

Perpetual Private

PERPETUAL SELECT FIXED INCOME FUND

December 2018



FUND FACTS

Investment objective: Income and capital stability through investment in a diversified portfolio of Australian and international fixed income investments (including mortgages).

Suggested length of investment: Two years or longer.

INVESTMENT APPROACH

The Fund combines specialist investment managers with different investment styles and philosophies. This can help reduce the volatility of the Fund by avoiding over exposure to a particular specialist investment manager. Derivatives are currently used by the specialist investment managers to protect against most currency movements, although this can change at any

BENEFITS

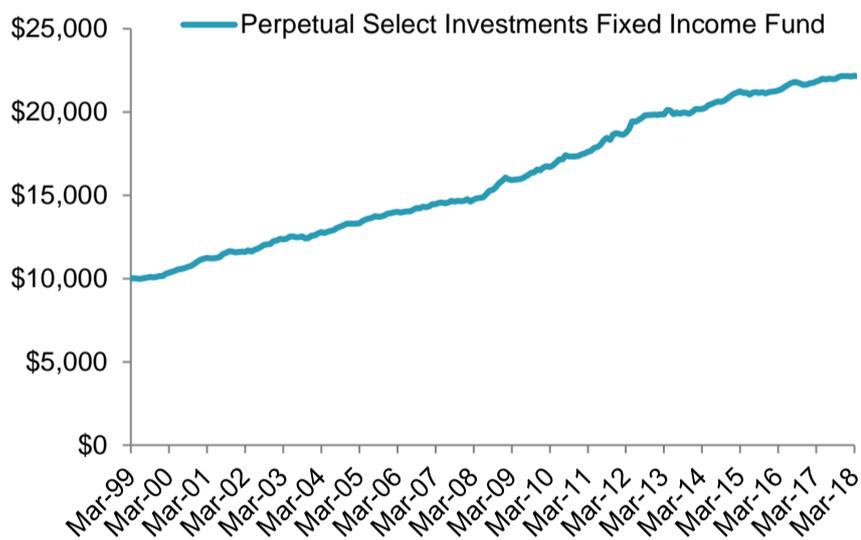
Provides investors with the potential for regular income above cash returns, with lower volatility than other income strategies.

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

	APIR CODE	1 MTH	3 MTHS	6 MTHS	1 YR PA	3 YRS PA	5 YRS PA
Perpetual Select Investments Fixed Income Fund	PER0252AU	0.5	0.3	0.5	0.4	1.6	2.1
Mercer Retail Trusts Australian Fixed Income - Median		1.3	1.8	2.1	3.3	2.7	3.4
Perpetual Select Super Fixed Income Fund	WDL0007AU	0.4	0.2	0.3	0.2	1.3	1.7
Mercer Personal Super Australian Fixed Income - Median		1.2	1.6	1.9	3.1	1.9	2.7
Perpetual Select Pension Australian Fixed Income Fund	WDL0017AU	0.5	0.3	0.5	0.3	1.6	2.1
Mercer Allocated Pensions Australian Fixed Income - Median		1.3	1.8	2.1	3.5	2.3	3.2

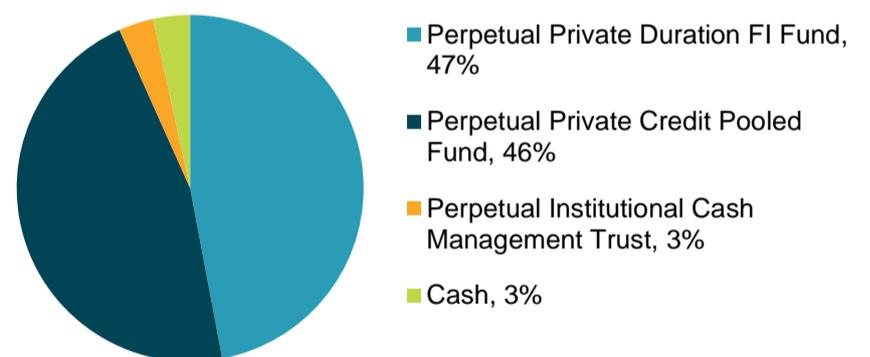
Past performance is not indicative of future performance

GROWTH OF \$10,000 SINCE INCEPTION (AUST.)*



*The Growth of \$10,000 chart includes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales or redemption charges which would lower these figures.

PORTFOLIO EXPOSURES (AUST.)



MANAGER INVESTMENT APPROACH (AUST.)

Perpetual Credit Income Fund	Australian floating rate income, investment grade credit focus.
AB Dynamic Global Fixed Income Fund	Global diversified fixed income, multi-sector strategy.
PIMCO Global Bond Fund	Global fixed income, core (duration) plus (credit) strategy.
Legg Mason WAM Global Bond Fund	Global core fixed income, yield curve positioning.
Macquarie True Index Australian Fixed Interest	Australian passive core fixed income and True Indexing fund.

