Perpetual Private

IMPLEMENTED FIXED INCOME PORTFOLIO

Fund Profile – 30 September 2024

FUND FACTS

APIR code	PER0710AU
Inception Date	9 December 2013
Asset class	Diversified Fixed Income
Investment style	Multi Manager Blend
Benchmark	Fixed Income Composite Benchmark#
Suggested length of investment	3 years or more
Unit pricing frequency	Daily
Distribution frequency	Quarterly
Legal type	Unit Trust
Product type	Wholesale Managed Investment Scheme
Status	Open
Management Fee* (%)	0.47%
Buy/Sell spread	0.20% / 0.00% as at February 2023
Issuer	Perpetual Investment Management Limited

*Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.

INVESTMENT OBJECTIVE

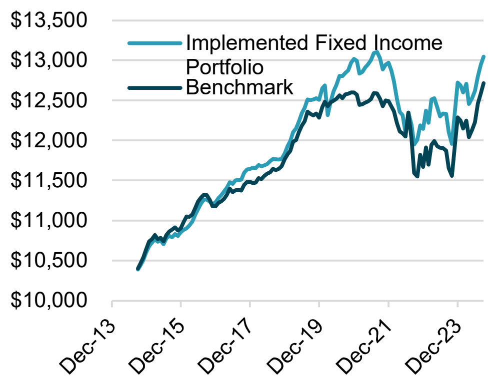
To provide investors with income through investment in a diversified portfolio of fixed income and floating rate investments (including mortgages). To outperform the stated benchmark over rolling three-year periods.

BENEFITS

Provides investors with the potential for maximising income and capital stability, with broad market exposure.

GROWTH OF $10,000 SINCE INCEPTION (NET OF FEES)

As at September 2024



Source: State Street.

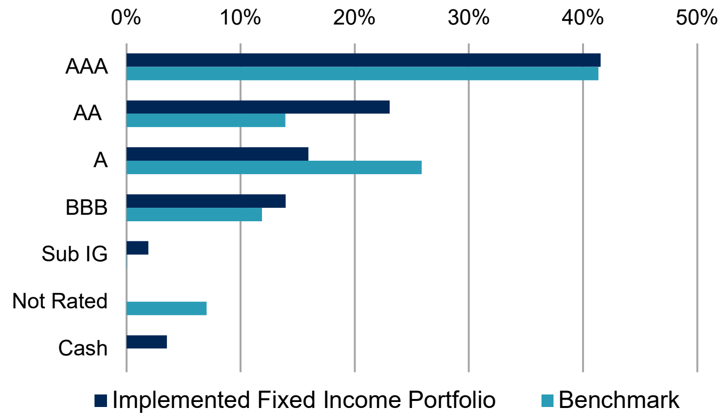
NET PERFORMANCE

As at September 2024

RETURNS	1MTH	3MTH	1YR	3YR	5YR	S/I*
Total return	0.8%	3.4%	7.8%	0.0%	0.9%	2.6%
Growth return	0.6%	3.2%	7.0%	-0.5%	-0.9%	0.0%
Distribution return	0.2%	0.2%	0.8%	0.5%	1.8%	2.6%
Benchmark	1.1%	4.0%	9.1%	0.5%	0.6%	2.3%
Excess Return	-0.3%	-0.6%	-1.3%	-0.5%	0.2%	0.3%

Source: State Street. Past performance is not indicative of future performance.
*Since Inception

RATINGS BREAKDOWN

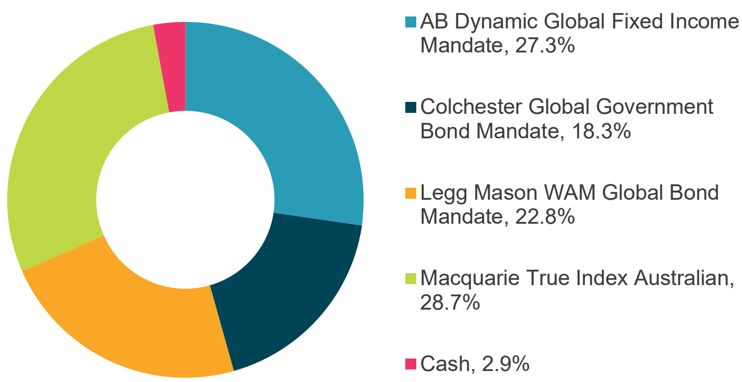


As at 30 September 2024^

Source: State Street, External Manager Reports.
^Portfolio exposures can be lagged by up to 3 months.

