Perpetual Private

PERPETUAL SELECT FIXED INCOME FUND

December 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.

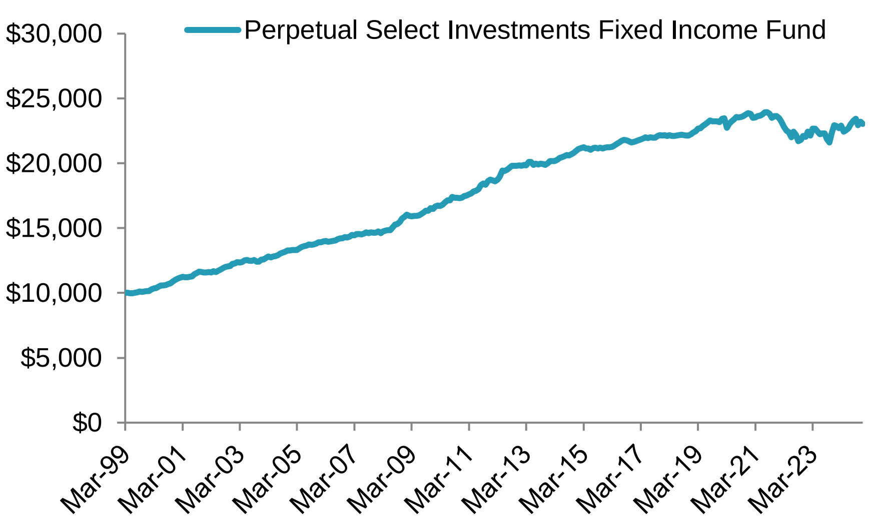
TOTAL RETURNS % (AFTER FEES) AS AT 31 DECEMBER 2024

	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	-1.7	1.5	0.3	-0.9	-0.1
Bloomberg Global Aggregate (AUD) Hedged#		-0.9	-1.2	2.7	2.2	0.2	0.5

Past performance is not indicative of future performance

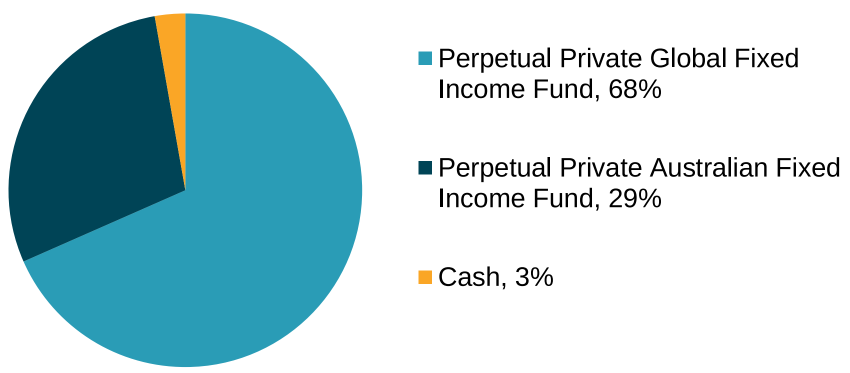
#The Fund's benchmark, prior to 30th June 2022, consisted of 60% Bloomberg AusBond Bank Bill Index, 20% Bloomberg AusBond Composite Index & 20% Bloomberg Barclays Global Aggregate (AUD Hedged). Effective from 30th June 2022, the benchmark wholly consists of 100% Bloomberg Global Aggregate (AUD Hedged).

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

Fixed income markets faced headwinds throughout the quarter, as interest rate increased through the length of the US and Australian yield curves. As has been the case since central banks increased interest rates in 2022, longer-term inflation expectations has remained frustratingly above target and thus interest rate cuts globally have arrived later than expected and smaller in magnitude. The December quarter typified the broader pattern of the past few years, with periods of lower interest rate expectations, acting as the countertrend against a broader ‘higher for longer’ thematic. That the US 10-year benchmark rate moved up by nearly 0.79%, from 3.78% to 4.57% over the quarter, does place emphasis on clearly diminishing expectations for more aggressive rate cuts in the near future. Indeed, in Australia we faced similar market conditions with our own 10-year benchmark gaining 0.39%, from 3.79% to 4.37%.

