

# PERPETUAL DIVERSIFIED INCOME FUND

April 2024

## FUND FACTS

**Investment objective:** Aims to provide regular income and consistent returns above the Bloomberg AusBond Bank Bill Index (before fees and taxes) over rolling

**Benchmark:** Bloomberg AusBond Bank Bill Index\*\*

**Mgmt Fee:** 0.70% pa\*

**Buy / Sell spread:** 0.15% / 0.15%

**Benchmark Yield:** 4.354% as at 30 April 2024

**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.

## FUND RISKS

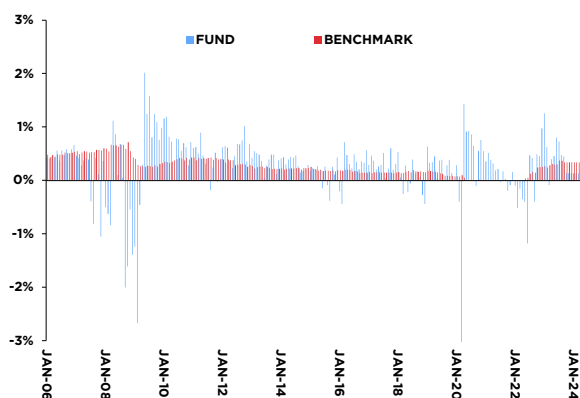
All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

## TOTAL RETURNS % (AFTER FEES) AS AT 30 April 2024

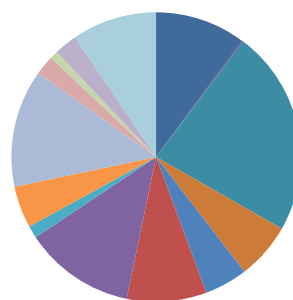
|  | APIR      | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 3 YRS PA | 5 YRS PA | 7 YRS PA | 10 YRS PA |
|--|-----------|-------|--------|--------|------|----------|----------|----------|-----------|
| Perp. WealthFocus Investments            | PERo284AU | 0.55  | 1.92   | 4.85   | 8.08 | 3.40     | 3.04     | 2.82     | 2.85      |
| Perp. WealthFocus Investment Advantage   | PERo490AU | 0.55  | 1.89   | 4.80   | 8.04 | 3.40     | 3.04     | 2.83     | 2.85      |
| Perp. WealthFocus Super                  | PERo286AU | 0.42  | 1.66   | 4.23   | 7.01 | 2.92     | 2.61     | 2.43     | 2.46      |
| Perp. WealthFocus Pensions               | PERo285AU | 0.55  | 1.92   | 4.84   | 8.07 | 3.38     | 3.03     | 2.81     | 2.84      |
| Perp. WealthFocus Term Allocated Pension | PERo339AU | 0.55  | 1.92   | 4.84   | 8.07 | 3.38     | 3.03     | 2.81     | 2.84      |
| Bloomberg AusBond Bank Bill Index**      |           | 0.35  | 1.07   | 2.17   | 4.24 | 2.19     | 1.55     | 1.64     | 1.83      |

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

## MONTHLY PERFORMANCE SINCE INCEPTION^



## PORTFOLIO SECTORS



- ABS, 10.1%
- SUPRA, 0.0%
- SEMI, 0.0%
- STRUCTURED, 0.2%
- BANK, 23.0%
- CMBS, 6.3%
- CORPORATE, 4.8%
- FINANCE, 8.9%
- MORTGAGES, 0.0%
- OS BANK, 12.4%
- PROPERTY, 1.4%
- RMBS, 4.7%
- RMBS NC, 13.1%
- UTILITIES, 2.2%
- WRAPPED, 0.9%
- GOVERNMENT, 2.6%
- CASH, 9.5%

## PORTFOLIO COMPOSITION

|                                 | BREAKDOWN |
|---------------------------------|-----------|
| Senior Debt                     | 45.81%    |
| Subordinated Debt               | 53.11%    |
| Hybrid Debt                     | 1.08%     |
| Core Component                  | 97.45%    |
| Plus Component                  | 2.55%     |
| % Geared                        | 0.00%     |
| Running Yield <sup>#</sup>      | 5.94%     |
| Portfolio Weighted Average Life | 3.38 yrs  |
| No. Securities                  | 104       |

\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

## MARKET COMMENTARY

Bond yields rose globally during April, precipitating a small selloff in global equities. Revision of monetary policy expectations was the key factor with sticky inflation and resilient growth data causing expectations for central bank easing to be pushed further out. Expectation of 2024 US Fed rate cuts have shifted substantially from up to 7 cuts predicted in January to only one by April month end. A similar pattern has been observed domestically with futures markets pricing another RBA hike by year end.

