

# THE PERPETUAL DIVERSIFIED INCOME FUND

The Perpetual Diversified Income Fund has consistently delivered above cash-rate returns to investors, and our focus on quality has ensured these have been delivered with lower levels of risk than many other fixed income alternatives. With a diversified portfolio of floating rate assets, the Fund is also better positioned to respond to markets when interest rates rise.

## INVESTMENT PHILOSOPHY

The Perpetual Diversified Income Fund invests in a range of quality income-generating assets and aims to deliver consistent income with the potential for above cash rate total returns.

Perpetual has been managing fixed income portfolios since 1966 and has some of Australia's most experienced and specialist investment managers.

At the core of our investment approach is our belief that investment

risks can be managed and more consistent returns can be achieved through a diversified, highly active and risk-aware approach.

## PREDICTABLE OUTCOMES FOR INVESTORS

When investing in fixed income assets, our fixed income team look to invest in companies that can provide the predictable outcomes investors are seeking when allocating their money to defensive assets.



When we lend to companies, we look for:

- 1 quality management
- 2 a strong balance sheet
- 3 predictable earnings
- 4 leaders within their industry sector
- 5 a low susceptibility to regulatory or event risk.

This helps to **deliver more predictable outcomes** for investors when it comes to:

- ✓ capital stability
- ✓ regular income
- ✓ liquidity; and
- ✓ a low correlation to equity markets.

## FUND BENEFITS



### QUALITY FLOATING RATE

Your clients aren't locked into a fixed interest rate and can benefit from the higher income generated following a rise in interest rates.



### DOMESTIC FOCUS, GLOBALLY AWARE

We access a large investment opportunity set across physical and synthetic markets and across domestic and foreign denominated securities (hedged back to Australian dollars), investing where risk is best rewarded.



### DIVERSIFIED PORTFOLIO

The Fund holds 150-200 assets across a broad range of sectors and maturities for lower default risk and higher liquidity.



### FOCUS ON RISK MANAGEMENT

We will only take on risk where we believe it's rewarding, providing strong risk-adjusted returns for investors.

## THE DIVERSIFIED INCOME FUND PROCESS

The rigorous investment process for the Fund is a combination of top down and bottom up analysis.

Our experienced investment team initially assess the market environment, and then determine how much risk they want to take, where they want to take it and finally apply Perpetual's tried and tested bottom up analysis of security research and selection.

A diversified portfolio of approximately 150-200 predominantly investment-grade securities are selected and the portfolio is actively managed with the aim to deliver investors the highest possible risk adjusted returns.

## AN EXPERIENCED FIXED INCOME TEAM WITH PROVEN RESULTS

The senior fixed income team at Perpetual have more than 80 years' combined experience in investment management, and have worked together as a team for more than a decade. The fixed income process has been developed and refined for over 15 years, with proven results through different market cycles.

Chart 2 below shows how the Perpetual Diversified Income Fund has consistently outperformed its index over the past ten years.

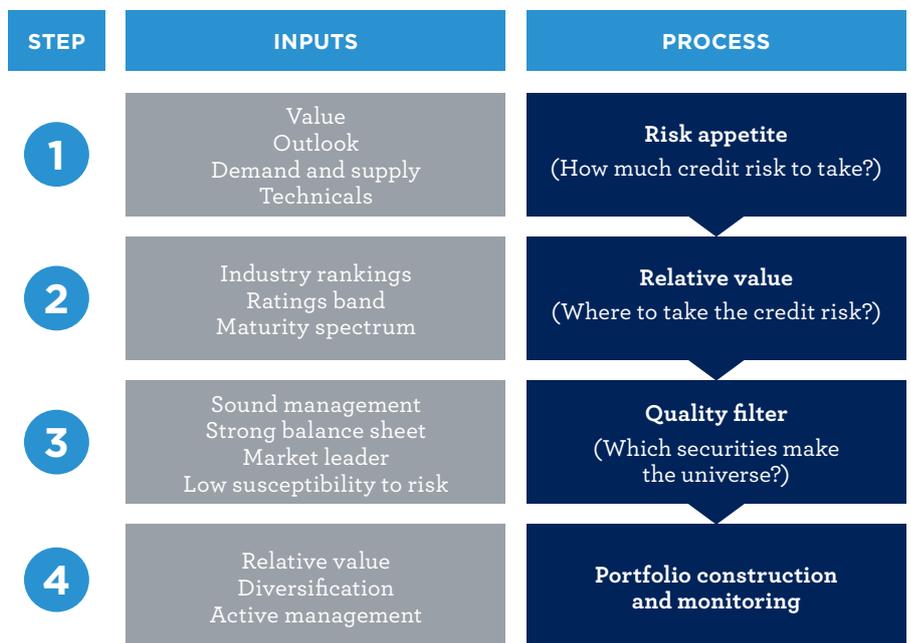
## MANAGING DEFAULT RISK IS A CORE PART OF OUR PROCESS

When investing in corporate debt, it's important to remember that returns are characterised by an 'asymmetric' risk profile.

