Perpetual Investments

PERPETUAL DIVERSIFIED INCOME FUND

December 2018

FUND FACTS

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

Benchmark: Bloomberg AusBond Bank Bill Index**
Mgmt Fee: 1.65% pa*
Buy / Sell spread: 0.20% / 0.00%
Benchmark Yield: 1.975% as at 31 December 2018
Suggested minimum investment period: Three years or longer

FUND BENEFITS

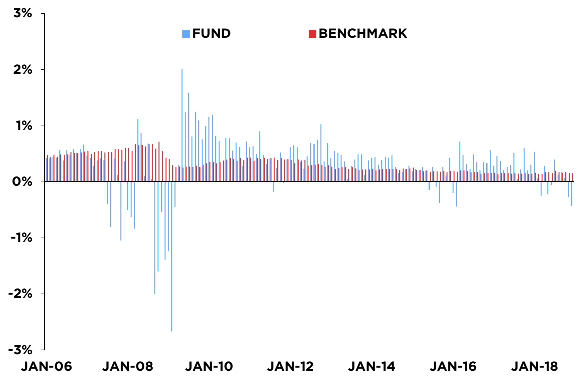
Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed, highly diversified and liquid investment.

TOTAL RETURNS % (AFTER FEES) AS AT 31 December 2018

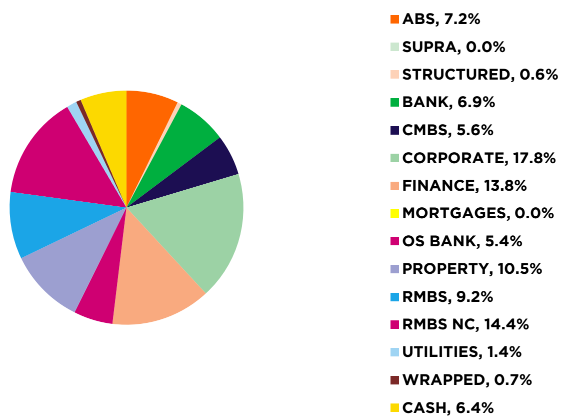
	APIR	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	7 YRS PA	10 YRS PA
Perp. WealthFocus Investments	PER0284AU	-0.44	-0.65	0.02	0.35	2.51	2.61	3.55	4.39
Perp. WealthFocus Investment Advantage	PER0490AU	-0.44	-0.66	0.02	0.37	2.52	2.62	3.55	4.38
Perp. WealthFocus Super	PER0286AU	-0.34	-0.55	-0.01	0.28	2.17	2.27	3.10	3.79
Perp. WealthFocus Pensions	PER0285AU	-0.43	-0.64	0.03	0.36	2.50	2.60	3.54	4.35
Perp. WealthFocus Term Allocated Pension	PER0339AU	-0.43	-0.64	0.03	0.36	2.50	2.60	3.54	4.35
Bloomberg AusBond Bank Bill Index**		0.15	0.48	0.99	1.92	1.91	2.15	2.51	3.07

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

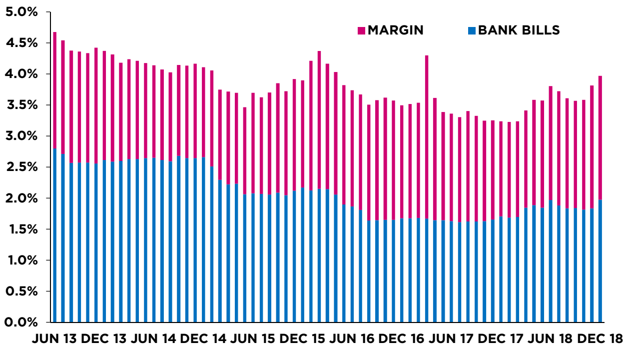
MONTHLY PERFORMANCE SINCE INCEPTION^



PORTFOLIO SECTORS



RUNNING YIELD



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	77.98%
Subordinated Debt	15.09%
Hybrid Debt	6.93%
Core Component	88.38%
Plus Component	11.62%
% Geared	0.00%
Running Yield	3.98%
Portfolio Weighted Average Life	3.44 yrs
No. Securities	152

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

MARKET COMMENTARY

A marked deterioration in investor sentiment during December underpinned increased volatility across broader risk assets. The combined impact of elevated geopolitical uncertainty in Europe, continued trade frictions between the US and China and fears of potential monetary policy error by the US Federal Reserve led to the broader risk off tone. Both Australian and US bond yields shifted lower as the weight of concerns about political and economic uncertainty intensified. While resilient relative to their offshore counterparts, domestic cash bond spreads widened, where subdued levels of liquidity in the domestic market intensified other widening pressures observed.

