Perpetual Investments

PERPETUAL WHOLESALE DIVERSIFIED INCOME FUND

June 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**
Inception date:	October 2005
Size of fund:	$1,167.6 million as at 30 June 2018
APIR:	PER0260AU
Mgmt Fee:	0.70% pa*
Benchmark Yield:	1.970% as at 30 June 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 30 June 2018

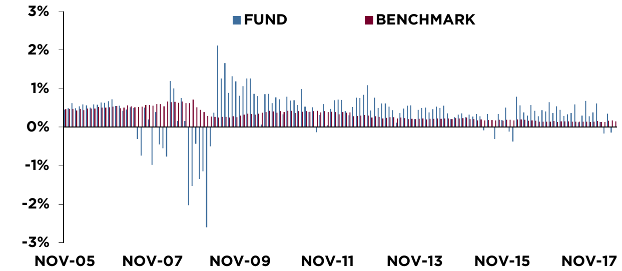
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Diversified Income Fund	0.02	0.24	0.81	3.22	4.23	3.70	4.06	4.75	4.71
Bloomberg AusBond Bank Bill Index**	0.15	0.49	0.92	1.78	1.80	1.95	2.22	2.73	4.02

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.

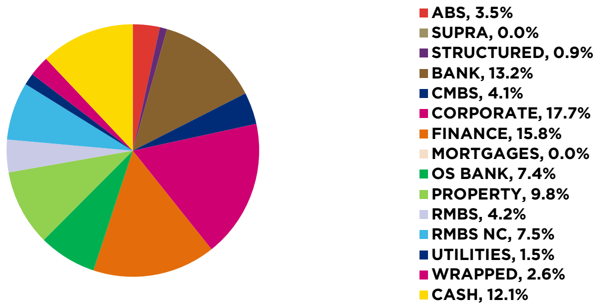
POINTS OF INTEREST

•Credit spreads drift wider, domestic spreads resilient relative to offshore counterparts
•RBA on hold, bank bills march sharply higher; ACGB curve shifts lower and flattens; swap spreads wider
•A$2.9bn of domestic (including SSA) issuance; three new securitisation deals in June
•The outlook for credit improves

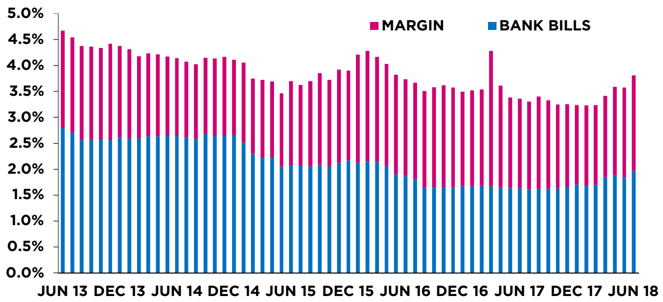
MONTHLY PERFORMANCE SINCE INCEPTION



PORTFOLIO SECTORS



RUNNING YIELD



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	71.23%
Subordinated Debt	17.93%
Hybrid Debt	10.83%
Core Component	84.29%
Plus Component	15.71%
% Geared	0.00%
Running Yield	3.84%
Portfolio Weighted Average Life	3.73 yrs
No. Securities	151

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

MARKET COMMENTARY

June was a challenging month for credit markets during which domestic credit spreads continued to drift wider. Escalating prospects of a trade war between the United States and China weighed heavily on market sentiment, while funding pressures and central bank policy changes also occupied investors' minds. These fears were somewhat tempered by robust economic data prints.

While statements alluding to protectionist policies underpinned episodes of volatility across risk assets, overarching fundamentals remained supportive of credit. Weakness observed locally was less pronounced than that of overseas markets. Both domestic and offshore economic data prints were resilient, including buoyant US non-farm payroll employment and ISM manufacturing metrics.

Accommodative monetary policy settings remained in place across most major offshore economies, while any changes were well telegraphed. As expected, the Federal Reserve hiked the federal funds rate target range to between 1.75% - 2%, while maintaining its consistent message on rate hikes and a hawkish policy stance. Across the Atlantic, the European Central Bank (ECB) announced plans to methodically reduce its asset purchasing program. ECB President Draghi maintained a dovish tone. The Reserve Bank of Australia (RBA) maintained their ongoing dovish tone, leaving interest rates at 1.5% while indicating that current monetary conditions are appropriate for the growth objectives of the domestic economy. June saw domestic issuance of A$2.9bn print across corporate and SSA issuers. Spreads of domestic corporates outperformed their synthetic counterparts, which pushed 11bps wider as geopolitical risks influenced market dynamics.

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 and the significant exposure to domestic and offshore banks and financials.

Credit spread widening detracted from performance. Market uncertainty was underpinned by heightened geopolitical risks alongside the prospects of increased global short term bank funding costs resulting from wider short end BBSW-OIS and repo spreads. The weakness observed in domestic credit was less pronounced than that of overseas equivalents.

Portfolio positioning was actively managed, including a deliberate reduction in exposure to select hybrids in recent months. Instead, a preference for securities higher up the capital structure was assumed. Given the curve is flat at the long end, more compelling opportunities are observed in the middle part of the curve. This has resulted in the portfolio being selective about the maturity bucket invested in. Given the current outlook on credit markets is positive, portfolio weighted average life has been marginally lengthened and cash continues to be deployed to opportunities viewed as appropriate from a risk-reward perspective.

The portfolio was active in the primary market, including taking a position in the five year tenor of Barclays recent domestic deal. In the secondary market, the portfolio had sold a position in Santos credit earlier in the quarter following a jump in value on the prospects of a takeover. A more attractively priced position in Santos was re-established in June following a rejection of the takeover bid by the Santos board. The running yield at month end was approximately 3.84% with the spread measured at 1.84% above the benchmark.

OUTLOOK

The outlook for credit continues to improve. The macroeconomic outlook remains supportive of spread tightening. This is driven by strength in economic indicators, most notably the recent US manufacturing ISM survey print. Monetary policy expectations support this view, which include hawkish rhetoric regarding the trajectory and pace of policy normalisation in major economies. Robust fundamentals (as evidenced by upgrade/downgrade ratios) in both investment grade and high yield spaces support the view of an improving economic growth backdrop. Support from market metrics are also key to the positive outlook. Diminished volatility and strength in equity markets is positive for credit spread dynamics.

Supply and demand dynamics serve to modestly temper the positive indicators. Although supply activity in domestic primary markets has eased in recent weeks (which is a positive for potential spread contraction due to a scarcity in the overall stock of credit), issuance levels over a longer historical timeframe remain at an elevated level. Market demand is also noticeably weaker, however increased levels of upcoming maturities can be expected to increase demand in the domestic market, particularly in light of recent supply conditions.

Valuation indicators are benign. From a relative valuation perspective, spread differentials between domestic and offshore paper remain clustered. Both domestic and offshore cash bonds continue to trade tight of their long-term averages in investment grade and high yield spaces, while domestic swap spreads have increased marginally however remain low relative to their long term historical average. Near term risks from an increasingly fragile geopolitical landscape continue to underpin uncertainty, with associated potential volatility a significant risk. Recent unconventional movements in short end BBSW-OIS spreads are also influencing a cautious tone amongst domestic market participants. Uncertainty around rising interest rates and the pace of unwind of quantitative easing in place remains apparent.

** UBS Australian Bond Index changed to Bloomberg AusBond Bank Bill Index effective 26 September 2014

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au