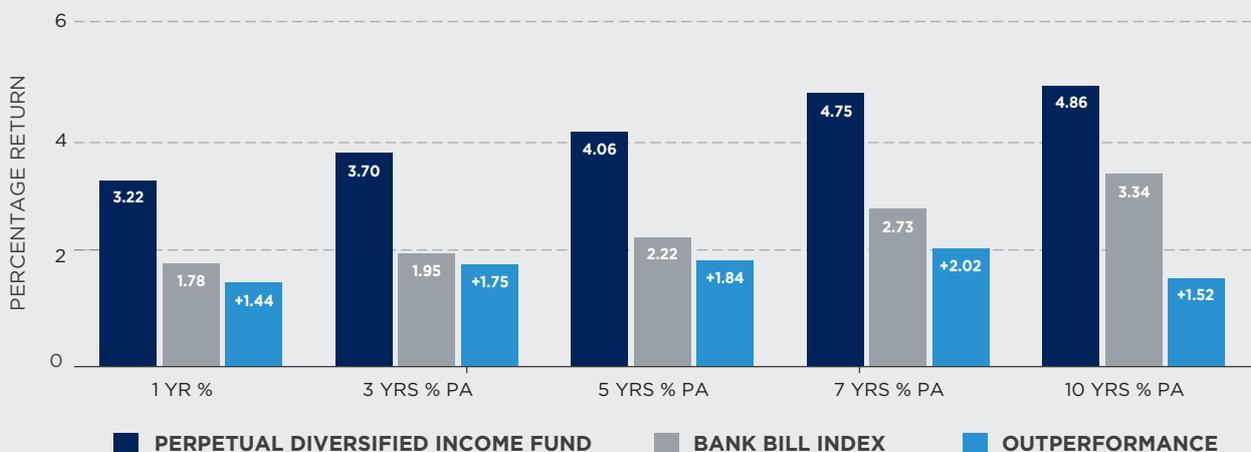
While the returns on equities are theoretically limitless, the upside in fixed income is defined and known at the time of purchase if held to maturity.

On the downside however, in the event of default, losses can be up to 100% of the face value. To mitigate this risk, we believe one of the most important ways we can add value when investing in credit, is to actively screen out the downside risk.

### CHART 1: A RIGOROUS, ACTIVE PROCESS FOCUSED ON DELIVERING BEST POSSIBLE RETURNS



### CHART 2: THE FUND HAS CONSISTENTLY OUTPERFORMED THE BENCHMARK



Source: Perpetual. Performance of the Perpetual Diversified Income Fund is net of fees. Data as at 30 June 2018. Past performance is not indicative of future performance.

**AT PERPETUAL, WE ACTIVELY MANAGE INVESTMENT RISK IN THREE KEY WAYS:**

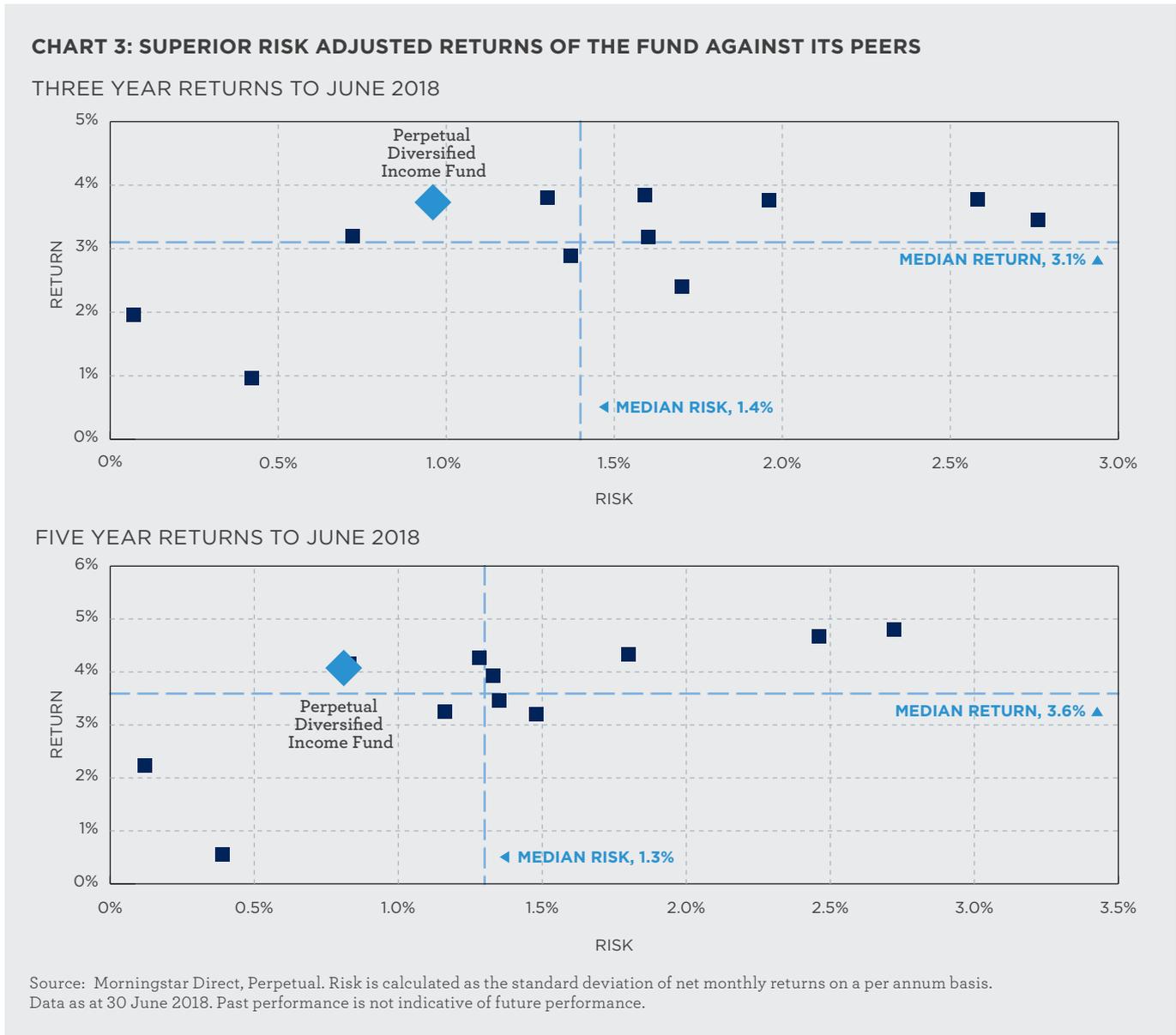
**1 DIVERSIFICATION**  
Invest in typically 150 – 200 securities.

