Perpetual Private

PERPETUAL SELECT FIXED INCOME FUND

June 2024

FUND FACTS

Investment objective: Income through investment in a diversified portfolio of fixed income.

Suggested length of investment: Five years or longer

BENEFITS

Provides investors with the potential for regular income above cash returns, with lower volatility than other income strategies.

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.

INVESTMENT APPROACH

The Fund combines specialist investment managers with different investment styles and philosophies. This can help reduce the volatility of the Fund by avoiding over exposure to a particular specialist investment manager.
Derivatives are currently used by the specialist investment managers to protect against most currency movements, although this can change at any time.

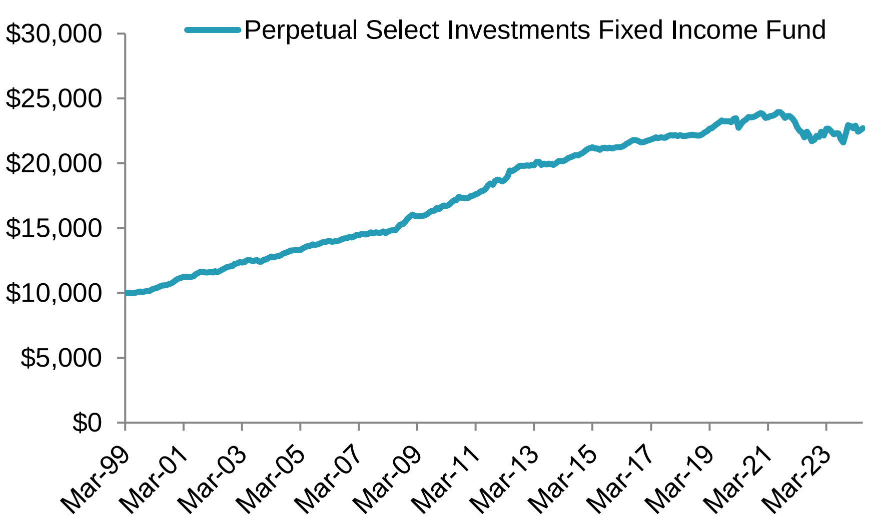
TOTAL RETURNS % (AFTER FEES) AS AT 30 JUNE 2024

	APIR CODE	1 MTH	3 MTHS	6 MTHS	1 YR PA	3 YRS PA	5 YRS PA
Perpetual Select Investments Fixed Income Fund	PER0252AU	0.7	-0.8	-1.1	2.0	-1.5	-0.3
Bloomberg Global Aggregate (AUD) Hedged#		0.8	-0.2	-0.5	2.7	-0.8	0.1

Past performance is not indicative of future performance

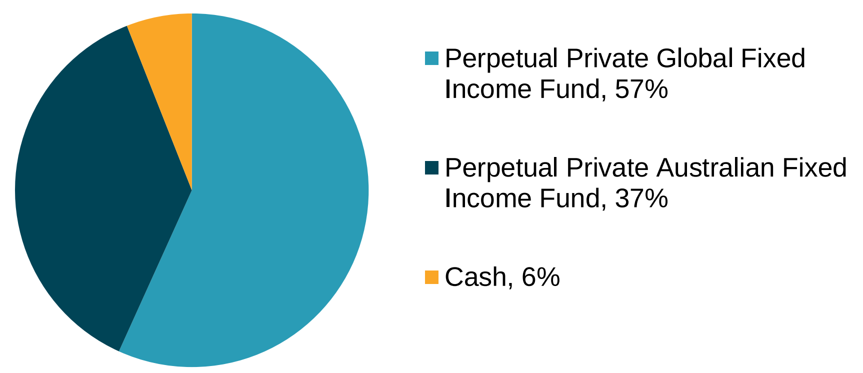
#The Fund's benchmark, prior to 30th June 2022, consisted of 60% Bloomberg AusBond Bank Bill Index, 20% Bloomberg AusBond Composite Index & 20% Bloomberg Barclays Global Aggregate (AUD Hedged). Effective from 30th June 2022, the benchmark wholly consists of 100% Bloomberg Global Aggregate (AUD Hedged).

