



Perpetual Diversified Income Fund

Quarterly teleconference

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16 August 2011



Agenda

- ▶ **Market update**
 - Portfolio update
 - Conclusion

What is going on in markets?

- S&P downgraded US's sovereign credit rating from AAA to AA+. US treasuries rallied and US dollar strengthened despite S&P downgrading its sovereign debt rating.
- European sovereign debt concern lingers. Moodys downgraded Portugal's credit rating to Ba2 (ie 'junk' status).
- Credit spreads for Australian iTraxx widened from around 110bps to 150bps (11 August).
- Risk aversion drove Australian 10 year bonds yields down from around 5.2% a month ago to 4.5% (8 August).

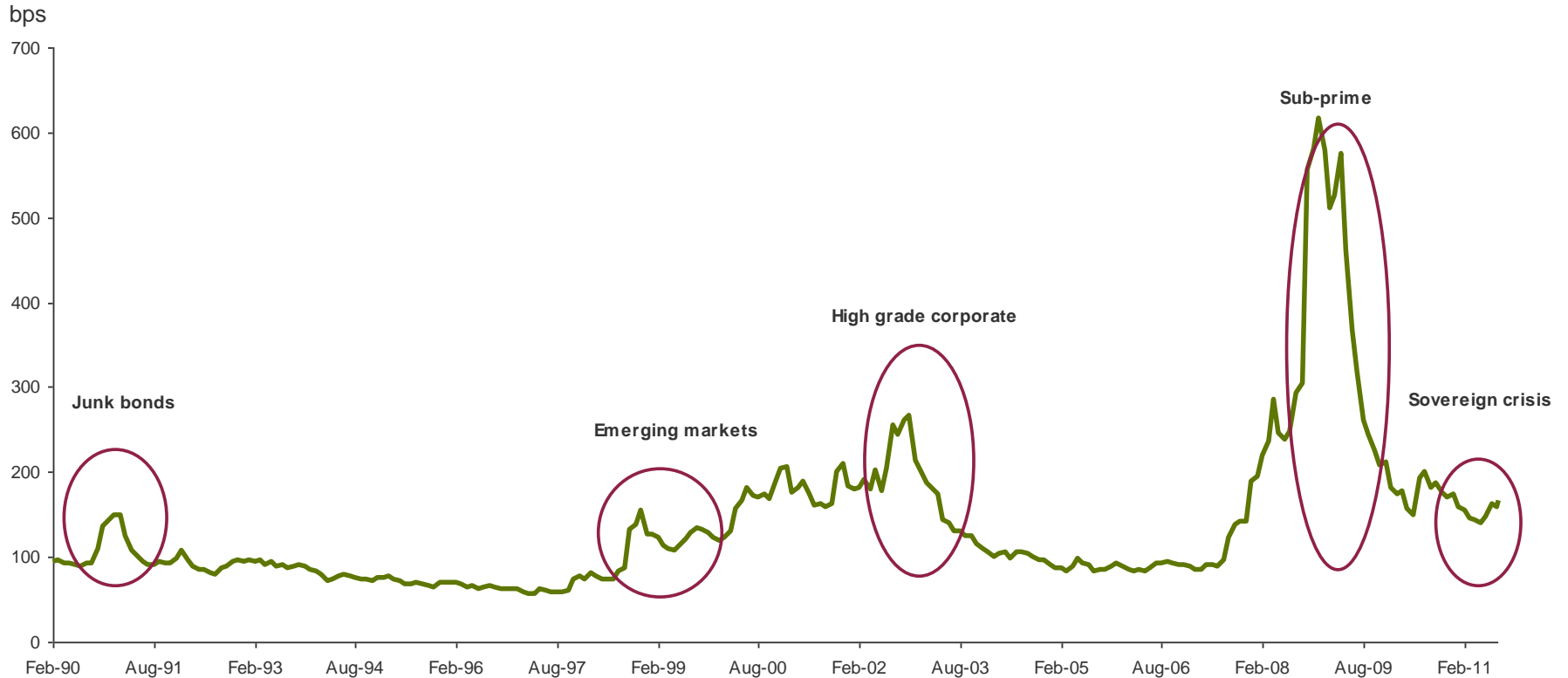
What is our view on recent events?

- Current concerns not unexpected and recent response an overreaction to events.
- Economic landscape remains challenging, but the following partially offset current gloom:
 - Central banks will continue to support US treasuries and US dollar to maintain stability in the global financial system. US central bank will keep monetary policy accommodative.
 - US economy slowly improving and consumers and corporations continue to improve their balance sheets. US labour market improved in July with the unemployment rate declining by 0.1% to 9.1%.
- High-quality, domestic, investment grade assets continue to be well compensated for credit risk.
- Australian assets underpinned by strong economic fundamentals and RBA has sufficient buffer to run accommodative monetary policy, if necessary.

