

Perpetual Wholesale Diversified Income Fund

December 2011

Fund facts

Investment objective: To provide regular income and consistency of return by investing in a diversified range of income generating assets.

Benchmark: UBS Bank Bill Index
Inception date: October 2005
Size of fund: \$431.7 million as at 30 September 2011
APIR: PER0260AU
Mgmt cost: 0.700% pa
Bank bill index: 4.478% as at 31 December 2011
Suggested minimum investment period: Three years or longer

Fund benefits

Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed, highly diversified and liquid investment.

Total returns % (after fees) as at 31 December 2011

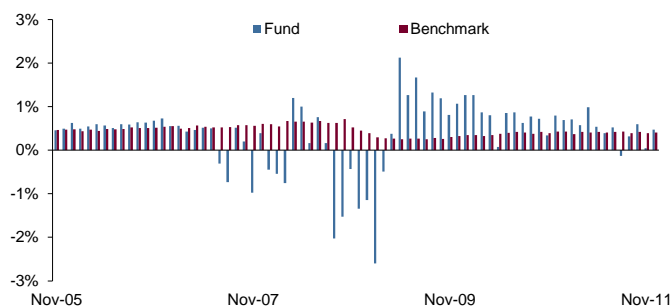
	1 mth	3 mths	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa	Incept pa
Perpetual Wholesale Diversified Income Fund	0.47	1.12	1.83	5.85	7.72	7.33	3.96	-	4.57
UBS Bank Bill Index	0.40	1.22	2.47	5.00	4.83	4.38	5.48	-	5.58

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.

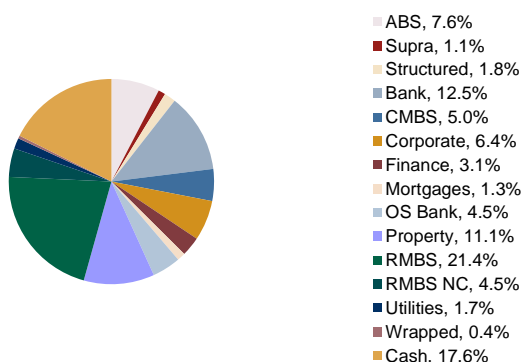
Points of interest

- The Fund has maintained a 0.85% excess return over the last 12 months
- The current running yield on the Diversified Income Fund remains strong at 7.31%
- We continue to reinforce our message that investors can benefit from investments in high quality fixed income assets within a diversified portfolio.

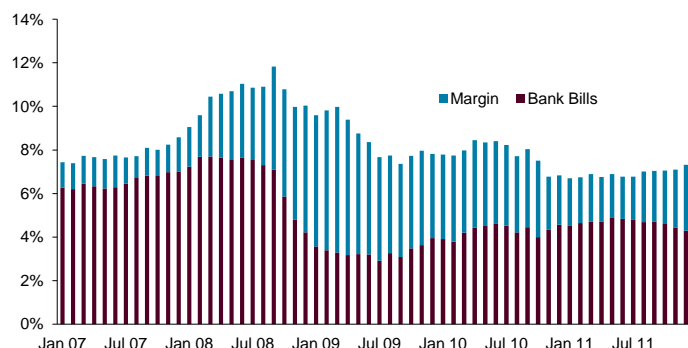
Monthly performance since inception



Portfolio sectors



Running yield



Portfolio composition

	Breakdown
Senior Debt	86.42%
Subordinated Debt	10.45%
Hybrid Debt	3.13%
Core Component	94.90%
Plus Component	5.10%
% Geared	0.00%
Running Yield	7.31%
Portfolio Weighted Average Life	2.64
Spread above Bank Bill	3.02%
No. Securities	198

Market commentary

Credit markets started December with a buoyant tone. Expectations of credible progress in Europe and coordinated action by the world's central banks saw credit spreads gap tighter globally. Furthermore, a number of successful bond auctions and the ECB's three-year long term refinancing operation (LTRO) funding allotment eased fears over the region's debt crisis. In the United States (US), a run of better than expected macro data releases affirmed its resilience.

Intra-month, uncertainty in Europe continued to leave credit markets vulnerable. A disappointing outcome following the EU Leaders summit and a multitude of ratings actions on the European sovereigns, agencies and banks kept credit spreads elevated for much of the month. A large injection of liquidity into the EU banking system through the ECB's 3yr LTRO triggered a contraction in credit spreads into month end.

The cost of protecting investment grade Australian corporates from default eased 14bps over the month. Corporates and banks across both sides of the Atlantic also had good ends to the month with the European and American iTraxx indices tightening 12bps and 8bps, respectively.

Portfolio commentary

The Perpetual Diversified Income Fund returned 53 basis points, outperforming its benchmark by 13 basis points.

Superior running yield across corporate and collateralised sectors continued to generate attractive incomes, as the primary driver of excess return. The portfolio also benefited from pay-down incomes received during the month on asset-backed securities.

Credit spreads remained broadly contained with the exception of the offshore bank sector. Despite key policy initiatives announced in December including the ECB's three-year liquidity facility on an expanded collateral pool, a cautious tone remained in the sector. However, a widening of credit spreads was more than offset by the strong running yield of the sector posting a positive overall return for the month. Albeit marginal spread widening and WAL lengthening, RMBS remained the largest contributor to performance.

The sector continued to generate strong running incomes resulting from positive carry. Local banks also performed strongly aided by high running yield, while local banks' spreads remained flat to slightly wider in limited news flow. The portfolio running yield remains high at approximately 7.31% with the spread measured at 3.02% above the benchmark.

Outlook

The outlook for credit markets remains positive.

Market demand remains soft. However primary issuance volumes remain well below levels previously. Given the elevated funding costs it is unsurprising to find an absence of opportunistic issuers. Liquidity remains scarce with limited appetite among broker/dealers. Given the quantum of these opposing dynamics, the demand and supply technicals continue to remain neutral.

The crisis in the euro-zone continues to pose significant downside risk to both sovereigns and banks. In addition to this, execution risks by EU policy makers remain a key concern. However credit spreads remain significantly wide within a historic context. Given current levels there has been a great deal of negative sentiment already priced into the market. As such we see some scope in adding risk opportunistically. In saying that however our portfolios at present continue to remain defensive, holding elevated cash and favouring higher rated credits with shorter spread durations.

What are...?

The yield to maturity of a portfolio is the expected return over the weighted average life if none of the securities are sold or default.

Why Perpetual

Perpetual is one of Australia's most experienced investment services groups, with an enduring passion for protecting and growing our clients' wealth.

Founded in Sydney in 1886 as Perpetual Trustees, we've helped generations of Australians invest and manage their wealth through all market conditions. We have been managing Fixed Income portfolios since 1966.

Perpetual process

Perpetual's Diversified Income Fund aims to provide investors with a diversified, liquid core income investment which aims to provide downside risk protection and deliver consistent income. We believe that risks can be managed and returns achieved through a diversified, highly active and risk aware approach to portfolio management. Ultimately, investment grade, short dated assets provide protection to investors in times of market stress, therefore the core of the portfolio is a highly liquid and diversified, investment grade portfolio. Returns are enhanced by taking on more risk in favourable environments.

Did you know?

Fixed income investing means you effectively become a lender. You provide capital, and Perpetual lends that money out to a number of different of borrowers such as corporates and the government on your behalf. These borrowers pay interest that flows through to you as income in your account every quarter.

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Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry or exit fees or taxation (except in the case of superannuation funds).

Past performance is not indicative of future performance.



Further information

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