GROWTH OF $10,000 SINCE INCEPTION (AUST.)*



*The Growth of $10,000 chart includes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales or redemption charges which would lower these figures.

PORTFOLIO EXPOSURES^



^Portfolio exposures represent the Perpetual Select Investments Fixed Income Fund

MANAGER INVESTMENT APPROACH		
Colchester Global Bond Mandate	International Fixed Income	Global Rates, Real Return.
Western Asset Global Bond Mandate	International Fixed Income	Global Rates and Sector Rotation, Macro.
Alliance Bernstein Global Bond Mandate	International Fixed Income	Global Rates and Sector Rotation, Relative Value.
Macquarie True Index Australian Fixed Interest Fund	Australian Fixed Income	Australian passive core fixed income and True indexing fund.

MARKET COMMENTARY

During the June quarter, Fixed Income returns were dominated by considerations of inflation, and by extension, interest rates. Of course, this isn't new. Such influence has been a pertinent feature of markets since the arrival of the pandemic in early 2020 and is always an important driver of financial assets more generally. Setting this period apart, is the simple fact that whilst many investors and economists had proclaimed "peak interest rates", a slowing in the progress of taming inflation dramatically reduced near-term expectations of interest rate cuts.

If we step through the past three months, yield curves in both the U.S. and Australia, made meaningful parallel shifts upwards in April, before stabilising and partially settling back through to June. These movements reflect the growing probability of further rate rises, effectively demonstrating just how challenging the battle against inflation is proving to be.

Considering these moves in the context of our global bond benchmark, the Bloomberg Global Aggregate, we see a negative return of 0.14% for the three months, benefiting from a relatively strong outcome in June (0.77%). Domestically, the experience was similar, with the Bloomberg Ausbond Composite index posting a negative return for the quarter (-0.50%) and a buoyant June (0.39%).

Credit markets, with their lower duration and higher nominal yields, enjoyed somewhat better outcomes. In Australia, this led to a positive return of 0.23% for the Bloomberg Ausbond Credit index. Here, despite being less impacted by higher expected yields, a widening of credit spreads acted as a dampener on the return. Casting our attention to an area of the market that has both minimal duration and credit, Bank Bills, we saw one of the most robust outcomes in the asset class, with the AusBond Bank Bill index delivering a healthy 1.08% return for the period.

Outside our primary focus of Australia and the U.S., the European Central Bank became the first major central bank to cut their cash rate target (0.25%), after the significant and rapid monetary tightening that was deployed in 2022 and 2023. Whilst this cut was telegraphed and somewhat guaranteed to the market in advance, it was not the positive catalyst many had hoped, because the messaging around it was delivered in somewhat 'hawkish' terms. Here, despite relative softness in the European economy, sticky inflation led to caution around the future path of interest rates.

PORTFOLIO COMMENTARY

The Perpetual Select Fixed Income Fund/Implemented Fixed Income Portfolio marginally underperformed its benchmark over the June 2024 quarter by -0.5%. Both the overweight to Australian Fixed Interest and manager performance has detracted.

Macquarie True Index Australian Fixed Index Fund returned -0.8% during the quarter, in line with the Bloomberg AusBond Composite 0+ Year Index. Australian government bond yields were volatile over the period as the market re-adjusted their inflation and interest rate expectations. Expectations of higher interest rates resulted in a shift higher in the government yield curve.

Western Asset Global Bond Mandate underperformed its benchmark for the period, with the portfolio returning -1.0% versus the Bloomberg Global Aggregate Bond Index (hedged AUD) return of -0.2%. Overweight duration in US, UK and Core Europe detracted from the total return outcome while underweight Japanese duration contributed. Underweight exposure to France and Italy contributed positively while EM exposures detracted.