PORTFOLIO EXPOSURE BY MANAGER

As at September 2024



Source: State Street.

#The Fixed Income Composite benchmark, prior to 30th June 2022, consisted of 60% Bloomberg AusBond Bank Bill Index, 20% Bloomberg AusBond Composite Index & 20% Bloomberg Barclays Global Aggregate (AUD Hedged); effective from 30th June 22, it changed to 100% Bloomberg Global Aggregate Index (AUD Hedged)

INVESTMENT APPROACH

A multi-manager framework is utilised, where specialist investment managers are selected to form a diverse and complementary mix of investment strategies and styles. This can help reduce volatility by avoiding over exposure to a particular specialist investment manager. Derivatives may be used in managing the portfolio.

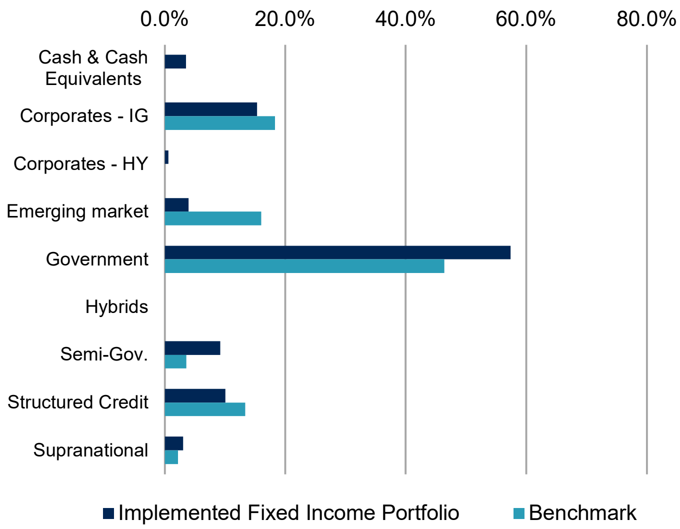
INVESTMENT STRATEGY

The Implemented Fixed Income Portfolio invests in both Australian and International fixed interest markets, as well as diversified credit markets.

The managers within the Implemented Fixed Income Portfolio will invest across the broad spectrum of available debt instruments diversified by industry, maturity and credit rating (the majority of which will be investment grade as assigned by a recognised global ratings agency). Their portfolios tend to be diversified across hundreds of positions both in physical securities and through the use of derivatives. The diversified nature of their portfolios aims for the delivery of consistent returns above their designated benchmarks and acts to mitigate a large negative portfolio impact from any single position that may underperform from time to time.

The Implemented Fixed Income Portfolio blends a small group of managers that construct well diversified portfolios, who have a long-term and consistent track record, are expected to continue to deliver on this track record, and whose investment styles complement each other well. Consistency and complimentary of return profiles are of critical importance such that we can comfortably blend managers to deliver consistent and stable outperformance above the benchmark.

SECTOR EXPOSURES



As at 30 September 2024^

Source: State Street, External Manager Reports

^Portfolio exposures can be lagged by up to 3 months.

