

## Diversified Income Fund

January 2010

Wholesale Diversified Income Fund (PIWDIN) \* WealthFocus Investments Diversified Income Fund (PIIDIN) \* WealthFocus Super Plan Diversified Income Fund (PISDIN) \* WealthFocus Allocated Pension Plan Diversified Income Fund (PIPDIN)

### Total returns % (net of fees) as at 31 January 2010

	Pool Size \$mn	Prod. Size \$mn	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa	Last dist. Dec 09 CPU
Wholesale Diversified Income Fund	230.9	136.3	1.3	3.2	6.7	9.2	2.1	1.8	-	-	1.2
WF Investments - Diversified Income Fund		1.1	1.2	2.9	6.2	8.3	1.2	0.8	-	-	1.2
WF Super - Diversified Income Fund		3.8	1.0	2.6	5.3	7.2	0.8	0.6	-	-	-
WF Pension - Diversified Income Fund		1.6	1.2	2.9	6.1	8.1	1.2	0.8	-	-	-
UBS Australian Bank Bill Index			0.3	1.0	1.8	3.4	5.4	5.9	5.9	5.7	-

### About the fund

Perpetual's Diversified Income Fund gives a skilled investment team a broad opportunity set to invest in income producing investments to provide a highly liquid and diverse portfolio which provides consistent returns. The Fund's structure enables the investment team to take more risk when it is appropriate, and less risk when the environment is less certain.

### Investment objectives

Perpetual's Diversified Income Fund aims to provide investors with regular income, consistent above benchmark returns and low volatility by investing in a diversified range of income generating assets.

The Fund aims to outperform the UBS Australian Bank Bill Index by 2.00% p.a (before fees) over rolling three year periods.

### Gearing Level

The gearing level for the month ended 31 January 2010 was 6.54%.

### Month in brief

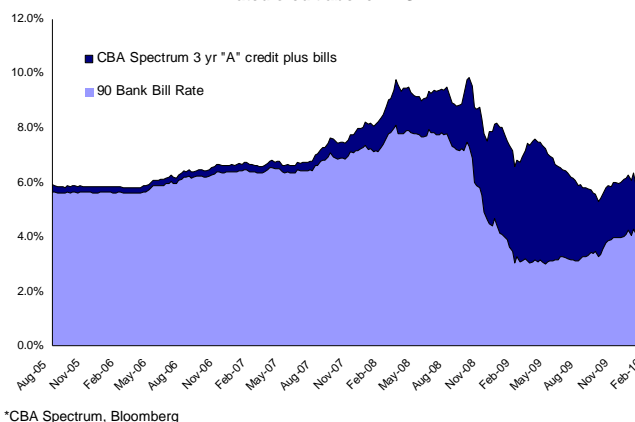
- Credit spreads tighten due to strong demand
- US 4Q09 reporting season beat expectations
- Offshore bank results reveal capital levels remain elevated
- President Obama proposes new restrictions for businesses banks can participate in
- Sovereign debt refinancing concerns continued to plague markets

### Market commentary

January was another month dominated by offshore developments. The US 4th quarter reporting season improved investor sentiment with a majority of corporates and banks beating market expectations (172 out of 222 that reported). This was tempered by sovereign debt refinancing concerns emerging in Europe, President Obama's proposed restrictions on banks and liquidity and credit tightening by the Chinese government.

Despite the emergence of risk aversion in global financial markets, credit spreads on domestic physical bonds diverged from their global peers and tightened during the month. The Itraxx Australia Synthetic index (5 year margin on 25 major Australian banks and corporates) widened ending the month 12bps wider at 96bps.

'A' rated credit above BBSW\*



### Outlook

The US4Q earnings show improvements in both capital strength and credit quality trends. This is exemplified by the banks reporting net loan charge-offs as a percent of loans in 4Q similar to those in 3Q. A stall in the growth of this metric suggests an inflexion point for credit losses is near.

It is difficult at present to quantify the changes that may take place in the banking system under some of the proposals in Washington or whether they will be implemented at all. However policies that require higher capital and less leverage and earnings volatility by the banks will no doubt bode well for credit markets.

Technical trends remain positive. January issuance has been robust but is unlikely to outpace the issuance done in 2009. Demand is likely to remain resilient as cash balances among insurance companies and investors remain elevated. In addition credit funds will continue to benefit from cross asset transfers from money market funds as investors seek more competitive yields.