Credit market cycles

Investment grade credit spreads over full credit market cycles

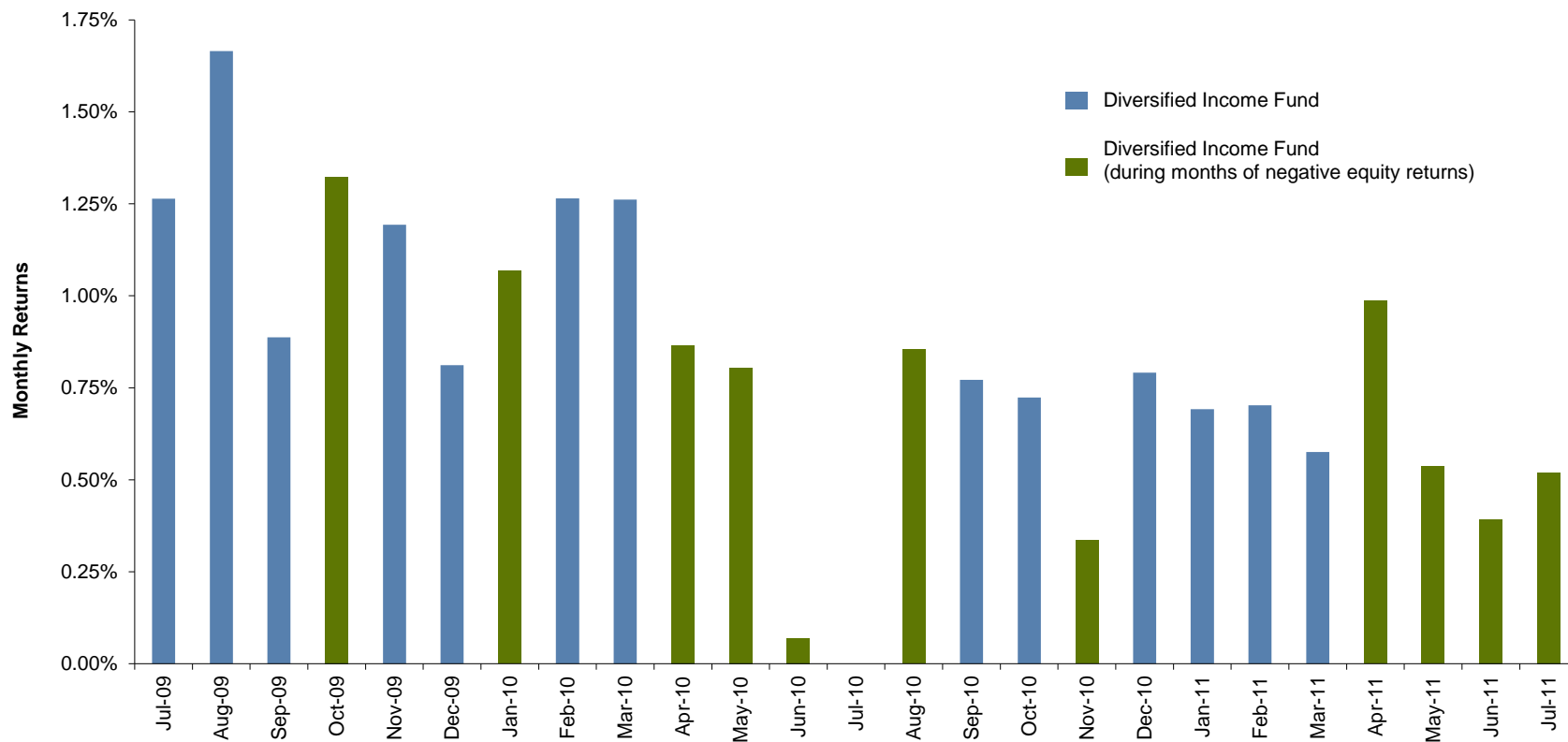
Credit market cycles - 1990 to now



Source: Bloomberg, Perpetual Investments, as at 11 August 2011.

The Diversified Income Fund continues to offer diversification benefits during volatile periods

Perpetual Diversified Income Fund Monthly Returns



Source: Perpetual, as at 31 July 2011.



What has been driving the quality outcome in the Fund?

Quality characteristics

- Predominantly Australian credit securities
- High quality investment grade credit securities
- Mostly AUD assets =>minimal hedging risk
- Short-dated securities
- Actively managed



