Perpetual Investment Funds

PERPETUAL DYNAMIC FIXED INCOME FUND

May 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:	$27.4 million as at 31 March 2025
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 May 2025

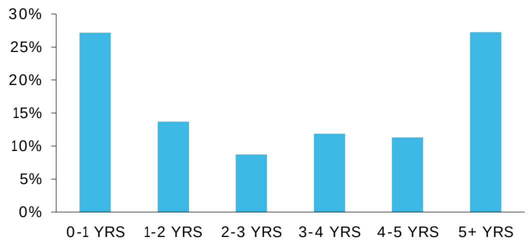
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Dynamic Fixed Income Fund	0.44	1.19	2.92	5.98	6.08	4.76	2.92	2.97	4.21
Bloomberg AusBond Composite/Bank Bill Blend	0.25	1.55	2.93	5.64	4.12	3.49	1.08	1.95	3.11

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.

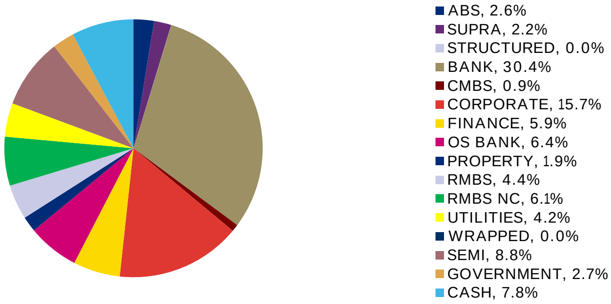
POINTS OF INTEREST

•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.

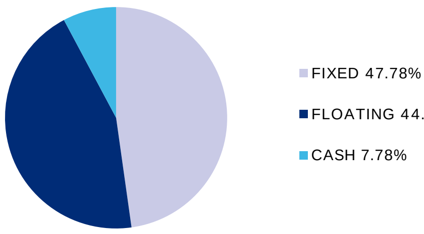
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING RATE BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	59.96%
Subordinated Debt	35.05%
Hybrid Debt	4.99%
Running Yield#	4.77%
Portfolio Weighted Average Life (yrs)	3.72
No. Securities	321
Modified Duration	2.01

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

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

Income return was the most substantial contributor to performance over the month. The Fund continues to collect a healthy running yield generated from the underlying fixed rate and floating rate income strategies alongside direct investments. The Fund's running income remains led by domestic and offshore banks, RMBS and non-financial corporates. The portfolio running yield was 4.8% at month end.

Credit spread dynamics contributed strongly to performance during May. Credit spreads rallied strongly, normalising after widening sharply during April. The Fund's allocation to domestic and offshore banks was the most substantial contributing factor. The Fund's allocation to US dollar denominated credit performed very well as spreads retraced. The Fund's preference for subordinated financial paper also performed well as subordinated spreads rallied sharply.

Duration detracted from performance in May. The domestic yield curve steepened as long-term bond yields rose. The Manager elected to reduce portfolio duration over the month, ending May in line with the lower bound of the strategic target duration (2 years). The Fund's low strategic target duration allows the Fund to participate in bond market rallies while limiting the impact of month-to-month yield volatility. The decision supported by a decline in Perpetual's Tactical Asset Allocation bond score – a quantitative input to the fund duration management process – which saw technical indicators deteriorate over the month.

Sector allocations were selectively adjusted during May with the Manager electing to lengthen the portfolio's spread duration, trimming government bond exposures and adding to non-financial corporate allocations.

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.

*** 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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