Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

October 2024

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: $26.0 million as at 30 September 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 October 2024

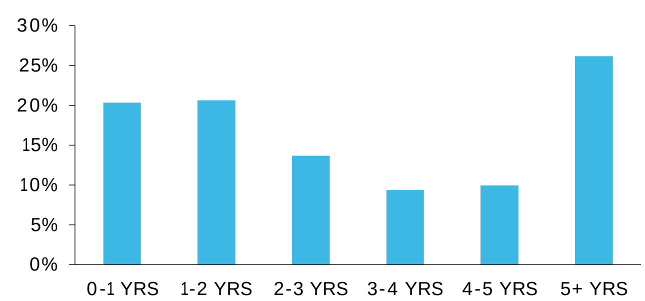
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	-0.50	0.65	2.87	7.49	5.74	2.30	2.07	2.62	4.12
Bloomberg AusBond Composite/Bank Bill Blend	-0.75	0.37	2.26	5.79	3.50	1.19	0.63	1.61	2.98

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.

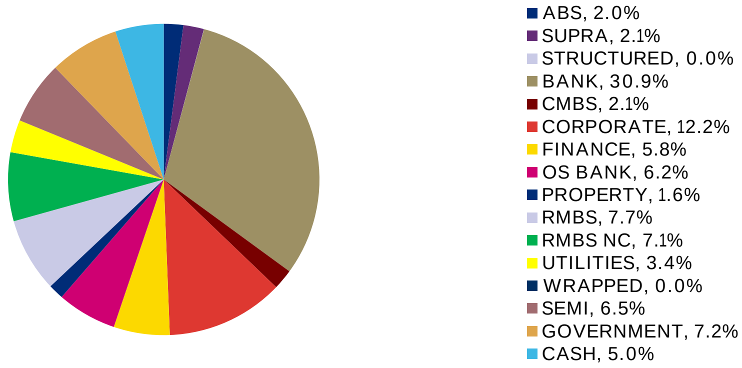
POINTS OF INTEREST

•Domestic credit resilient as bonds and equities selloff;
•Domestic and global bond yields rise on US inflationary policy expectations;
•RBA on hold in early November, retaining neutral stance;
•Primary market demand robust, securitisation volumes remain elevated;
•The outlook remains negative.

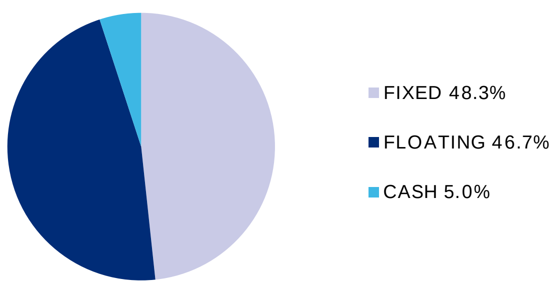
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	57.90%
Subordinated Debt	39.82%
Hybrid Debt	2.28%
Running Yield#	5.08%
Portfolio Weighted Average Life (yrs)	3.71
No. Securities	275
Modified Duration	2.20

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

MARKET COMMENTARY

Financial markets softened in October with equity markets and bond yields weakening globally. A key driver was the firming expectations of a second Trump presidency and the anticipation of inflationary policies including tax cuts and restrictive tariffs on foreign imports. While resurgent inflationary pressure would contribute to higher-for-longer rates, reduced regulations and corporate taxes would be expected to benefit US equities.

Domestic bond yields rose sharply during October, with the 10-year government bond yield rising 53bps to 4.51% by month end. This was in line with US 10-year bonds which also rose by 50bps. Alongside US inflationary policy concerns, robust US jobs and GDP data eased pressure on the Federal reserve to continue lowering rates. Domestically, inflation continues to ease with third quarter year-on year inflation reaching a three year low, led by falling oil prices. The domestic yield curve flattened during the month as 2-5 year yields rose more sharply than long term tenors.

Floating rate credit performed well in a month where equities and bonds weakened. Domestic credit spreads tightened as investors moved to take advantage of elevated base rates by rotating into corporate and financial credit. Credit spread tightening was widespread with utilities, non-financial corporates and financial spreads narrowing. Swap spreads contracted during October as bond yields sold off.

Primary markets were orderly during October. Issuance was headlined by NAB's $2.75B 3-year senior unsecured deal. Tier 2 regional bank issuance met elevated demand with a smaller deals from Judo Bank ($125M) and Bank of Queensland ($250M) attracting substantial investor interest in excess of 8 times the book size. Securitisation volumes remain elevated with almost $10B of new deals in October, continuing the already record breaking 2024 pace.

PORTFOLIO COMMENTARY

The Fund continues to collect a healthy running yield and income was the most substantial contributor to performance during the month. Income return was centred around domestic and offshore banks alongside securitised assets. The portfolio running yield was 5.1% at month end.

Duration return was negative as bond yields sold off along the curve. The Fund's relatively short target duration mitigated the impact of rising yield in a month where fixed rate bond markets underperformed. The Fund shortened its duration by approximately half a year in early October, ending the month in line with the 2-year strategic target duration. Perpetual's Tactical Asset Allocation bond score – a quantitative input to the fund duration management process – declined to neutral during October.

Credit spread dynamics were constructive for performance during the month. Domestic credit spreads tightened and the Fund's floating rate exposure performed well. Contribution to spread return was broad based with offshore banks, insurers, REITs and non-financial corporates all adding value. Securitised sectors were constructive with the Fund's RMBS, ABS and CMBS allocations benefitting from tightening spreads.

Sector allocation was broadly maintained during October. RMBS and semi government exposures were increased over the course of the month while domestic bank and non-financial corporate exposures were marginally reduced.

The outlook for credit improved throughout the month, ending the month with a marginally negative reading and risk management remains crucial. The Manager is 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 improved during October despite remaining in negative territory throughout the month.

Valuation indicators are marginally negative. While credit spreads are at neutral levels, recent AUD swap spread contraction continues to detract while a recent spate of opportunistic deals from both domestic and kangaroo issuers is reflected in the negative valuation score.

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

Supply and demand indicators have improved, ending the month marginally negative. The pipeline of upcoming maturities has improved marginally. Elevated recent issuance volumes continue to weigh on the outlook although this is partially offset by strong investor demand.

Technical indicators have improved to end the month in marginally positive territory. Intermediary positioning remains positive with elevated cash levels expected to contribute to demand. US credit spreads and equity markets are positively contributing while equity market volatility is detracting slightly from the overall outlook.

*** 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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