## Portfolio commentary

The fund outperformed its benchmark by 98bps for the month ended January 2010. The best performing sectors included non-conforming RMBS, offshore banks, finance companies and property trusts.

RMBS contributed the most to performance with RMBS prime and non-conforming contributing 34bps over the month. Valuations continued to improve driven by improvements in investor appetite, a shortening in expected weighted average lives (WAL) and the rate of principal repayments (paydowns).

Offshore banks contributed 20bps to performance. In terms of spread contraction this sector observed the largest improvement due to increased credit quality and a subsequent increased market demand. US 4th quarter earnings results showed continued balance sheet strength among the offshore banks resulting in strong secondary market demand.

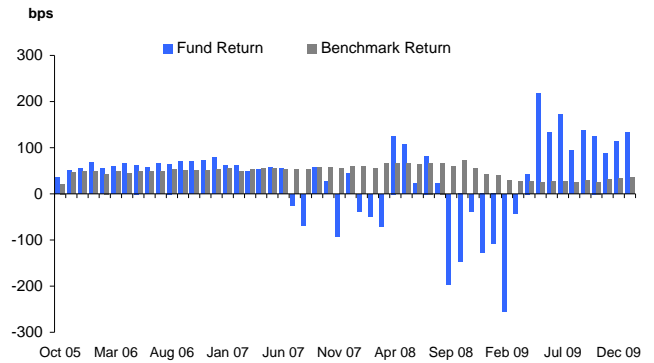
Local banks also performed well during the month contributing 15bps. The main driver of this was improving confidence in the global banking system and CBA providing a strong earnings upgrade.

The fund's performance was mainly attributed to credit spread contraction, paydowns and yield to maturity (which remains above the benchmark).

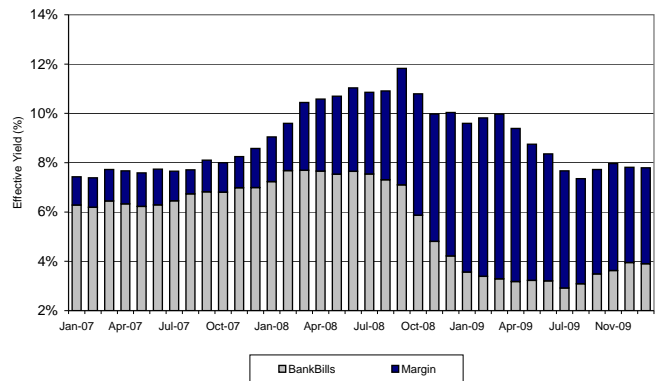
The current yield to maturity on the Diversified income fund remains strong at 7.79% (3.89% above benchmark).

The portfolio remains well positioned to take advantage of current credit markets and is selectively purchasing securities at attractive valuations.

## Performance



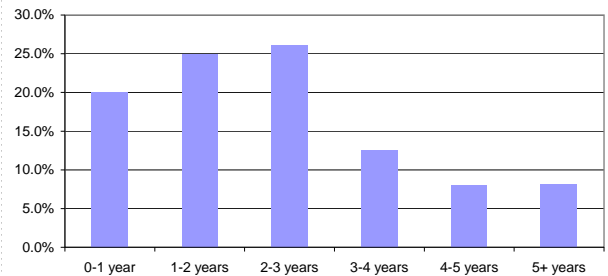
## Yield To Maturity



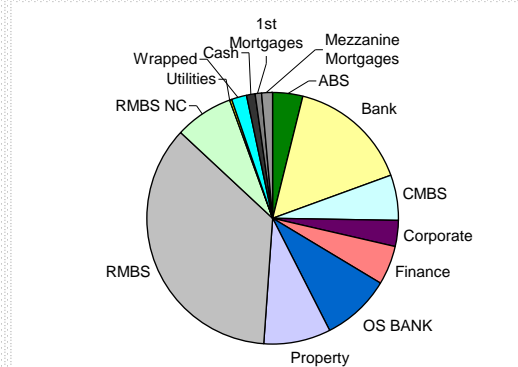
## Portfolio composition

Portfolio Breakdown	
Core Component	95.4%
Plus Component	4.55%
% Geared	6.54%
Running Yield	7.79%
Portfolio Weighted Average Life	2.44
No. Securities	220

## Maturity breakdown



## Asset allocation



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