MARKET COMMENTARY

The Bloomberg AusBond Composite Index returned 2.24% during the December 2018 quarter, whilst the Bloomberg AusBond Bank Bill Index returned 0.48%. The Bloomberg Barclays Global Aggregate Bond Index (AUD Hedged) returned 1.66% during the December 2018 quarter. Australian 10-year bonds were yielding 2.32% at the end of the quarter, compared to 2.68% for their US counterparts.

The RBA left the cash rate unchanged at 1.50% in December. The Unemployment Rate fell during the quarter to 5.1% in November. This represents a decrease of 0.4% over the last year and is the lowest level since the peak of the mining investment boom in 2012. The Underemployment Rate increased to 8.4% in November. The Consumer Price Index rose 1.9% over the 12-months to the September 2018 quarter, compared with a rise of 2.1% over the 12-months to the June 2018 quarter. Importantly, this is still below the lower bound of the RBA target of 2%. Domestic wages growth picked up slightly, with wages increasing 0.5% in the September quarter and 2.2% over the 12-months to September.

The Federal Reserve increased its target rate to 2.25-2.50% during the December quarter. This was following data releases that indicated that the labour market had continued to strengthen, and that economic activity has continued to rise at a strong rate. Inflation remains around the 2% target. Fed Chairman Jerome Powell has softened his hawkish stance more recently leading many to believe that we may be approaching the peak of the rate hike cycle.

PORTFOLIO COMMENTARY

The Implemented Fixed Income Portfolio/ Perpetual Select Fixed Income Fund underperformed its benchmark over the December 2018 quarter.

Macquarie True Index Australian Fixed Index Fund returned 2.24% during the quarter, performing in line with its benchmark, as is the nature of this fund. Australian Government bonds performed strongly during the equity market sell-off.

Perpetual Credit Income Fund underperformed its benchmark over the quarter, returning -0.29% gross against its benchmark return of 0.48%. Credit spreads widening detracted from performance.

Alliance Bernstein Dynamic Global Fixed Income Fund underperformed its benchmark over the quarter, returning 0.26% gross of fees compared to a benchmark return of 0.48%. Currency positioning detracted from relative performance.

Legg Mason Western Asset Global Bond Fund underperformed its benchmark over the quarter by returning 1.05% gross of fees against a benchmark return of 1.66%. Much of the underperformance was due to sector and duration positioning.

PIMCO Global Bond Fund underperformed its benchmark over the quarter, returning 0.69% on a gross basis against the benchmark return of 1.66%. The main contributor to performance was US duration positioning.

RETURNS BREAKDOWN (INVESTMENTS)

	FY 2018	FY 2017	FY 2016
Growth Return %	-0.6%	0.1%	0.1%
Distribution Return %	1.5%	1.4%	2.6%
Total Return %	0.8%	1.5%	2.7%

DISTRIBUTION BREAKDOWN

	FY 2018	FY 2017	FY 2016
Cents per unit	0.5218	0.5046	2.6703
Aust. Cap Gains %	45.2%	0.2%	0.4%
Franking FSC %	0.0%	0.1%	0.0%
Income	54.8%	99.8%	99.6%
Capital	45.2%	0.2%	0.4%

PRODUCT FEATURES

	SUPER	PENSION	INVEST.
Inception date	Dec 94	Dec 94	Mar 99
Estimated Mgmt Cost	2.06%	2.06%	1.77%
Ongoing fee discount	Yes	Yes	Yes
Buy spread	0.13%	0.13%	0.14%
Sell spread	0.00%	0.00%	0.00%
Contribution fee	0.00%	0.00%	0.00%
Withdrawal fee	\$51.25	\$51.25	\$0
Monthly member fee	\$10.09	\$10.09	\$0
Min. initial contribution	\$3,000	\$3,000	\$5,000
Min. additional contribution	\$0	\$0	\$1,000
Savings plan	Yes	No	Yes
Withdrawal plan	No	No	Yes
Distribution frequency	NA	NA	Qtrly
Contact information	1800 003 001		

OUTLOOK

We believe the RBA will continue to keep rates on hold for the time being, providing an accommodative position for inflation to pick up into their target range. We expect to see further weakening in the AUD against the USD over the medium-term as US rates remain higher than Australian rates. Domestic wage growth is only marginally keeping up with inflation.

The Federal Reserve continues to telegraph its rate hikes to the market and we expect this to continue, although future rate hike expectations have moderated. We believe it is important to observe the distinction between the Bernanke/Yellen dovish reign to Powell's clear hawkishness. The US yield curve remains relatively flat with minimal term premium being priced in. US credit spreads remain near cycle lows, however credit fundamentals in both the investment grade and high yield spaces remain robust.

Overall, the outlook is that the regime of ultra-low interest rates is being eased gradually, which is to be expected when all the evidence suggests that the global economy is in a position of strength and less in need of such unusual levels of monetary policy support. This should see bond yields continue to rise. The expected increases are not dramatic in the current interest rate cycle; however, they are likely to be a consistent headwind for fixed interest performance.

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Adviser Services 1800 003 001
Email investments@perpetual.com.au
www.perpetual.com.au