Lingering pessimism around the prospects of a truce in the US – Sino trade war and the prospects of escalating protectionist policies between both nations weighed on sentiment. Concerns in Europe remained, with tension around Brexit negotiations persisting, while disagreements between the European Union and Italy regarding the budgetary deficit continued to occupy newswires. Emerging markets struggled on continued trade war concerns and tightening US financial conditions.

Domestic economic data printed below expectations however was not particularly poor. Australian third quarter GDP grew a sluggish 0.3% for the quarter. US economic data was mixed but remained positively biased. As expected, the Federal Reserve hiked the federal funds rate target range to between 2.25% – 2.5%, which in turn exacerbated the sell-off in risk assets, leading credit spreads wider.

Domestic primary market corporate activity was particularly light, with only one deal printing during December. Activity in the domestic securitised market saw two primary deals price. Domestic cash bonds outperformed their synthetic iTraxx equivalents, which were more volatile as a result of the risk off bias in broader risk assets generally.

PORTFOLIO COMMENTARY

The portfolio continued to collect running income in excess of the benchmark across all corporate and collateralised sectors. This contribution from positive carry was mainly associated with portfolio exposure to corporates alongside banks and financials.

Credit spreads widening detracted from performance. A marked deterioration in investor sentiment underpinned by geopolitical uncertainties, US-Sino trade tensions and fears associated with potential policy error in the US saw episodes of increased volatility across broader risk assets. As a result, credit spreads trended wider. Subdued levels of liquidity in the domestic market intensified these widening pressures observed.

The portfolio continues to be progressively de-risked as has been the case over recent months given the negative outlook on credit and the broad array of potential risks on the horizon. The defensive bias of the portfolio has been bolstered, with exposure to securities higher up both the ratings and capital structure being built upon. Weighted average life has been reduced in line the softening outlook. The portfolio was active in the securitised primary market, including taking a position in a higher rated tranche of the auto asset backed 'Liberty Series 2018-1 Auto' ABS. Portfolio exposure to banks and financials, both domestic and offshore, was reduced during the month. The running yield at month end was approximately 3.98% with the spread measured at 1.99% above the benchmark.

OUTLOOK

The credit outlook is mildly negative. Despite the prevalence of a supportive macroeconomic environment, deteriorating market driven metrics alongside unbalanced supply and demand dynamics underpin the negative bias observed. Valuation indicators are modestly negative. From a relative valuation perspective, a slight divergence in spreads relative to offshore equivalents has been observed, where offshore paper has trended wider. Despite recent spread widening, both domestic and offshore cash bonds continue to trade tight of their long-term averages in investment grade and high yield spaces.

Support from market metrics has stalled on the back of recent increased volatility in both equity and bond markets. This has caused some credit buyers to pull back and raise cash in anticipation of buying at better technical levels. In addition, intermediary appetite for credit appears to have waned recently.

Supply and demand dynamics have also become less supportive. While primary activity was almost non-existent in recent weeks, a flurry of issuance in the preceding months put a floor under any meaningful near-term tightening expectations. Recent demand for primary issuance has become somewhat lacklustre with diminished liquidity levels in the market. Somewhat tempering the negative biases observed is strength in the macroeconomic outlook.

Although the fundamentally strong economic environment remains positive for credit, we remain vigilant regarding the fragility of the geopolitical landscape. Trade friction is appearing to dampen the outlook for global economic growth. Uncertainty around potential policy error in the United States, Brexit related volatility and concerns around the pace of unwind of quantitative easing in place is also apparent. We continually monitor data and information flows that may influence market sentiment and, in such situations, retain sufficient flexibility to appropriately and actively manage portfolio risk exposures.

1 Fund information in this document is relevant to the wholesale option unless stated.
^ The chart represents the Wealthfocus Investment option.
** UBS Australian Bond Index changed to Bloomberg AusBond Bank Bill Index effective 26 September 2014

MORE INFORMATION

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