The implication of higher rates being priced in over the year, meant that for government bonds, returns were broadly below the level of income generated, as lower capital values dragged on performance. The trend of credit outperforming duration continues, as the higher yields commanded for credit risk, combined with lower degrees of interest rate sensitivity, has led to a more healthy level of total return. If we reflect on the Australian debt markets, bank bills did the best over the December quarter, gaining 1.1%. However, over the year, Credit performed best gaining by a solid 5.4% (vs 4.5% for bank bills).

The trend of credit outperformance is not unique to Australia. Given that the US dominates global credit markets and the US economy remains strong, means that credit has been enjoying highly complementary conditions with interest rates being high enough to generate meaningful yields, whilst corporate defaults have remained stable. As such, we have seen a 4.0% return from global High Yield bonds for the three months to December 31st, and 13.1% for 2024. Even the broader credit markets have generated healthy outcomes, with an return of 3.9% for the quarter and 7.8% for the year

PORTFOLIO COMMENTARY

The Perpetual Select Fixed Income Fund underperformed its benchmark over the December 2024 quarter by -0.52. Manager performance was the primary detractor over the quarter.

Macquarie True Index Australian Fixed Index Fund returned -0.26% during the quarter, broadly in line with the Bloomberg AusBond Composite 0+ Year Index. Australian government bond yields continued to be volatile over the period as the market re-adjusted their inflation and interest rate expectations. Despite the beginning of the rate cutting cycle in the US and Europe; concern over the longer-term inflation outcome saw bond yields rise over the quarter resulting in a negative return.

Western Asset Global Bond Mandate underformed its benchmark for the period, with the portfolio returning -2.7% versus the Bloomberg Global Aggregate Bond Index (hedged AUD) return of -1.2%. Overweight duration in US and Core Europe; and overweight to emerging market bonds detracted over the quarter. Holdings in Japanese government bonds and inflation-linked bonds contributed positively to returns.

Colchester Global Government Bond Mandate returned -2.4% for the period, underperforming the Bloomberg Global Treasury Index Hedged to AUD which returned -1.1%. Overweight holdings in Mexico and Columbia, and underweight in China were the largest detractor to performance over the quarter.

Alliance Bernstein Global Plus Mandate underperformed global markets, returning -1.5% for the period versus the Bloomberg Global Aggregate Bond Index (hedged AUD) return of -1.2%. Underperformance was driven primarily by an underweight in China and long duration position in the UK. Long position in USD contributed positive to performance over the quarter.

OUTLOOK

In our previous commentary we noted that the US elections had global inflationary implications tied to expectations of US fiscal stimulus and trade tariffs. The advent of a Trump victory is consistent with a bullish inflationary scenario which may limit the ability of central banks to cut interest rates further.

Post US election, market sentiment has shifted from positive to negative with government bond yields rising over the quarter. At the current time of writing, Trump has yet to be inaugurated as the US president while the plans for trade tariffs are in the very early stages of discussion. Given the lack of key details, we believe markets may have overreacted.

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.

Directionally, realised inflation has continued to fall with prints coming in within the targeted 2% to 3% p.a. band. This is consistent across US (2.8% over the year to December) and Australia (2.7% over the year to September) which continues to exhibit a downward trend. In-line with our previous outlook, consumer spending has continued to moderate while corporate defaults have ticked up marginally. Rate cuts implemented over the quarter by the US Fed and ECB are likely to support corporate balance sheets going forward as they flow through to the interest costs. We expect default rates to remain steady over the coming year

[1] As measured by the Bloomberg AusBond Bank Bill index
[2] As measured by the Bloomberg AusBond Credit (0+Y) index
[3] As measured by the Bloomberg AusBond Bank Bill index

Credit spreads are at historical lows and have tightened marginally over the quarter despite the increases in corporate default. Credit issuance over 2024 was strong and continued to be supported by investor demand. The beginning of the rate cutting cycle is a net positive for corporate defaults but provides investors with lower absolute yield particularly for floating rate securities. Barring a substantial deterioration in economic conditions we expect this environment to persist for some time.

From a portfolio perspective, we remain broadly neutral on rates. We think at current yield levels, markets have overreacted to an incoming Trump presidency. However, given the magnitude of moves, we prefer to take a more considered approach and wait for more information before taking a directional view. Specific to credit we continue to retain a short maturity bias which continue to benefit from a high cash rate.

MORE INFORMATION

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