Quality outcome

- Low correlation to equities
- Capital stability
- Liquidity
- Regular income

No
US sovereign debt

No
European
sovereign debt

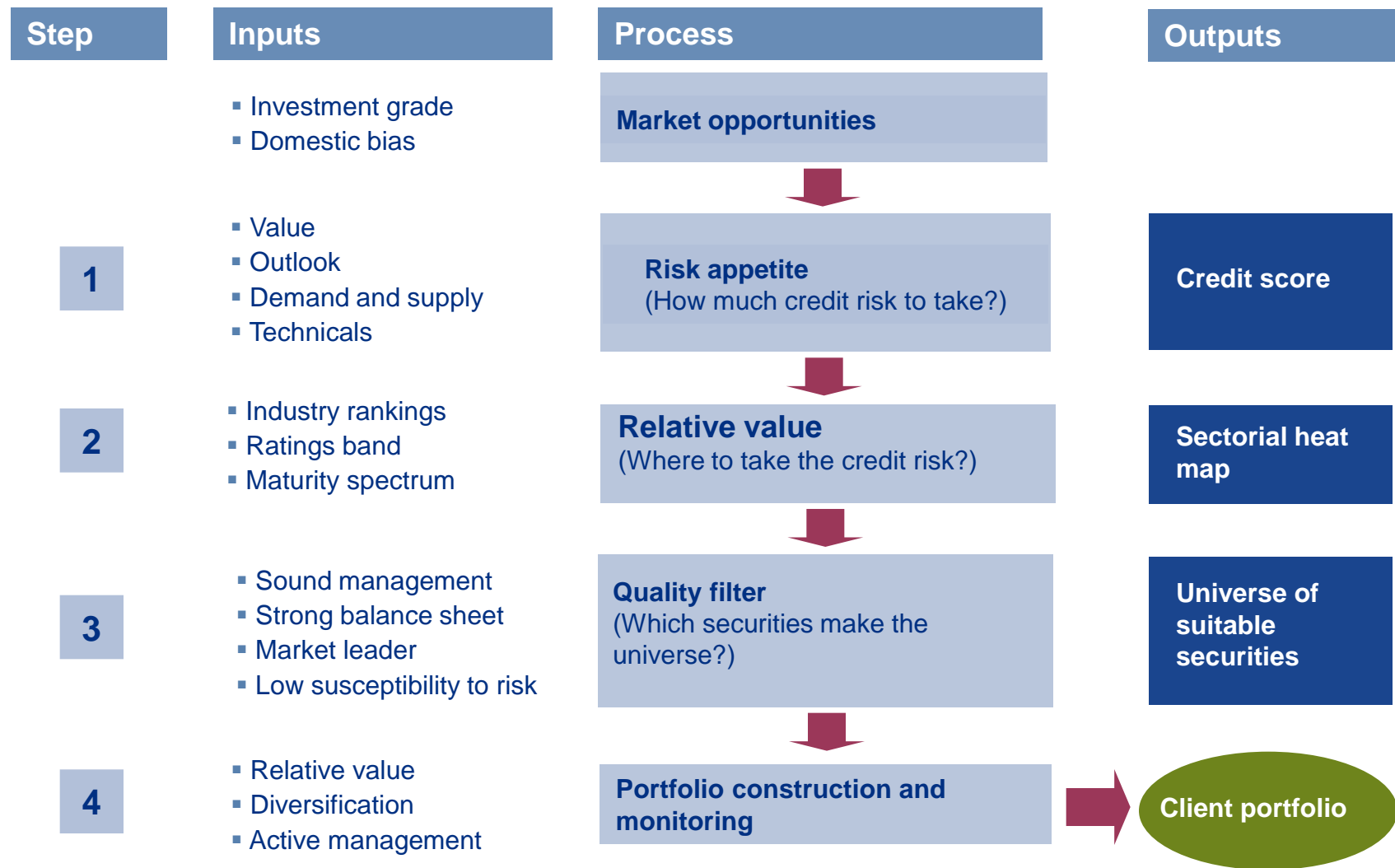
Minimal
US/Euro currency
risk (fully hedged)

Source: Perpetual, Morningstar

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Our active and risk aware investment process



