

Perpetual Diversified Income Fund

Fund Net Performance as at 30 June 2021

Period	Fund	Index*	Excess
1 month	0.2 %	0.0%	0.2%
3 months	0.8%	0.0%	0.8%
6 months	2.1%	0.0%	2.1%
1 year	5.9%	0.1%	5.9%
3 years p.a.	3.3%	1.0%	2.3%
5 years p.a.	3.6%	1.3%	2.4%
7 years p.a.	3.5%	1.6%	1.9%
Since Inception p.a. #	4.4%	3.4%	1.0%

* Bloomberg Ausbond Bank Bill Index.

Total returns shown for Perpetual Wholesale Diversified Income Fund have been calculated using exit prices after taking into account all of Perpetual Investment Management Limited's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance. Portfolio and Index return may not sum to Excess Return due to rounding. # Inception date October 2005

Fund overview

During the June quarter 2021, the Perpetual Wholesale Diversified Income Fund generated a return of 0.8%, outperforming the benchmark by 0.8%. Over the 12 months to June 2021, the fund generated a return of 5.9% for the financial year outperforming the benchmark by 5.9%. This brings the fund's total return since inception to 4.4% per annum.

Fund commentary: From partying hard to doing the hard yards

Market returns across most asset classes have been supercharged since the lows of March 2020, spurred by accommodative monetary policy, stimulatory fiscal policy and an improving global economic outlook as the COVID vaccine rollout gathers pace.

The COVID-induced market volatility played to our strengths as an active manager. In Perpetual's Diversified Income Fund, this active management included:

- Positioning the fund defensively (pre COVID), by rotating out of BBB rated (bottom of the investment grade spectrum) securities into predominantly (over 50%) AAA rated (top of the investment grade spectrum) securities, the highest AAA exposure in the fund's 15-year history;

- Taking advantage of the repricing of risk post COVID and using the large firepower available (from the high AAA exposure) to rotate back into BBB rated securities, which were now more attractively priced, including exposures to long-dated banks, financials and corporates; and
- Over the last 12 months, taking profit on many of these BBB rated exposures and returning the portfolio to a more defensive posture once again (by increasing the allocation to AAA rated securities) as credit spreads contracted to historical lows.

Our active management generated strong performance for investors in the Diversified Income Fund, with the fund achieving its highest rolling 12-month net returns (8.85% in March 2021) in almost a decade (since May 2011). This was a particularly strong result considering the current RBA cash rate is just 0.10%, compared to 4.75% a decade ago when fund returns were last this strong. Consequently, fund distributions for FY21 were also the healthiest in seven years (since FY14) at just over 4%!

Whilst the credit fundamentals (low interest rates, an improving global economic outlook and strong technicals) remain supportive, many credit premiums are at historic lows (below pre-COVID levels and in some cases below pre-GFC levels), making it prudent to return the portfolio to a more defensive posture, albeit remaining fully invested. So, whilst investors have enjoyed partying hard with the supercharged returns of the last 12 months, return prospects for the coming year will be more modest. There still remains scope to generate returns commensurate with the fund's performance objective (bank bills plus 2% p.a before fees). With a strong focus on investor outcomes, we believe the Diversified Income Fund has been a consistent and reliable performer through many market cycles, over the short, medium and long-term, comfortably exceeding its return objective over the last decade.

With credit yield premiums now at historic lows, the margin for error has reduced and investors will once again need to do the hard yards. In this environment, investors will need to be much more discerning and active management will be more important than ever to generate return whilst managing downside risk. Perpetual's active management style positions us strongly to navigate this investment landscape.

This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. 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. 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 information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Forward looking statements and forecasts based on information available at the time of writing and may change without notice. No assurance is given that the forecast will prove to be accurate, as future events may impact actual results and these could differ materially from those anticipated. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement (PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in Perpetual Diversified Income Fund. The PDS and Target Market determination 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 for the Perpetual Diversified Income Fund have been calculated using exit prices after taking into account all of PIML's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation and returns may differ due to different tax treatments. Past performance is not indicative of future performance.

For more information

Adviser Services: 1800 062 725

Email: investments@perpetual.com.au

www.perpetual.com.au

Trust is earned.