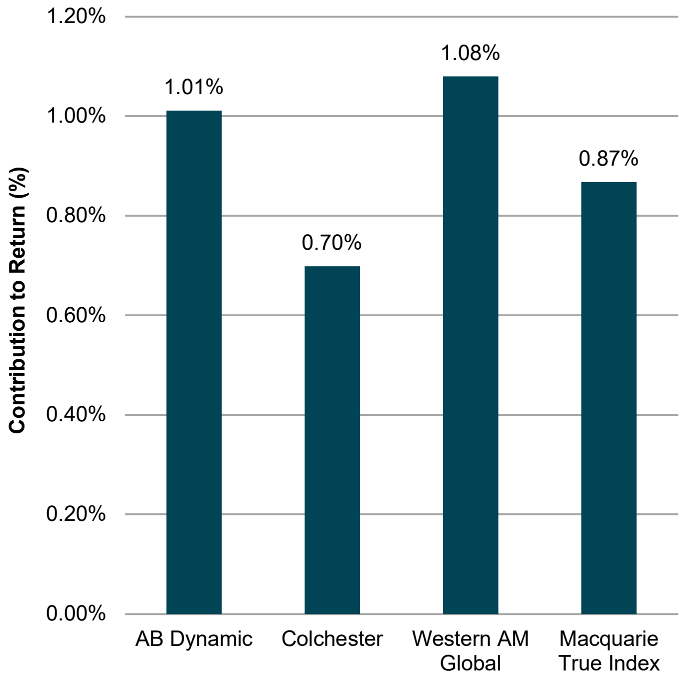
MANAGER LINE-UP AND APPROACH

As at September 2024

MANAGER	APPROACH
AB Dynamic Global Fixed Income Mandate	Global Rates and Sector Rotation, Relative Value.
Colchester Global Government Bond Mandate	Global Rates, Real Return.
Western Asset Management Global Bond Mandate	Global Rates and Sector Rotation, Macro.
Macquarie True Index Australian Fixed Interest	Australian passive core fixed income and True indexing fund.

CONTRIBUTION BY MANAGER

As at September 2024



MARKET COMMENTARY

During the September quarter, fixed income markets experienced robust performance, supported by falling inflation and a series of rate cuts by major central banks. This backdrop provided a favourable environment for both government bonds and credit, with bond markets rallying on expectations of further monetary policy easing.

Yields across the U.S. and Australia fell significantly, with the U.S. Federal Reserve cutting its benchmark rate by 50 basis points in September, marking the official start of its easing cycle. By quarter-end, markets were pricing in an additional two to three 0.25% cuts before year's end, suggesting another 50 basis points of reductions could come at either the November or December U.S. Federal Reserve meetings. This marked a significant shift in sentiment compared to earlier in the year when the focus remained on inflationary pressures. Notably, the U.S. 2-year Treasury yield dropped by 111 basis points to 3.64%, while the 10-year Treasury yield fell by 62 basis points to 3.78%. This steeper decline in the 2-year yield caused the yield curve to un-invert for the first time in over two years, signalling a shift in market expectations toward a less restrictive monetary environment.

In contrast, the Reserve Bank of Australia (RBA) stood apart from the near-global synchronised easing by developed central banks, abstaining from cutting rates as it continued grappling with above-target inflation. Despite this divergence, Australian bond markets still saw yields decline, with the 3-year government bond yield falling by 55 basis points to 3.54%, and the 10-year yield declining by 34 basis points to 3.97%. Elsewhere in the world, the European Central Bank (ECB) delivered its second rate cut in September, reducing interest rates to 3.5%, and the Bank of England (BoE) embarked on its own easing cycle, implementing a 25 basis point cut at its August meeting, as it navigated persistent wage inflations pressures in the UK.

Global bonds posted a strong return of 4.00%[1] for the quarter, with longer-duration bonds outperforming their shorter-term counterparts. Domestically, Australian bonds returned 3.0%[2] for the quarter, buoyed by a combination of falling yields and positive investor sentiment towards the asset class.

Credit markets delivered strong performance during the quarter. Corporate bonds outpaced government bonds, with credit spreads narrowing by quarter-end despite some volatility in July and August. Australian credit returned 3.1%[3], while US investment-grade credit posted returns of 4.9%[4], supported by investors seeking safety in higher-rated securities amid ongoing economic uncertainty. In the short-duration space, Bank Bills performed in line with the RBA cash rate, posting a 1.1%[5] return for the period.

