

Perpetual Investments

PERPETUAL DIVERSIFIED INCOME FUND

August 2019

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: 1.007% as at 31 August 2019
Suggested minimum investment period: Three years or longer

FUND BENEFITS

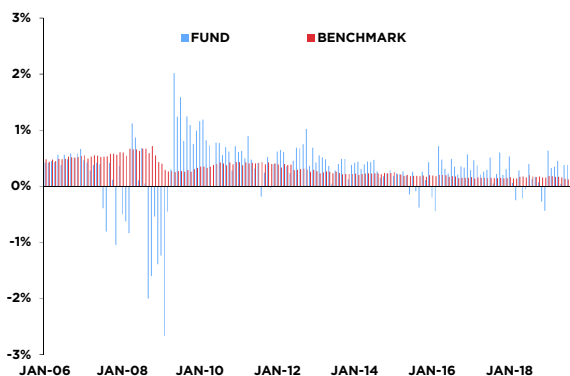
Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed, highly diversified and liquid investment.

TOTAL RETURNS % (AFTER FEES) AS AT 31 August 2019

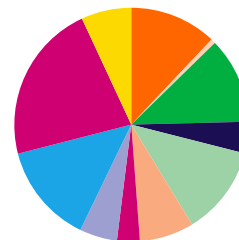
	APIR	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	7 YRS PA	10 YRS PA
Perp. WealthFocus Investments	PERO284AU	0.01	0.76	1.60	2.07	2.73	2.49	3.30	4.50
Perp. WealthFocus Investment Advantage	PERO490AU	0.01	0.76	1.61	2.08	2.74	2.51	3.30	4.49
Perp. WealthFocus Super	PERO286AU	0.01	0.61	1.33	1.76	2.35	2.14	2.86	3.88
Perp. WealthFocus Pensions	PERO285AU	0.01	0.76	1.60	2.07	2.72	2.48	3.28	4.46
Perp. WealthFocus Term Allocated Pension	PERO339AU	0.01	0.76	1.60	2.07	2.72	2.48	3.28	4.46
Bloomberg AusBond Bank Bill Index**		0.08	0.34	0.82	1.82	1.81	2.03	2.28	2.96

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

MONTHLY PERFORMANCE SINCE INCEPTION^

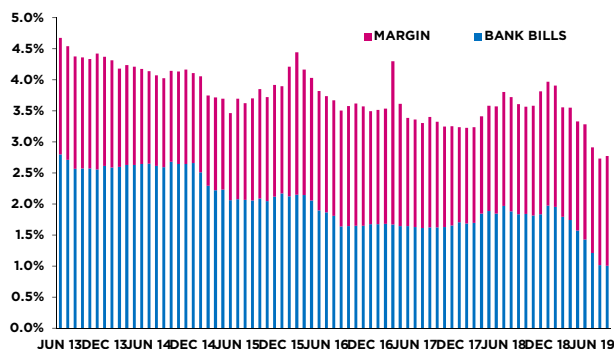


PORTFOLIO SECTORS



- ABS, 12.0%
- SUPRA, 0.0%
- STRUCTURED, 0.6%
- BANK, 11.9%
- CBMS, 4.3%
- CORPORATE, 12.3%
- FINANCE, 7.5%
- MORTGAGES, 0.0%
- OS BANK, 3.1%
- PROPERTY, 5.2%
- RMBS, 13.8%
- RMBS NC, 22.1%
- UTILITIES, 0.0%
- WRAPPED, 0.0%
- CASH, 6.9%

RUNNING YIELD



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	73.71%
Subordinated Debt	19.41%
Hybrid Debt	6.88%
Core Component	92.60%
Plus Component	7.40%
% Geared	0.00%
Running Yield	2.76%
Portfolio Weighted Average Life	2.75 yrs
No. Securities	158

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

MARKET COMMENTARY

Domestic credit spreads widened during the month as investor sentiment across risk assets became concerned about softer economic data and geopolitical rhetoric over several issues. This resulted in fixed income yields falling across the board in some cases to record lows. Domestic primary market issuance for credit last month was robust but met with tepid demand as some investors chose to stay on the sidelines and increase cash levels until the outlook becomes clearer. These new deals were predominantly driven by large domestic financial institutions.

Softer global economic data prevailed with indicators pointing to subdued growth evidenced by a raft of global PMI's falling. Alongside this, inflation observations remained sluggish. Both domestic and offshore government yield curves rallied during the month on the weaker economic data prints. The geopolitical events also made it difficult for investors to invest with confidence as the US-China trade disputes continued to occupy newswires; the possible implosion of Hong Kong democracy; the Italian and British Governments both in disarray with one due to its budget deliberations and the other an increasing likelihood of a disorderly Brexit. Furthermore, President Trump added to the escalation in rhetoric by demanding the US Federal Open Markets Committee (FOMC) immediately cut interest rates by 1%. These ongoing events all had an impact on investor sentiment.

