Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

February 2025

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: $26.3 million as at 31 December 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 28 February 2025

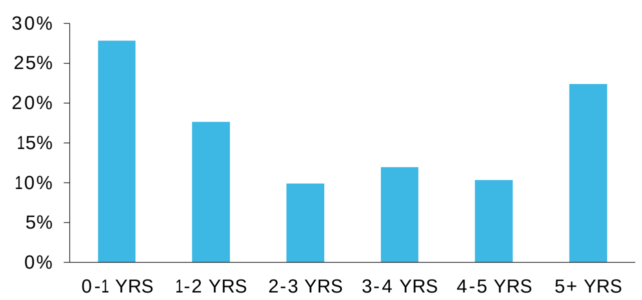
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.74	1.71	2.32	5.77	5.92	3.27	2.38	2.85	4.20
Bloomberg AusBond Composite/Bank Bill Blend	0.63	1.37	1.69	4.35	4.10	1.91	0.78	1.85	3.06

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.

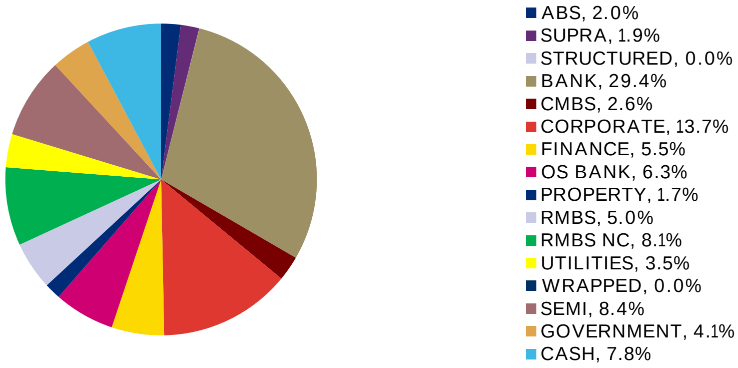
POINTS OF INTEREST

•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.

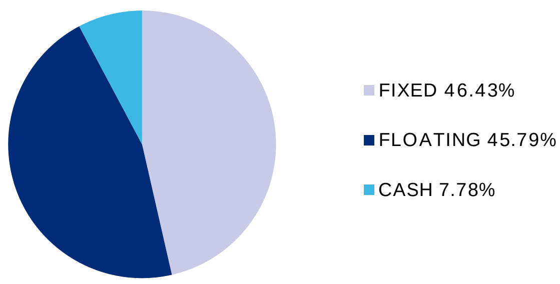
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	60.42%
Subordinated Debt	36.05%
Hybrid Debt	3.53%
Running Yield#	4.97%
Portfolio Weighted Average Life (yrs)	3.41
No. Securities	289
Modified Duration	2.62

* 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

The most substantial contributor to performance during the month was income return. The Fund continues to collect a healthy running yield generated from the underlying fixed rate and floating rate income strategies alongside direct investments. Domestic and offshore banks, RMBS and non-financial corporates are the key contributing sectors to income return. The portfolio running yield was 5.0% at month end.

Duration was a strong contributor to performance over the month as domestic bond yields rallied. yields rallied in sympathy with falling US yields, reflecting slowing growth and the commencement of monetary easing. The Fund remains close to the 2-year strategic target duration, allowing the fund to participate in bond market rallies while limiting the impact of month-to-month yield volatility. Perpetual's Tactical Asset Allocation bond score – a quantitative input to the fund duration management process – continued to offer a marginally positive reading throughout January, reflecting positive value and technical indicators.

Credit spread contraction was another strong contributor to performance over the month. Spreads tightened over the first two weeks of February before retracing, ending the month marginally tighter. Credit spread return was broad based with allocation to securitised assets, offshore banks and non-financial corporates all contributing. Semi government spreads were also constructive, the Manager increased allocation to Victoria and Queensland state government bonds – recognizing attractive relative value – which performed well as semi spreads contracted in the last week of the month.

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.

*** 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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