Credit score – in detail

As at 9 August 2011

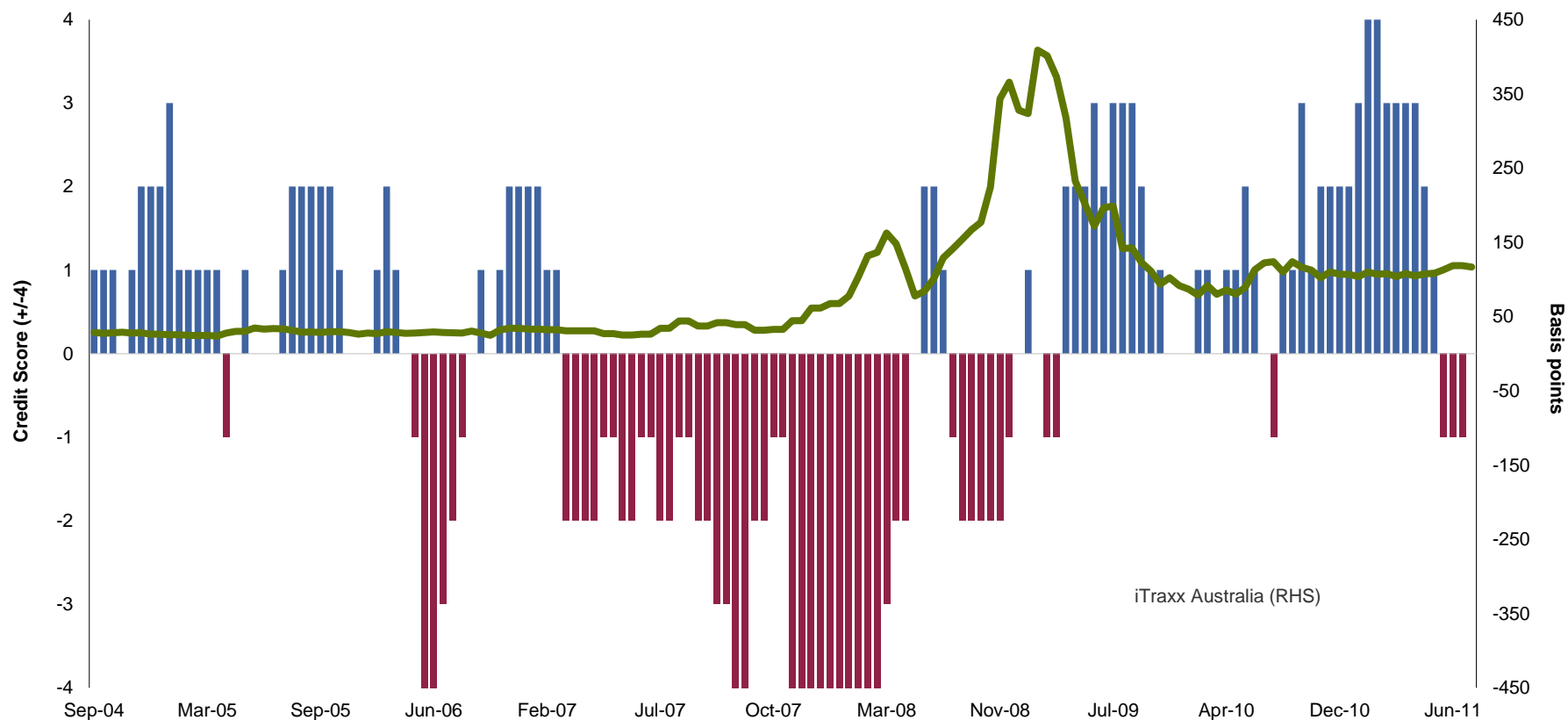
- Our fortnightly credit scoring process identifies and quantifies the environment that is influencing the absolute value of credit. The range of credit scores is between -4 and +4.

	28 Jun 11	12 Jul 11	9 Aug 11
Value	Neutral	Neutral	Neutral
Outlook	Neutral	Neutral/+	Neutral/+
Demand & supply	Neutral	Neutral/-	Neutral/+
Technicals	-	Neutral/-	Negative (1)
Total score	- 1	- 1	0

Source: Perpetual, as at 9 August 2011

Credit score and market spreads

Australian iTraxx vs Perpetual credit score



Source: Perpetual, Bloomberg, as at 12 July 2011.

Relative value / where to take credit risk

Industry ranking as at 9 August 2011

Industry ranking score			
Positive		Negative	
1	2	3	4
ABS	RMBS prime	Agencies	Wrapped
Banks	CMBS	Bank sub	RMBS low doc
Cash	Corporates	Supras	
	Property trusts	Utilities	
	RMBS other	Bank guaranteed	
	RMBS sub	O/S banks	
	Financials		
	Telcos		

Source: Perpetual, as at 9 August 2011

Where are we seeing value?