PORTFOLIO COMMENTARY

The Perpetual Implemented Fixed Income Portfolio underperformed its benchmark over the September 2024 quarter by -0.6%. The relative performance of the Australian fixed income exposure relative to global fixed income was the primary detractor to the performance.

Macquarie True Index Australian Fixed Index Fund returned 3.0% during the quarter, broadly in line with the Bloomberg AusBond Composite 0+ Year Index. Australian government bond yields were volatile over the period as the market re-adjusted their inflation and interest rate expectations. The start of the rate-cutting cycle in Europe and US has seen Australian government bond yields fall; this is despite market expectations that the RBA will continue to maintain policy rates at current levels.

Western Asset Global Bond Mandate outperformed its benchmark for the period, with the portfolio returning 4.7% versus the Bloomberg Global Aggregate Bond Index (hedged AUD) return of 4.0%. Overweight duration in US and Core Europe added substantially to excess returns. Performance over the quarter was also supported by excess return driven by high yield and emerging market debt.

Colchester Global Government Bond Mandate returned 3.8% for the period, outperforming the Bloomberg Global Treasury Index Hedged to AUD which returned 3.7%. FX positions contributed positively to returns while bond selection detracted; resulting in a positive net excess return over the quarter.

Alliance Bernstein Global Plus Mandate underperformed global markets, returning 3.7% for the period versus the Bloomberg Global Aggregate Bond Index (hedged AUD) return of 4.0%. Underperformance was driven by country and yield curve positioning primarily in US duration. Underweight to Chinese government bonds; and overweight to UK gilts contributed positively to performance.

[1] As measured by Bloomberg Global Aggregate Bond Index (Hedged in AUD)
[2] As measured by Bloomberg AusBond Composite 0 +Yr Index
[3] As measured by Bloomberg AusBond Credit (0+Y)
[4] As measured by Bloomberg US Aggregate (AUD Hedged)
[5] As measured by Bloomberg AusBond Bank Bill

OUTLOOK

Entering Q3 2024, we anticipated the divergence in inflation between Australia and other major economies would influence central bank policy and create opportunities within fixed income markets. This divergence played out as expected, with the RBA maintaining its cash rate while the Fed and other central banks began easing cycles. This led to increased volatility in government bond yields as investors reacted to economic data and adjusted their rate cut expectations. Specifically, Australian headline inflation remained stubbornly around 3.8%, contrasting with the US and Europe where inflation moderated below the 3% threshold.

While the easing cycle has begun, its magnitude remains uncertain. We believe that persistent inflationary pressures, potentially exacerbated by the upcoming US elections, geopolitical risks in the Middle East, and ongoing supply chain disruptions, could limit the extent of future rate cuts. Irrespective of who wins the US election, we expect increased US fiscal stimulus and tariffs on Chinese goods which can be structurally inflationary.

We are closely monitoring the potential for stagflation, which we believe remains a key risk over the longer term. In the short term, we are focused on the impact of weaker consumer spending and a potential corporate earnings recession.

Despite these concerns, credit spreads continued to compress throughout the quarter, driven by investors' ongoing search for yield. The strongest performing sector in the credit space was REITs despite the weak recovery in the property market. While we are wary of tight credit spreads and weaker fundamentals in some sectors, we acknowledge that this environment could persist, particularly given the recent interest rate cuts.

From a portfolio perspective, we remain broadly neutral on rates. While weaker consumer spending and a corporate earnings recession are positive for rate positions; the spectre of higher inflation over the longer-term is negative. In balancing the two potential outcomes, we continue to maintain a neutral position. Specific to credit we continue to keep our risk budget relatively low, leaning into exposures with shorter maturities which benefit from the high cash rate. We do not see the need to stretch for yield at the current time.

Published in November 2024.

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