Domestic bond yields sold off along the curve during April with 10-year yields surging 46bp and the Bloomberg Ausbond Composite (0+y) falling 2.0%. The yield curve flattened with 2 and 3-year yields selling off sharply as monetary easing expectations were pushed back.

During a month where fixed rate bonds and equities underperformed, domestic credit spreads were resilient. On aggregate, spreads traded in a relatively tight range however subordinated spreads in the domestic bank and securitised sectors performed well. An early April upgrade by S&P to Australian major bank sub debt (from BBB to A-) saw bank sub debt outperform.

Primary market activity was orderly during April and highlighted by continued strong demand which has been a hallmark of the year to date. Corporate issuance remains elevated relative to recent years with Sydney Airport coming to market for the first time in a decade to raise \$850M in a 10-year deal. Major bank issuance was quiet until - in the first week of May - NAB raised \$2.9B of senior debt across fixed and floating tranches. Securitisation issuance volumes remained elevated and continued to meet strong demand.

## PORTFOLIO COMMENTARY

In a month where bonds and equities sold off, the Fund's floating rate structure mitigated the impact of sharply rising yields, remaining insulated from the impact of ongoing bond yield volatility associated with the uncertain path of monetary policy.

The most substantial contributing factor for outperformance during the month was the Fund's yield premium above benchmark. The key sectors contributing to income return were domestic and offshore banks alongside RMBS. The portfolio's running yield was 5.9% at month end, with the average spread measured at 1.5%.

Credit spread dynamics were constructive for performance. Domestic credit spreads were resilient during a month where equities and bond yields sold off. Domestic and offshore banks were the most substantial contributing sectors to outperformance. Subordinated financials were notable contributors, benefitting from a ratings upgrade to major bank sub debt which saw spreads on comparable issuers rally in sympathy. The Fund's allocation to subordinated major bank paper has been elevated over recent months reflecting attractive relative valuations and the Manager's anticipation of a ratings upgrade which was rewarded during April.

Sector and risk allocations were actively managed during the month. The Fund continued to rotate towards quality, moving up the credit rating spectrum. Allocation to subordinated major bank paper was increased with Manager continuing to see as offering attractive relative value despite the recent rally. The Manager also elected to take profit on a number of Euro denominated financial exposures. Elsewhere, the Fund's exposure to ABS was selectively increased. The Fund retains an elevated allocation to securitised assets and continues to add in primary to maintain allocation as securitised assets amortise.

The outlook for credit remains delicately balanced. The Manager continues to look for attractively priced issues and relative value opportunities while carefully managing credit and liquidity risks.

## OUTLOOK

The credit outlook rose to positive in early April before declining in the final week to end the month neutral.

Valuation indicators returned a marginally negative reading as tight US high yield spreads detracted from the valuation outlook. Meanwhile, Australian & US investment grade indicators remain neutral.

Our macro-outlook remains marginally positive. Manufacturing PMIs are showing signs of improvement in the US, UK & China with all 3 PMIs in expansionary territory. Accessibility of equity market capital and the ratio of ratings upgrade to downgrades are providing support for spreads.

Supply and demand indicators remain neutral. Elevated upcoming maturity volumes are constructive although the pipeline for new issuance is also looking heavy. While demand in primary markets remains healthy, secondary market demand is softer.

Technical indicators remained positive in April with US credit and equity both positive, however the equity volatility indicator remains marginally negative. Intermediary positioning and cash allocations among real money accounts remain balanced.

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Total returns shown in this publication 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 taxation. Past performance is not indicative of future performance. <sup>1</sup> Fund information in this document is relevant to the Wholesale option unless stated.

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<sup>~</sup> The chart represents the Wealthfocus Investment option.

<sup>\*\*</sup> UBS Australian Bond Index changed to Bloomberg AusBond Bank Bill Index effective 26 September 2014

## MORE INFORMATION

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