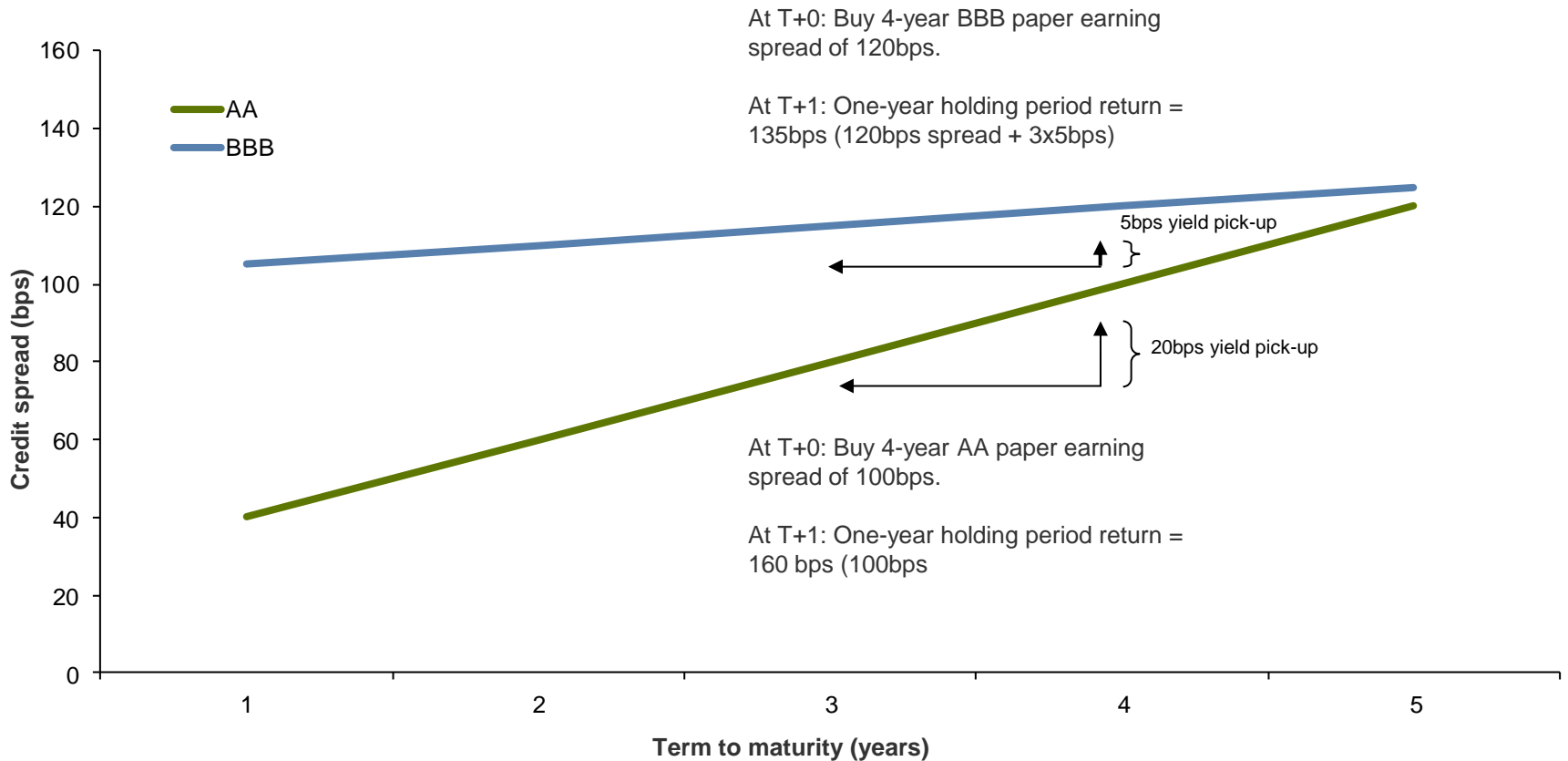
Examples of some recent transactions

Issuer	Buy/Sell	Issuer category	Issue rating	Maturity / call date	Spread to BBSW	Approx. total return (above BBSW)
Trading						
WST 2009-1 A	Buy	RMBS	AAA	Jan-14	+130bps	+195bps
	Sell	RMBS	AAA	Jan-14	+104bps	
HBOS	Buy	OS Bank	A+	Sep-12	+175bps	+220bps
	Sell	OS Bank	A+	Sep-12	+137bps	
National Wealth Mgmt Holdings	Buy	Financial	AA-	Dec-11	+270bps	+350bps
	Sell	Financial	AA-	Dec-11	+80bps	
Australian Unity	Buy	Corporate	BBB+	Apr-16	+355bps	+821bps
	Sell	Corporate	BBB+	Apr-16	+257bps	
TabCorp	Buy	Corporate	BBB	Oct-11	+151bps	+167bps
	Sell	Corporate	BBB	Oct-11	+88bps	
Bank of Queensland sub	Buy	Local Bank	BBB	May-16	+375bps	+491bps
	Sell	Local Bank	BBB	May-16	+351bps	
Bank of Queensland sub	Buy	Local Bank	BBB	Jun-13	+360bps	+523bps
	Sell	Local Bank	BBB	Jun-13	+275bps	
Curve (Roll-down)						
Goldman Sachs	Sell	OS Bank	A	Apr-16	+175bps	
	Buy	OS Bank	A	Nov-16	+202bps	



Actively enhancing returns with lower risk through relative roll-down analysis

Active management: Relative roll-down opportunities



Source: Perpetual

Where are we seeing value?

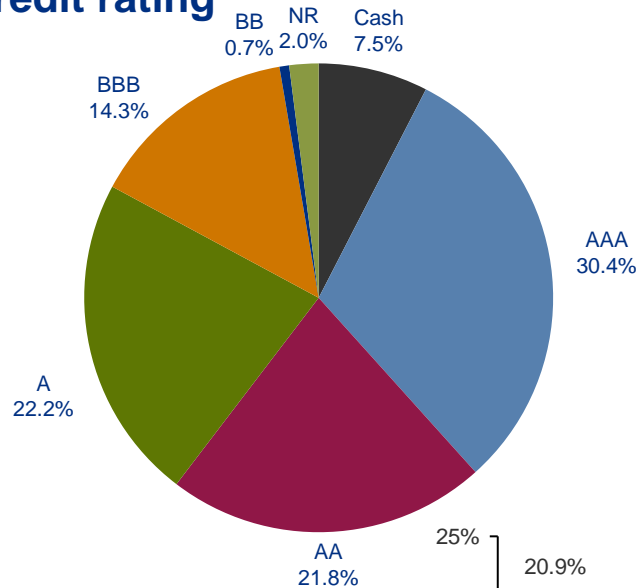
Examples of some recent transactions - continued

Issuer	Buy/Sell	Issuer category	Issue rating	Maturity / call date	Spread to BBSW
NZ Milk (Fonterra)	Buy	Corporate	A+	11-Jul-16	+100bps
Investa Commercial Property Fund	Buy	Property	A	03-Jun-16	+145bps
AMP Bank	Buy	Bank	A	15-Nov-13	+110bps
Australian Government CDS	Sell (Long)	Supranational	AAA	20-Sep-16	+65bps

