Perpetual Private

PERPETUAL SELECT FIXED INCOME FUND

September 2024

FUND FACTS

Investment objective: Income through investment in a diversified portfolio of fixed income.

Suggested length of investment: Five years or longer

BENEFITS

Provides investors with the potential for regular income above cash returns, with lower volatility than other income strategies.

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.

INVESTMENT APPROACH

The Fund combines specialist investment managers with different investment styles and philosophies. This can help reduce the volatility of the Fund by avoiding over exposure to a particular specialist investment manager.
Derivatives are currently used by the specialist investment managers to protect against most currency movements, although this can change at any time.

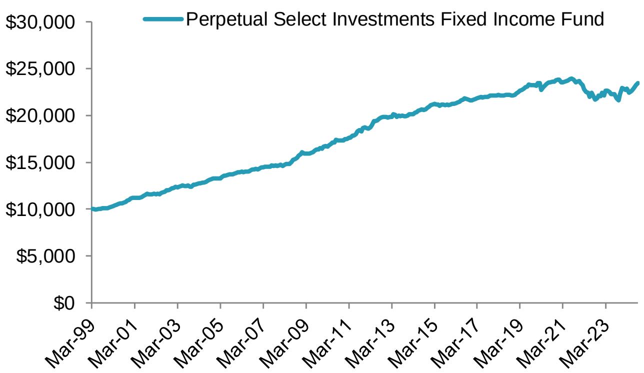
TOTAL RETURNS % (AFTER FEES) AS AT 30 SEPTEMBER 2024

	APIR CODE	1 MTH	3 MTHS	6 MTHS	1 YR PA	3 YRS PA	5 YRS PA
Perpetual Select Investments Fixed Income Fund	PER0252AU	0.8	3.2	2.4	7.2	-0.5	0.2
Bloomberg Global Aggregate (AUD) Hedged#		1.1	4.0	3.8	9.1	0.5	0.6

Past performance is not indicative of future performance

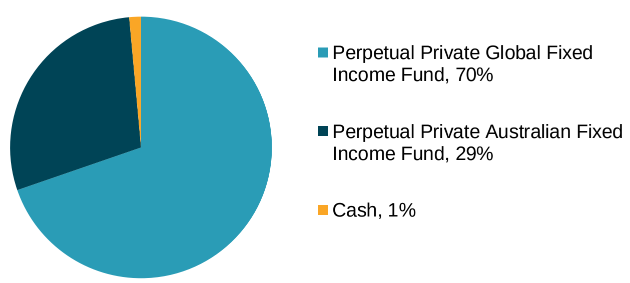
#The Fund's benchmark, prior to 30th June 2022, consisted of 60% Bloomberg AusBond Bank Bill Index, 20% Bloomberg AusBond Composite Index & 20% Bloomberg Barclays Global Aggregate (AUD Hedged). Effective from 30th June 2022, the benchmark wholly consists of 100% Bloomberg Global Aggregate (AUD Hedged).

GROWTH OF $10,000 SINCE INCEPTION (AUST.)*



*The Growth of $10,000 chart includes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales or redemption charges which would lower these figures.

PORTFOLIO EXPOSURES^



^Portfolio exposures represent the Perpetual Select Investments Fixed Income Fund

MANAGER INVESTMENT APPROACH		
Colchester Global Bond Mandate	International Fixed Income	Global Rates, Real Return.
Western Asset Global Bond Mandate	International Fixed Income	Global Rates and Sector Rotation, Macro.
Alliance Bernstein Global Bond Mandate	International Fixed Income	Global Rates and Sector Rotation, Relative Value.
Macquarie True Index Australian Fixed Interest Fund	Australian Fixed Income	Australian passive core fixed income and True indexing fund.

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.

[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

PORTFOLIO COMMENTARY

The Perpetual Select Fixed Income Fund underperformed its benchmark over the September 2024 quarter by -0.8. 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.

RETURNS BREAKDOWN (INVESTMENTS)

	FY 2024	FY 2023	FY 2022
Growth Return %	1.7%	1.0%	-7.8%
Distribution Return %	0.3%	0.2%	0.3%
Total Return %	2.0%	1.1%	-7.4%

DISTRIBUTION BREAKDOWN

	FY 2024	FY 2023	FY 2022
Cents per unit	0.2500	0.1467	0.3601

PRODUCT FEATURES

	INVEST.
Inception date	Mar 99
Management/Investment Fee (p.a.)*	0.99%
Ongoing fee discount	No
Admin fee	0.00%
Buy spread	0.20%
Sell spread	0.00%
Contribution fee	0.00%
Withdrawal fee	$0
Monthly member fee	$0
Min. initial contribution	$2,000
Min. additional contribution	$0
Savings plan	Yes
Withdrawal plan	Yes
Distribution frequency	Quarterly
Contact information	1800 022 033

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

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.

MORE INFORMATION

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