Perpetual Investment Funds

PERPETUAL ACTIVE FIXED INTEREST FUND - CLASS A

May 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: $410.0 million as at 31 March 2025
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 31 May 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]	0.46	2.15	4.06	7.72	5.26	4.21	0.68	2.30	2.59
Perpetual Active Fixed Interest Fund Class W [2,3]	-	-	-	-	-	-	-	-	4.79
Bloomberg Ausbond Composite Index	0.16	2.04	3.71	6.84	3.81	3.11	-0.19	1.80	-

[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.

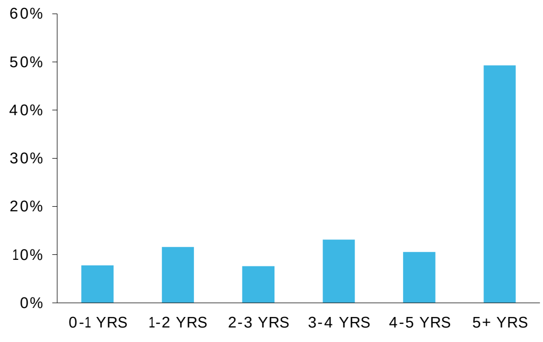
[2] To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has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

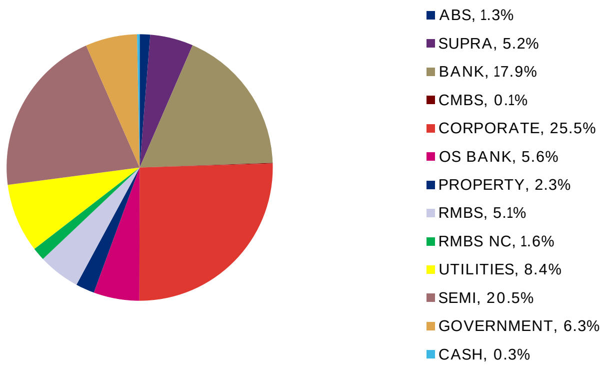
POINTS OF INTEREST

•Financial markets continue to recover from 'Liberation Day' volatility;
•Domestic credit spreads rally;
•Long term yields rise, curve steepens.
•RBA cuts cash rate 26 bps, considered 50bps cut;
•Primary market resurgent among corporates and banks;
•The credit outlook remains negative.

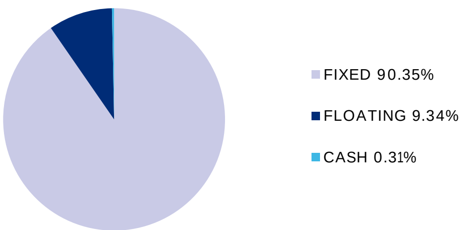
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	91.45%
Subordinated Debt	7.36%
Hybrid Debt	1.19%
Running Yield#	4.29%
Portfolio Weighted Average Life (yrs)	5.73 yrs
No. Securities	168
Modified Duration	4.90

* 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

Risk assets continued to recover from April volatility with equities and credit rallying as concerns around US trade policy eased. Tailwinds included the US and China's agreement to pause reciprocal tariffs for 90 days, robust first quarter earnings and the Trump administration's expansionary budget bill passing the House of Representatives. While equities and credit stabilised, sovereign bond yields rose reflecting fiscal concerns in the US.

The RBA reduced the target cash rate 25bps to 3.85% in mid-May, the second of this easing cycle. Commentary was increasingly doveish with discussion of a 50bps cut was well received by financial markets, contributing the rally in longer duration sectors including technology. Governor Bullock confirmed that "The Board considered a severe downside scenario and noted that monetary policy is well placed to respond decisively to international developments." 10-year yields on Australian government bonds rose 16 bps to 4.27% over the month, mirroring global trends while also reflecting expectations of fiscal expansion in the wake of Labour victory in the Federal Election. US long term government bond yields sold off, as concerns around the fiscal deficit intensified and Moody's lowered the US government's long term issuer rating.

Domestic credit spreads rallied strongly in May, following widening in March and April. The iTraxx Australia 5-year CDS spread rallied 16bps to 76bps and physical spreads also ended the month tighter. Banks – led by regional and offshore names – performed well with higher beta subordinated and hybrid issues rallying back strongly.

Following a very quiet April, impacted by financial market volatility and holiday shortened weeks, primary market issuance resumed with a busy start to the month. Corporate deals from Worley ($400M) and Aurizon ($500M) priced after being put on hold in April as volatility spiked. Aurizon's hybrid deal met robust demand, building a book more than four times deal volume and tightened on the break. Major banks were active following reporting season with NAB ($2.5B) and ANZ ($1.4B) issuing senior bonds. A number of subordinated deals also priced including Westpac ($1.5B), Macquarie ($1.25B) and QBE Insurance Group ($600M).

PORTFOLIO COMMENTARY

Credit spread dynamics were the key determinant of outperformance over the month. Credit spreads rallied strongly, normalising after widening sharpening during April. The Fund's longer than benchmark spread duration performed well as credit recovered with overweight allocations to non-financial corporates and domestic banks the key contributing sectors. Overweight allocation to utilities was also constructive. Security and issuer selection also contributed to outperformance across multiple sectors.

Duration and curve positioning detracted slightly from outperforming during May. The domestic yield curve steepened as long-term bond yields rose. The Fund's overweight allocation to 5-10 year tenors detracted as the curve steepened. The Fund remains close to benchmark duration with overweight allocation to 5-10 year tenors alongside allocation to the very short end including floating rate notes.

Income return contributed to outperformance during May. 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 4.3% with the spread measured at 1.0%.

The Manager was active primary and secondary markets during the month. The Fund's allocation to government bonds was reduced while spread duration was opportunistically lengthened by adding to non-financial corporate exposures. The Manager elected to take part in new deals from Worley Financial Services, Norfina and Contact energy.

While the outlook improved over the month, conditions remain challenging. The portfolio is defensively positioned and Manager remains focused on identifying relative value opportunities presented by the current conditions and will continue to look for active duration opportunities along the curve.

OUTLOOK

The credit outlook improved slightly during May while remaining in negative territory.

Valuation indicators worsened marginally over the month as domestic investment grade spreads rallied into neutral territory while an increase in opportunistic issuers weighted on the valuation outlook. Negative swap to bond spreads continue to detract from the outlook.

Growth indicators remain in negative territory. The results of the Senior Loan Officer survey showed weakening credit demand and tightening lending standards. Macroeconomic indicators remain negative despite easing international trade concerns and improving employment print both domestically and in the US.

Supply and demand indicators are finely balanced with robust primary market demand meeting elevated issuance volumes and a relatively light upcoming maturity schedule following a busy April.

Technical indicators improved to neutral reflecting elevated cash levels among domestic real money accounts and improvements to US equity and volatility leading indicators. The US credit spread indicator continues to weigh on the outlook.

While the outlook has improved – primarily reflecting normalising technical indicators – the overall score is negative and the team remains cognisant of downside risks to credit markets.

MORE INFORMATION
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