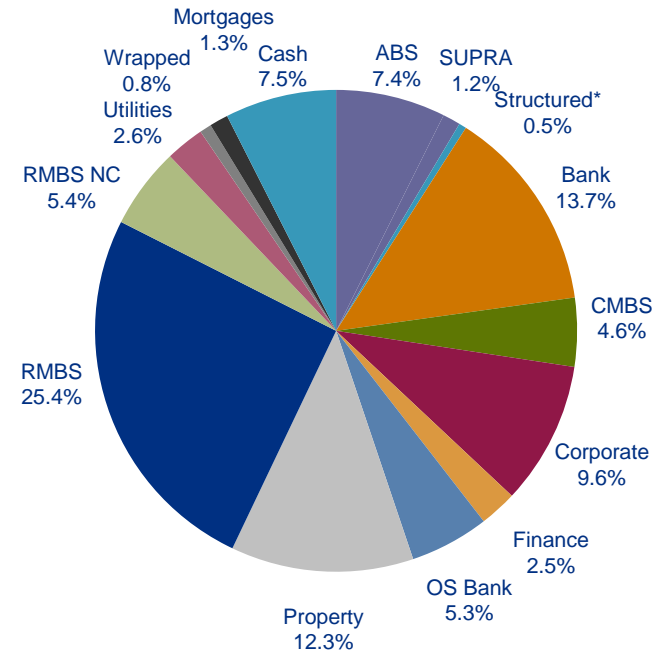
Quality and diversification

Portfolio characteristics as at 31 July 2011

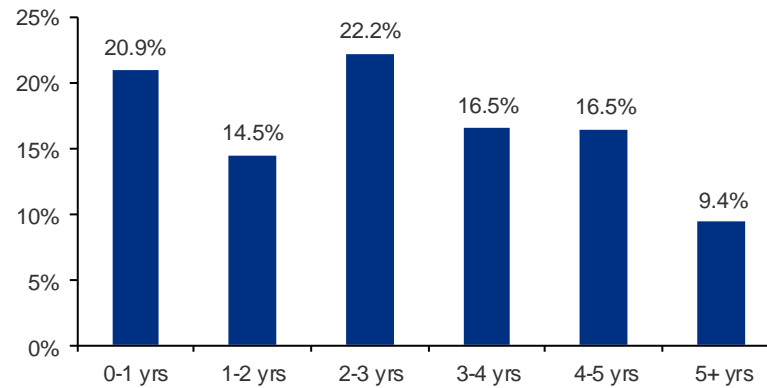
Credit rating



Sector



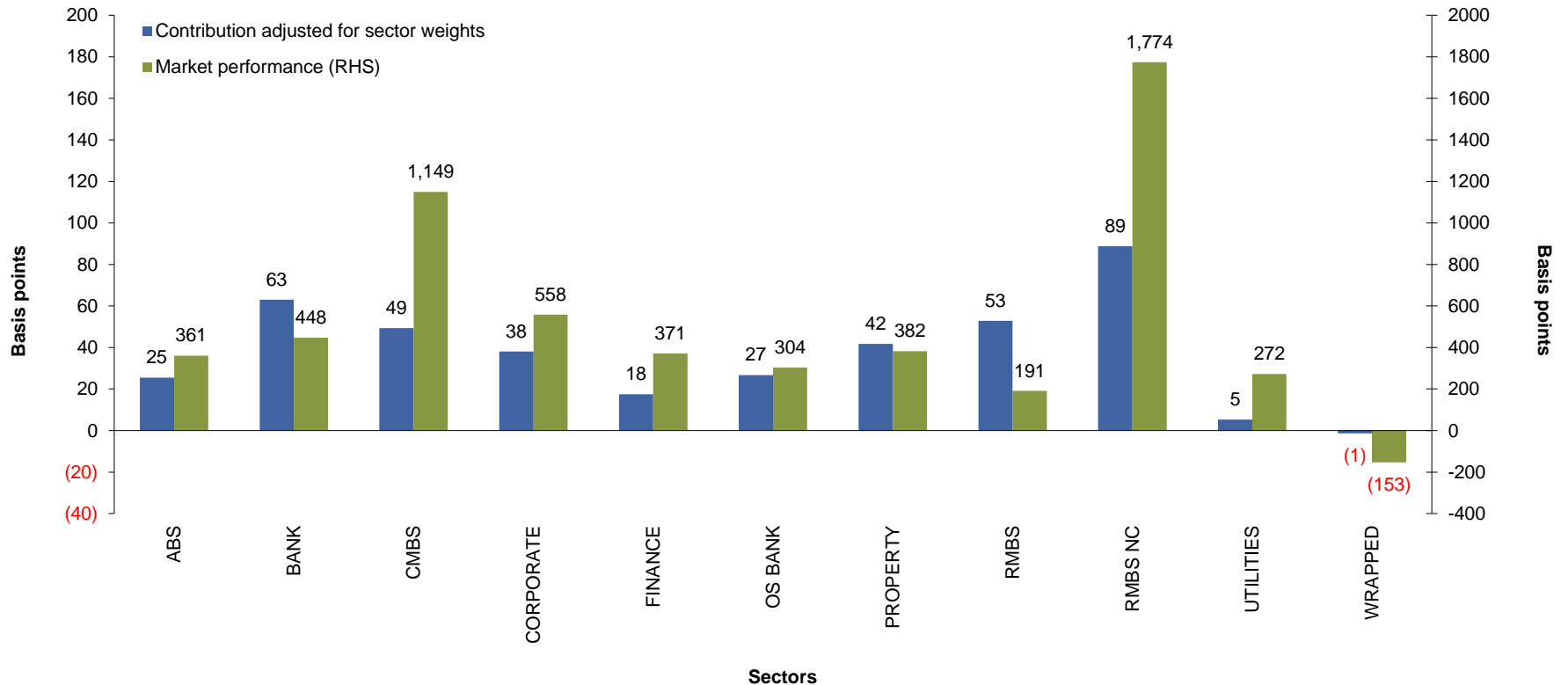
Maturity



Source: Perpetual Investments, as at 31 July 2011.



Contribution by sector



Source: Perpetual Investments, 12 months to 30 June 2011.

Diversified Income Fund

Performance as at 31 July 2011 (after fees)

