Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND - CLASS A

February 2025

FUND FACTS

Investment objective: The Perpetual Active Fixed Interest Fund aims to outperform the Bloomberg AusBond Composite Index (before fees and taxes) by actively investing in fixed interest securities, primarily corporate bonds.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of fund: $496.6 million as at 31 December 2024
APIR: PER8045AU
Mgmt Fee: 0.40% pa*
Suggested minimum investment period: Three years or longer

FUND BENEFITS

Active management of credit risk through sector and sub sector rotation, curve positioning and relative value trading. Strategically maintain duration at benchmark, tactical overlay at extremes.

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 Active Fixed Interest Fund Class A [1,3]	1.01	1.87	1.68	5.48	5.24	1.18	0.05	2.14	2.40
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.74
Bloomberg Ausbond Composite Index	0.93	1.63	1.16	4.18	3.85	0.32	-0.59	1.67	-

[1] Class A of the Perpetual Active Fixed Interest Fund (Fund) has been operating since February 2017. This row represents the actual past performance of Class A of the Fund.

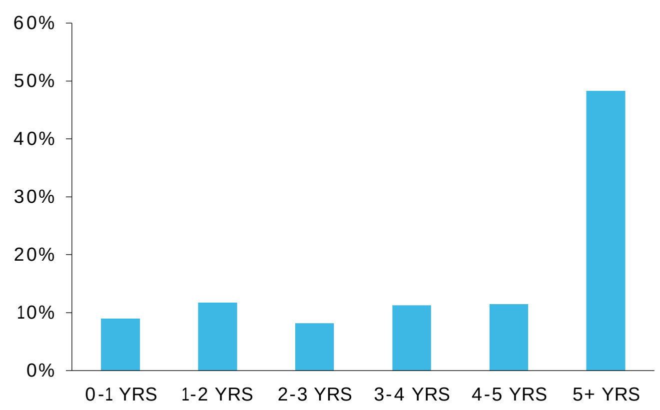
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been calculated by subtracting the fees for Class A from the actual gross past performance for Class W.

[3] Past performance is not indicative of future performance.

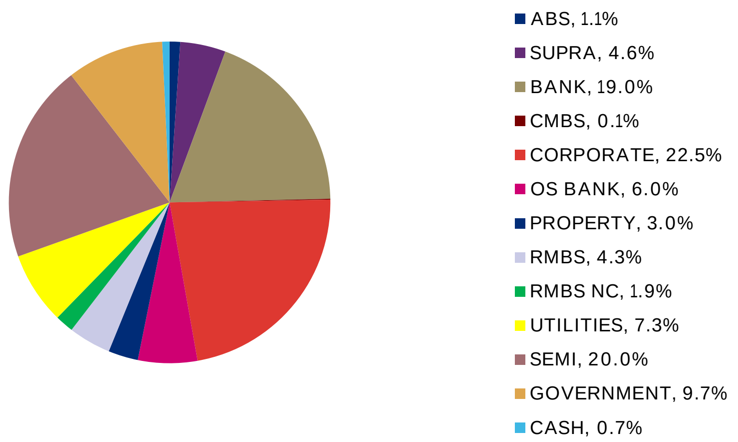
POINTS OF INTEREST

•Volatility persists on US trade policy, slowing growth;
•RBA lowers cash rate, next move is data dependant;
•Domestic spreads trade in a tight range;
•Diverse primary market activity meets strong demand;
•The credit outlook is marginally negative.

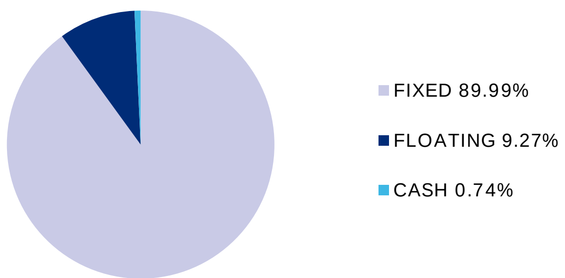
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	92.05%
Subordinated Debt	7.31%
Hybrid Debt	0.64%
Running Yield#	4.23%
Portfolio Weighted Average Life (yrs)	5.61 yrs
No. Securities	154
Modified Duration	4.86

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

*The methodology used to calculate Running Yield is derived from FactSet, and calculated as follows: The coupon rate of the security / the capital price of the security. Note that the exception is discounted securities, where a Yield to Maturity calculation is used.

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

Duration was the key determinant of absolute performance over the month as domestic bond yields rallied. Impact on relative performance was benign as a result of the Fund's close to benchmark duration positioning. The Fund's slight underweight exposure to the short end (1-3 years) detracted marginally as the 2-year tenor rallied 9bps. The portfolio maintains its close to benchmark duration position, with overweight exposure to 3-and-7 year tenors alongside allocation to floating rate notes.

Income return contributed to outperformance over the month. The Fund continues to collect a healthy yield in excess of the benchmark, led by overweight allocations to non-financial corporates, banks and off benchmark exposure to securitised sectors. The portfolio running yield at month end was 4.2% with the spread measured at 0.9%.

Credit spread dynamics were the key contributing factor to outperformance over the month. Spreads tightened over the first two weeks of February before retracing, ending the month marginally tighter. The Fund's overweight allocation to non-financial corporates and domestic banks were the key beneficiaries of spread contraction during February. Security selection among semi-annual exposures was also constructive with the Fund's preference for Western Australia and New South Wales Treasury Corps performing well. The Manager also elected to add Queensland and Victorian state government bonds during the month, recognizing attractive relative value. These performed well as semi government spreads rallied in the last week of February.

Sector allocations were broadly maintained during February. Allocation to semi government bonds was increased while government bond exposures were trimmed.

The outlook for credit turned marginally negative in the first week of March and the Fund remains defensively positioned. The Manager remains 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 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.

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