**2 ACTIVE MANAGEMENT**  
Invest where risk is best rewarded.

**3 QUALITY FILTERS**  
Lend to companies with:

- ✓ strong management
- ✓ stable balance sheet
- ✓ predictable earnings
- ✓ industry leaders; and
- ✓ low susceptibility to event risk.

Our focus on risk management has delivered strong risk adjusted returns for investors as **Chart 3** displays.



**A FOCUS ON HIGH CREDIT QUALITY AND SHORT WEIGHTED AVERAGE LIFE**

When constructing the portfolio for the Fund, our investment team builds a core portfolio of high quality investment grade securities, and a ‘plus’ portfolio of higher-yielding assets.

Our focus on high credit quality assets can offer downside risk protection and liquidity in times of market volatility. Liquidity is an important part of any investment strategy. It is the ease with which you can sell an investment. The high quality nature of the Fund means that the underlying assets are typically tradeable even in times of stress.

The weighted average life (WAL) is the average number of years for which each dollar of unpaid principal on a loan or mortgage remains outstanding.

The relationship between WAL and volatility of a portfolio is best demonstrated in **Chart 4**. As you can see, once the WAL goes beyond five

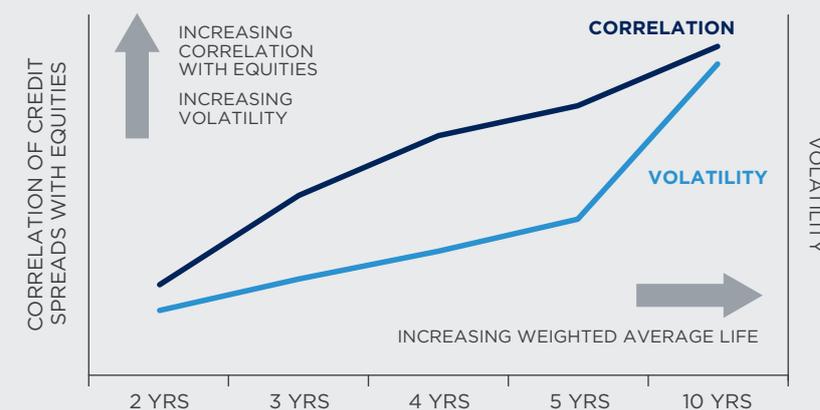
years, the volatility of the portfolio dramatically increases. At Perpetual, we typically invest in short-to-medium (average less than five years) maturity bonds to maintain the defensive characteristics of the portfolio, minimising volatility and offering a lower correlation to equities.

## HOW DOES THE PERPETUAL DIVERSIFIED INCOME FUND FIT INTO A WELL-BALANCED PORTFOLIO?

A well-constructed defensive portfolio allows investors to take risks in other parts of their portfolio with more confidence. The Fund is constructed by our experienced investment team to provide investors with the defensive characteristics they are seeking, providing investors with a reliable and consistent income stream, with the potential to earn above cash rate total returns.

The Perpetual Diversified Income Fund also provides investors with the opportunity to diversify their portfolio away from defensive assets that are tied to fixed interest rates, which means **their capital is protected from changes in interest rates and they are well positioned to benefit from the higher interest income generated following a rise in interest rates.**

**CHART 4: THE IMPACT OF 'WEIGHTED AVERAGE LIFE' ON A PORTFOLIO**



Source: Perpetual.

## RECOMMENDED BY LONSEC AND ZENITH



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