Perpetual Investments

PERPETUAL WHOLESALE DIVERSIFIED INCOME FUND

April 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: $1,108.3 million as at 31 March 2018
APIR: PER0260AU
Mgmt Fee: 0.70% pa*
Benchmark Yield: 1.888% as at 30 April 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 April 2018

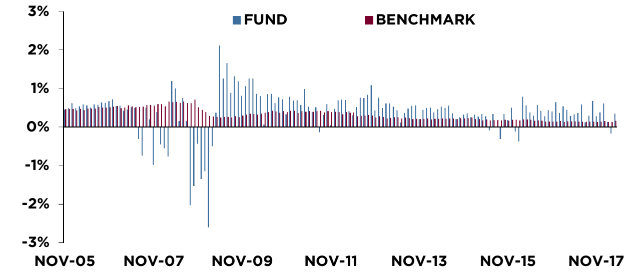
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Diversified Income Fund	0.35	0.32	1.60	4.07	4.65	3.81	4.20	4.91	4.78
Bloomberg AusBond Bank Bill Index**	0.16	0.44	0.87	1.75	1.82	1.96	2.26	2.80	4.05

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.

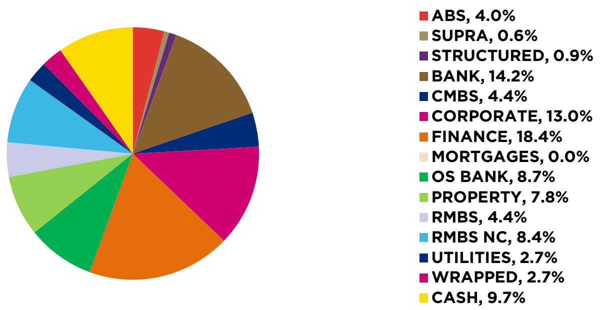
POINTS OF INTEREST

•Credit spreads edge wider
•RBA on hold, bank bills higher; ACGB curve shifts higher and steepens ; swap spreads tighter
•A$6.9bn of domestic (including SSA) issuance; four new securitisation deals in April
•The outlook points to lower expectations of material spread tightening in the near term

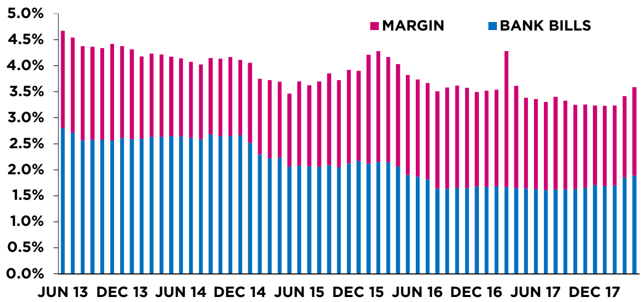
MONTHLY PERFORMANCE SINCE INCEPTION



PORTFOLIO SECTORS



RUNNING YIELD



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	65.65%
Subordinated Debt	19.07%
Hybrid Debt	15.28%
Core Component	82.92%
Plus Component	17.08%
% Geared	0.00%
Running Yield	3.62%
Portfolio Weighted Average Life	3.49 yrs
No. Securities	157

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

MARKET COMMENTARY

Domestic credit spreads edged marginally wider during April. Weaker sentiment across broader risk assets at the beginning of the month was mostly associated with the prospects of trade wars and protectionism across global trading partners. Domestic cash bond spreads moved modestly wider. These movements in spreads were mostly reversed into month end, firming to close the period only slightly wider.

Some signs of stabilisation emerged following strength observed in global Purchasing Managers Index (PMI) prints. However, the prospects of credit spread tightening diminished given a broad softening in sentiment towards the pace of GDP growth.

In the US, reporting season results were strong. Higher inflation expectations saw the 10 year US treasury yield rise above three percent for the first time in four years. Across the Atlantic, less supportive inflation expectations and a slowdown in the European economic union in the March quarter led to a dovish statement from the European Central Bank. The Reserve Bank of Australia left the domestic cash rate unchanged at 1.5%. The need for wage growth and a reduction in unemployment to spur inflation was cited as dominant in any future rate change expectations. Short-end rates continued to march higher in in the earlier part of the month, resulting in further widening in domestic BBSW and US LIBOR-OIS spreads.

April saw domestic issuance of A$6.9bn print across corporate and SSA issuers. Primary market activity included Caltex, with Bank of Queensland were also active in the primary market. Activity in the domestic securitised market saw four primary deals, including Volkswagen Financial Services 'Driver Australia Five' ABS. Australian iTraxx synthetic spreads ground tighter during the month, outperforming cash bond spreads which widened marginally.

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.

The portfolio benefitted from credit spread movements over the course of the month. Despite marginal widening pressures, strong security selection led to a positive outcome. This was particularly prevalent in domestic corporates. Dynamics observed were primarily technically driven, with fundamentals remaining sound. The prospects of global short term bank funding costs increasing given the recent marked increase in short end BBSW and repo spreads also influenced the softer tone in credit markets.

Portfolio positioning was actively managed, however turnover was at a lower level to previous months. Portfolio weighted average life was shortened further level relative to its historical average, ending the month slightly below 3.5 years. Exposure to offshore banks was increased, as was exposure to cash in line with the negative credit score. Portfolio allocation to domestic corporates was also reduced. Primary market participation included taking a position in the Caltex seven year new issue alongside BPCE's five year FRN at 3M BBSW +110bps.The running yield at month end was approximately 3.62% with the spread measured at 1.70% above the benchmark.

OUTLOOK

Our current outlook points to lower expectations of material spread tightening in the near term. Supply and demand dynamics alongside less supportive market conditions continue to play a dominant role. However, this is somewhat tempered by a strong macroeconomic outlook.

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.

Support from technical indicators remains negatively biased, having swung from being positive earlier in the year. Observations of less pronounced demand from intermediaries for inventory remain negative for credit. However, countering this are improved indicator from the VIX index, with volatility reducing from recent spikes observed.

Supply and demand dynamics are less supportive of spread tightening. The deterioration stems from increased supply and a diminished level of upcoming maturities. Also influencing supply and demand dynamics include that it pays investors an attractive return to invest out to two years now rather than park money at call in cash thereby reducing the buyers at a time of increased supply.

Countering these negative signals is the macroeconomic outlook, which remains supportive of spread tightening. This is driven by continued strength in global economic indicators. The impact of changes in credit fundamentals (as evidenced by the upgrade/downgrade ratio) has turned positive.

Near term risks from a geopolitical landscape which remains fragile continue to underpin current market dynamics and uncertainty, with associated potential volatility a significant risk. Uncertainty around rising interest rates, inflation and the pace of unwind of quantitative easing in place also remains apparent.

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

MORE INFORMATION

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