	1 month %	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since Inception*
Diversified Income Fund	0.52	1.46	3.77	7.92	9.87	5.03	4.37	4.67
UBSA Bank Bill Index	0.42	1.24	2.46	4.98	4.51	4.69	5.60	5.63
Excess	0.10	0.21	1.31	2.94	5.36	0.33	(1.23)	(0.95)

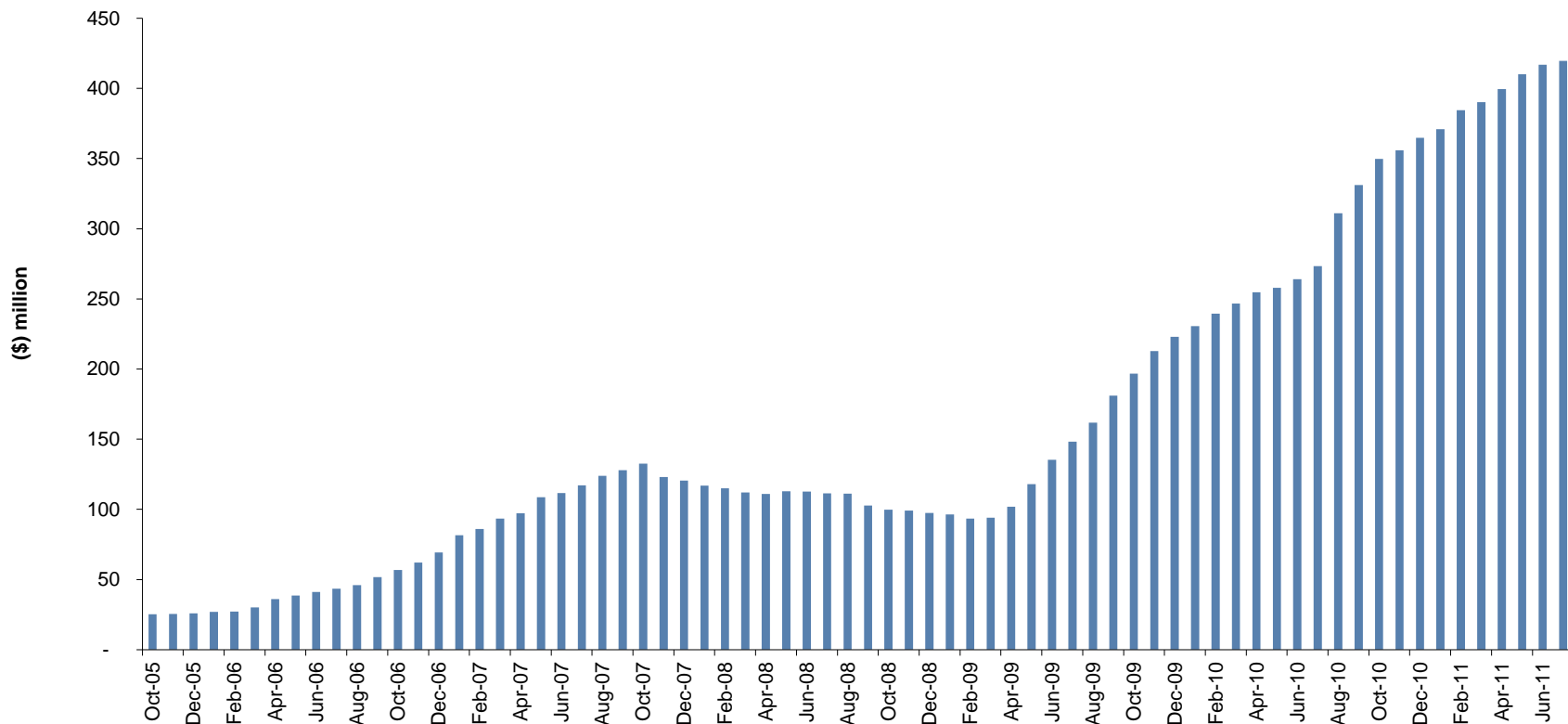
*Inception date: October 2005

Source: Perpetual, as at 31 July 2011. Performance is for the Perpetual Wholesale Diversified Income Fund, after fees and before tax. Past performance is not indicative of future performance.