The Reserve Bank of Australia (RBA) paused the official cash at 1% in August having previously delivered two successive cuts in the previous months. In the RBA's official statement, they indicated that if employment conditions deteriorated further, they stood ready to initiate further rate cuts.

August saw the first issuance by the major banks following the Australian Prudential Regulation Authority (APRA) Total Loss Absorbing capacity (TLAC) announcement. The regulator now requires Authorised Deposit Taking Institutions (ADI's) to increase their total capital buffer by 3% via issuance of tier two junior or sub-ordinated debt. For the major banks this means increased debt issuance of approximately AUD \$50 billion. Westpac was the first bank with two tier 2 deals to meet TLAC requirements and this was followed by ANZ with a senior bond deal. Other financial institutions followed including Volkswagen Financial Services Australia, Suncorp Metway, Liberty Financial, Bendigo and Adelaide Bank as well as Macquarie Bank. There was very little issuance by corporates due to earning reporting season. The securitised market had heavy issuance in August with four registered mortgage back securities (RMBS) and three asset back securities (ABS) deals. Given conservative market sentiment, investors carefully selected which issues to participate in.

PORTFOLIO COMMENTARY

The Perpetual Diversified Income Fund in the month of August delivered a positive return of 0.09%, marginally outperforming its benchmark. This is despite challenging market conditions.

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

Credit spread dynamics were positive for performance, particularly in the portfolio allocation to corporates, financials, asset backed and structured products. Exposure to the credit spread widening was also reduced by having protection from credit default hedges. Demand for and supply of domestic new debt issues for credit was orderly over the month, despite domestic corporate credit spreads drifting wider but remaining tighter than offshore credit spreads.

In terms of positioning, sector allocation was actively managed. Attractive relative value opportunities continue to be sought out within the floating rate securities and securitised segments of the market. In line with the current financial markets backdrop, the Portfolio Manager maintained a defensive bias. Weighted average life remains at a shortened level. Portfolio allocation to domestic banks continued to be built upon, while exposure to financials and property holdings were trimmed. Primary Australian Dollar market participation included taking positions in ANZ and Westpac deals. Since the primary issuance, both domestic bank deals have performed well in the secondary market. This near-term conservative approach allowed the portfolio to continue to outperform whilst mindful of market risk outcomes.

OUTLOOK

The recent global macro markets volatility has resulted in domestic credit spreads remaining in a consolidation phase as valuation indicators remain slightly expensive. In particular, the physical domestic and offshore corporate credits continue to trade relatively tight to their historical long-term averages in both investment grade and high yield securities. In contrast, some over the counter (OTC) credit spread derivatives remain slightly expensive resulting in a slightly overall negative outlook from valuation indicators.

The global macroeconomic outlook continues to ease. A blend of softening global manufacturing Purchasing Manager Indices (PMI) readings in addition to weaker production prints underpin the less compelling outlook. While credit fundamentals in the investment grade space remain solid, the ratio of upgrades to downgrades in the non-investment grade space have deteriorated. As a result, the overall outlook for credit is slightly negative.

In line with the cautious credit outlook, we remain vigilant regarding tail risks associated with a fragile economic and heightened geopolitical landscape. We continually monitor data and information flows that may influence market sentiment and, in such situations, retain enough flexibility to appropriately and actively manage portfolio risk exposures.

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535 AFSL No 234426 and issued by PIML as responsible entity of the Perpetual Diversified Income Fund ARSN 110 147 665, investable through Perpetual WealthFocus Investments, and Perpetual WealthFocus Investment Advantage Fund ARSN 091 142 460 ('the WealthFocus Investment Funds') and Perpetual Superannuation Limited (PSL) ABN 84 008 416 831 AFSL No 225246 RSE No L0003315 as trustee for Perpetual WealthFocus Superannuation Fund ABN 41 772 007 500 RSE R1057010 (which includes the Super Plan, Pension Plan and Term Allocated Pension). It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The relevant product disclosure statement (PDS), issued by PIML as responsible entity for the WealthFocus Investment Funds or PSL as trustee for Perpetual WealthFocus Superannuation Fund, should be considered before deciding whether to acquire or hold units in the fund. The PDS can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital.

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.¹ Fund information in this document is relevant to the Wholesale option unless stated.

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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

