to maximise returns from liquidity premiums.

## FUND RISKS

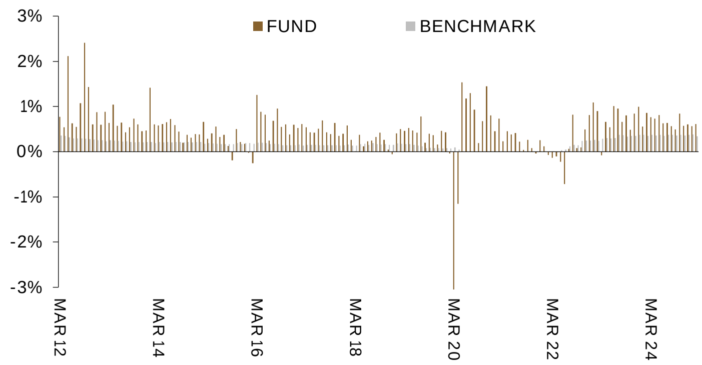
All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

## TOTAL RETURNS % (AFTER FEES) AS AT 28 February 2025

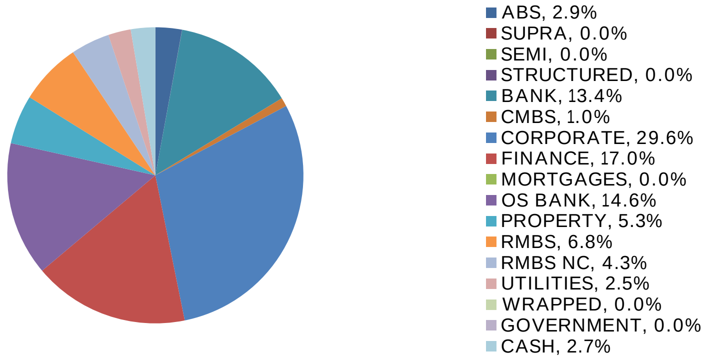
| | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 2 YRS PA | 3 YRS PA | 5 YRS PA | 7 YRS PA | INCEPT PA |
|---|---|---|---|---|---|---|---|---|---|
| Perpetual Pure Credit Alpha Fund W Class | 0.62 | 1.80 | 3.76 | 8.11 | 8.36 | 6.62 | 5.03 | 4.69 | 5.87 |
| RBA Cash Rate | 0.33 | 1.07 | 2.17 | 4.44 | 4.30 | 3.46 | 2.12 | 1.88 | 2.09 |

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.

## MONTHLY PERFORMANCE SINCE INCEPTION




## PORTFOLIO SECTORS




## PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---|---|
| Senior Debt | 39.01% |
| Subordinated Debt | 51.34% |
| Hybrid Debt | 9.65% |
| % Geared | 0.00% |
| Running Yield# | 6.66% |
| Portfolio Weighted Average Life | 3.01 yrs |
| No. Securities | 221 |
| Long | 97.33% |
| Short | 0.00% |
| Net | 97.33% |

## GEOGRAPHIC LOCATION OF MATERIAL ASSETS

The Fund holds no single international asset representing more than 10% of the Fund's net asset value.

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

## MARKET COMMENTARY

In February, global markets softened, driven by concerns over a mix of weakening US economic data and stubborn inflation. Uncertainties surrounding U.S. tariff, tax, and immigration policies further fuelled market volatility. While US and Australian markets fell, European and Chinese equities rallied, benefitting from better than expected earnings and technology advancement respectively.

Global bond yields rallied through the second half of the month. US yields rallied strongly, with markets appearing to shake off anticipation of elevated February inflation data, instead rallying on weaker US sentiment and softening growth. Australian bond yields rallied reflecting both falling US yields, softening global economic data and the commencement of the RBA's monetary easing. The RBA lowered the cash rate by 25 basis points to 4.10% in February. The RBA's next move will be data dependent with the governor noting that the market is too confident in pricing further rate cuts.

Australian credit markets saw mixed performance in February contracting through the start of the month before expanding as with physical spreads tightening marginally while the Australian iTraxx CDS index widened slightly. Domestic spreads tightened benefitted from strong demand for primary issuance. Spreads on non-financial corporates alongside consumer finance, insurance, and real estate investment trust sectors narrowed while trading in a tight range.

Primary markets in February were diversified by sector with corporates, financials, securitisations and government adjacent sectors all seeing new deals come to market. ANZ raised $4.5B across 3- and 5-year tranches in senior unsured deal. Domestic subsidiaries of offshore banks were also active with DBS ($1.5B), Mizuho Bank ($550M) and Rabobank ($2B) tapping the market. The non-financial corporate space saw new deals from Ausnet service Holdings ($950M), NBN Co ($750M) and QPH Finance – Port of Brisbane ($500M).

## PORTFOLIO COMMENTARY

Even as interest rates declined, income return remains the most substantial contributing factor to performance. The Fund continues to collect a healthy yield premium above the RBA cash rate, led by allocation to non-financial corporate loans alongside contributions from securitised assets and domestic banks. At month end, the Fund's running yield was 6.7% with the average spread measured at 2.5%.

Domestic spreads tightened marginally in February, benefitting from strong demand for primary issuance. The Fund's non-financial corporate exposures were mixed with spreads widening marginally on a small number of Australian corporates and USD denominated high yield positions.

A notable contributor to spread return during the month was a new hybrid deal from Ausnet Services Holdings. The $950M deal was Australia's largest non-financial corporate hybrid listing and met very strong demand build a book that was 5 times oversubscribed. The Fund was able to secure allocation which performed well upon issue as the spread contracted. The Manager elected to trim the position, locking in profits. The corporate hybrid space will continue to draw attention as bank hybrids are phased out following confirmation from APRA in late 2024.

Elsewhere, the Fund took part in a new offshore bank offshore bank deals from Banco Santander and DBS Bank. Allocation to non-bank financials was increased with the Manager electing to add exposure to insurers. Allocation to Domestic banks was reduced while non-financial corporate exposures were added to in secondary.

The credit outlook reached positive territory before softening to a slight negative score in the first week of March. With the outlook for credit finely balanced, the Fund remains defensively positioned while retaining the capacity to take advantage of relative value opportunities as they arise.

## OUTLOOK

The credit outlook softened from a mild positive reading to slight negative in the first week of March.

Valuation indicators are marginally negative. While US high yield spreads moderated over the month, AU swap spreads remain very tight. The issuance pipeline saw a tick up in opportunistic issuers looking to take advantage of strong primary demand and relatively tight spreads on new issues which weighs on the outlook.

The growth outlook is finely balanced. Macroeconomic indicators remain marginally negative reflecting softening data and rising uncertainty around the path of US trade policy. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain slightly challenging.

Supply and demand indicators improved to neutral over the month. A heavy pipeline of new deals weighs on the outlook although thus far market demand has been resilient.

Technical indicators worsened across the board during February with US credit spreads, equity markets and equity market volatility indicators all declining. Cash levels among real money accounts have settled while intermediary positioning is supportive with street inventory remaining light.


** UBS Australian Bond Index changed to Bloomberg AusBond Bank Bill Index effective 26 September 2014

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