The Perpetual Diversified Income Fund continues to receive broad support

Funds under management

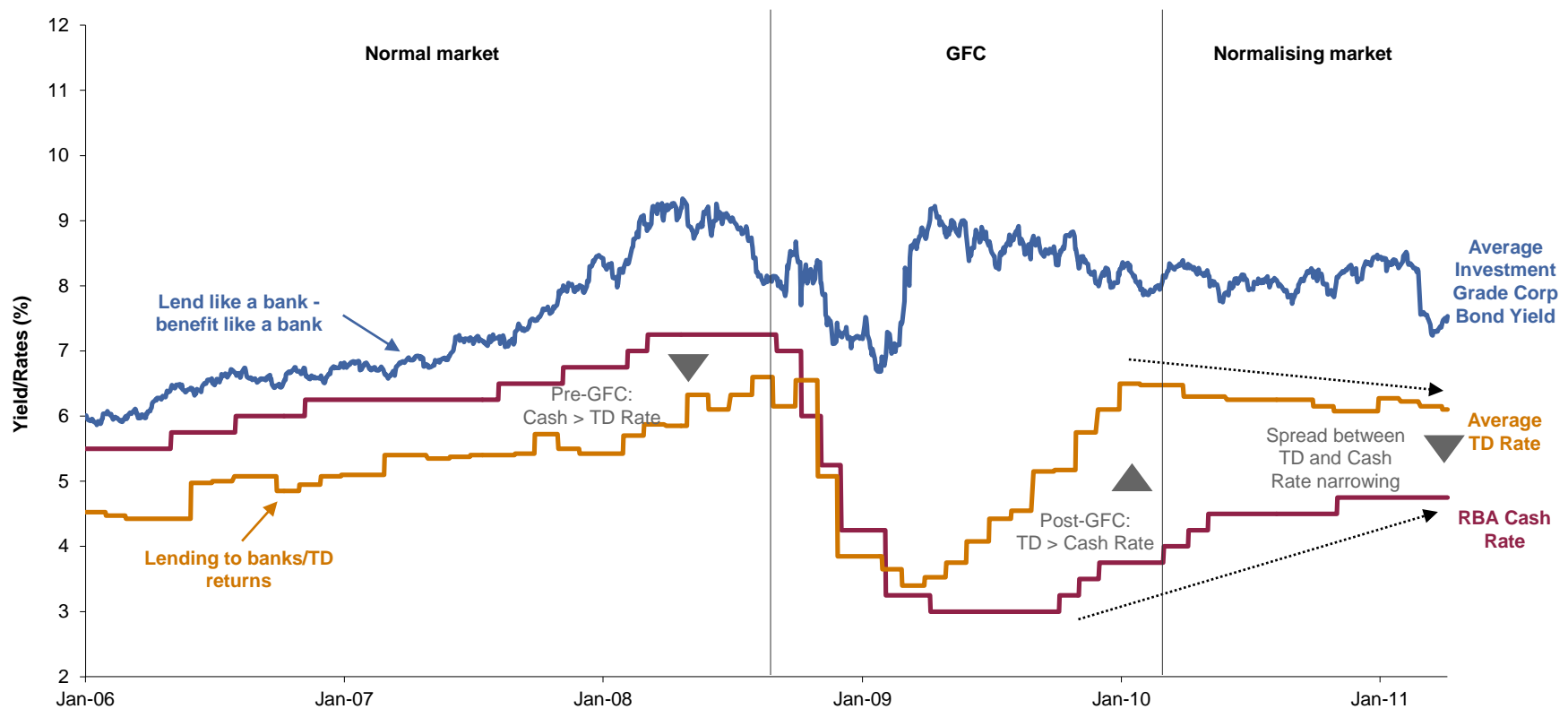


Source: Perpetual, as at 30 June 2011. FUM is for the Perpetual Wholesale Diversified Income Fund.



There is also growing support for the Fund as a viable complement to term deposits

Relative attractiveness of term deposits (TDs) is declining



Source: Reserve Bank of Australia, Bloomberg, Factset, Merrill Lynch, as at 7 April 2011

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Conclusion

- These events remind us that risks and volatility can strike unexpectedly, and it is good assets that protect us from the vagaries of an uncertain market.
- Active management remains key in managing risk as market uncertainty persists.
- High-quality, domestic, investment grade assets continue to be well compensated for credit risk.
- Australian assets underpinned by strong economic fundamentals and RBA has sufficient buffer to run an accommodative monetary policy, if necessary.
- Balance sheets of corporations are in much better shape than they were in 2008

Contacts

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