Colchester Global Government Bond Mandate returned -0.8% for the period, underperforming the Bloomberg Global Treasury Index Hedged to AUD which returned -0.4%. Overweight position in Mexico and New Zealand; and underweight position in China detracted from relative returns. While from a currency standpoint, top detractors were long positions in JPY, Columbian Peso and Korean Won.

Alliance Bernstein Global Plus Mandate underperformed global markets, returning -0.4% for the period versus the Bloomberg Global Aggregate Bond Index (hedged AUD) return of -0.2%. Portfolio underperformance was driven by an underweight to Chinese government bonds; and overweight to UK gilts. Sector and security selection contributed positively primarily driven by positioning in IG corporates and US agency MBS.

RETURNS BREAKDOWN (INVESTMENTS)

	FY 2024	FY 2023	FY 2022
Growth Return %	1.7%	1.0%	-7.8%
Distribution Return %	0.3%	0.2%	0.3%
Total Return %	2.0%	1.1%	-7.4%

DISTRIBUTION BREAKDOWN

	FY 2024	FY 2023	FY 2022
Cents per unit	0.2500	0.1467	0.3601

PRODUCT FEATURES

	INVEST.
Inception date	Mar 99
Management/Investment Fee (p.a.)*	0.99%
Ongoing fee discount	No
Admin fee	0.00%
Buy spread	0.20%
Sell spread	0.00%
Contribution fee	0.00%
Withdrawal fee	$0
Monthly member fee	$0
Min. initial contribution	$2,000
Min. additional contribution	$0
Savings plan	Yes
Withdrawal plan	Yes
Distribution frequency	Quarterly
Contact information	1800 022 033

*Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.

OUTLOOK

Our outlook on inflation last quarter proved prescient as headline inflation in Australia and the U.S. came in above 3%. The spectre of inflation staying higher for longer was priced into the market over Q2 2024; resulting in rising yield curves. Over the short-term, direction of inflation prints remain hard to predict and to add complexity to the current environment, central banks have continued to indicate to the market that they remain largely data dependent. This has led to oversized market reaction to short-term economic data while largely ignoring central bank commentary.

Our review of the current environment over Q2 2024 suggests that inflation will likely moderate but over a more extended timeframe than currently anticipated by markets. Consumers both in Australia and globally have continued to be affected by the current environment; as is evidenced by continued drawdown in savings and increased borrowings. Across the age groups, this has had a higher impact on consumers within 25 to 45 years of age. Domestic labour markets have remained resilient over the last quarter but wage growth has moderated. This compares with the U.S., where there are some signs of labour market weakness, but it remains too early to tell if this trend will persist.

Companies have been more active issuers of credit in 2024 compared to 2023. Supply of credit continues to be met with strong demand. Higher all-in yields relative to the last 10-years continue to incentivise capital formation. Corporate default rates while elevated, are not excessive; and have remained steady over the last quarter. Since the beginning of 2024, we have seen continued demand for credit across peer portfolios and this has resulted in spread contraction over the period. More recently, we note that investors have become more discerning on credit quality, rewarding companies who continue to generate earnings growth in this environment. For companies with weaker earnings profile, we have seen an increased credit spread (i.e. increased cost of debt).

From a macroeconomic risk perspective, we continue to see stagflation as a key risk on the horizon. A period of weak (or negative) growth with higher inflation will likely limit the ability of central banks to stimulate the economy via interest rate cuts. We have seen some market commentary on stagflation risks, but this has not been priced into the markets. Credit valuations at current levels generally reflect a bullish investment environment.

From a portfolio perspective, we remain broadly neutral on rates; noting that higher inflation while negative for rates over the short-term may give way to an economic downturn which is positive for rate positions. In balancing the two potential outcomes, we continue to maintain a neutral position. Specific to credit we continue to keep our risk budget relatively low, leaning into exposures with shorter maturities which benefit from the high cash rate.

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