Perpetual Investments

PERPETUAL WHOLESALE DIVERSIFIED INCOME FUND

April 2021

FUND FACTS

Investment objective: Aims to provide regular income and consistent returns above the Bloomberg AusBond Bank Bill Index (before fees and taxes) over rolling three-year periods by investing in a diverse range of income generating assets.

Benchmark: Bloomberg AusBond Bank Bill Index**
Inception date: October 2005
Size of fund: $1,167.9 million as at 31 March 2021
APIR: PER0260AU
Mgmt Fee: 0.59% pa*
Benchmark Yield: 0.034% as at 30 April 2021
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.

FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

TOTAL RETURNS % (AFTER FEES) AS AT 30 April 2021

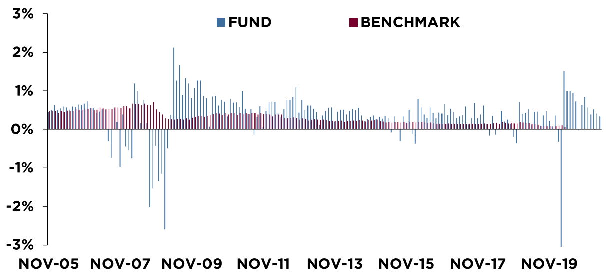
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Diversified Income Fund	0.34	1.27	3.10	7.58	3.35	3.07	3.70	3.58	4.45
Bloomberg AusBond Bank Bill Index**	0.00	0.00	0.02	0.07	0.59	1.06	1.36	1.68	3.47

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.

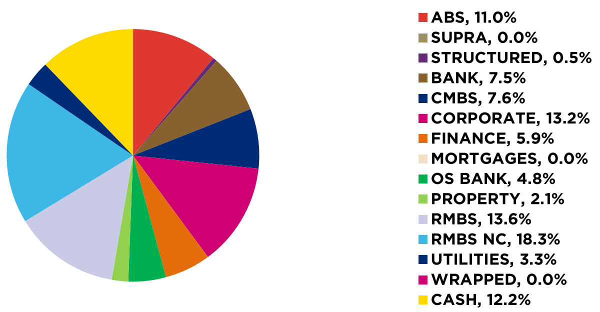
POINTS OF INTEREST

•Domestic spreads tighten; Corporates outperform financials;
•Economic growth indicators improving;
•Rates fall slightly; RBA maintains easing policy;
•The credit outlook remains supportive;

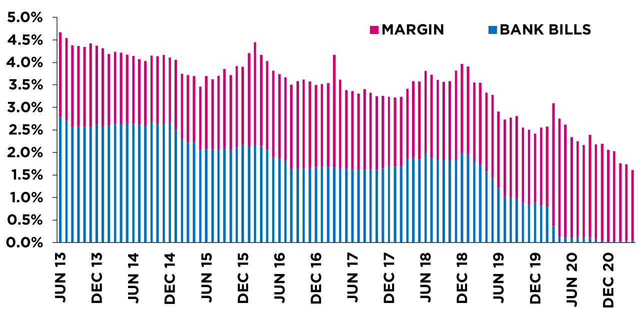
MONTHLY PERFORMANCE SINCE INCEPTION



PORTFOLIO SECTORS



RUNNING YIELD



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	69.20%
Subordinated Debt	23.47%
Hybrid Debt	7.33%
Core Component	89.42%
Plus Component	10.58%
% Geared	0.00%
Running Yield	1.67%
Portfolio Weighted Average Life	2.77 yrs
No. Securities	168

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

MARKET COMMENTARY

Financial markets continued their sustained rally through April, supported by strong macroeconomic indicators and robust US corporate earnings. Strong first quarter GDP print and a raft of promising global PMIs were supportive for risk assets. US first quarter earnings were constructive, headlined by strong beats by tech conglomerates including Apple, Facebook and Alphabet. The positive macroeconomic and corporate earnings results saw developed market shares rise, led by US equities. The continued optimism was offset somewhat by the surge in COVID-19 cases in India and its expected impact on global vaccine availability.

Domestic spreads remained in range of recent averages, ending the month tighter on aggregate. Spreads tightened through the first three weeks of the month before selling off marginally towards month end. Non-financial corporates outperformed financial spreads in spite of a busy month of corporate primary issuance. Spreads in commercial and residential real estate sub-sectors were particularly strong performers. Major bank spreads remained in range of recent averages and the recent rally in subordinated bank debt slowed in April. RMBS spreads tightened over the month, supported by the promising outlook and the continued hunt for yield.

Interest rate volatility continued to subside and long-term yields remained in range of recent levels. Domestic yields fell slightly, clawing back a small portion of the February selloff at the long end of the curve. The market continues to price some form of monetary tightening ahead of the RBA's guidance. This is despite subdued inflationary pressure with first quarter CPI returning below consensus expectations. The RBA left policy settings unchanged and reiterated guidance that the current cash rate and 3-year yield targets would remain in place until employment and inflation targets are met.

Primary credit market activity was mixed with subdued financial issuance offset by a busy month for corporates. Transurban Queensland Finance came to market for $200M via a senior secured fixed rate note. Network Finance Company (the financing arm of Endeavour Energy) priced $350M of 7-year senior secured paper which was met with strong demand and tightened on issue. The utilities sector was active with deals from Australian Gas Networks ($450M) and Victoria Power Networks ($700M). The securitisation market was also very busy for a second month running. Domestic major bank issuance remains impacted by the availability of the RBA's Term Funding Facility. As the TFF is yet to be fully drawn and remains accessible until June 30, major bank senior issuance is not expected until the second half of 2021. Bank of Queensland took the opportunity to issue $650M of senior and $500M of subordinated debt across multiple deals during the month.

PORTFOLIO COMMENTARY

The portfolio collected running income in excess of the benchmark across all corporate and collateralised sectors. The key contributing sectors to income return were non-financial corporates, domestic banks and RMBS. The portfolio running yield at month end was 1.7% with the spread measured at 1.6% above the benchmark.

Credit spread tightening was the key contributing factor to outperformance over the month. Credit spreads tightened on aggregate, reflecting strengthening global growth expectations and robust corporate earnings results. Contribution to credit spread return was broad based, led by non-financial corporates and offshore banks. The recently entered position in Westconnex's inaugural debt raising was the top performing position in the fund over the month. The bonds were purchased outright (unhedged) to establish a long duration position and were sold for a profit as bond yields trended lower during April.

Portfolio risk was actively managed throughout the month. The Fund was a net seller during April with the portfolio cash balance slightly elevated at month end. The manager trimmed subordinated bank exposures after fully participating in the recent rally. Similarly, the Fund's BBB credit rating exposure was selectively reduced following a period of strong performance. For example, the manager elected to liquidate the Fund's position in Santos Finance's 2029 US dollar bond during April. Fitch commenced ratings coverage on Santos during the month increasing interest in the issue and the Manager took advantage of the subsequent increase in liquidity to lock in recent gains.

The Fund remained active in primary markets throughout April. The Manager elected to increase exposure to the utilities sector, taking part in new deals from Australian Gas Networks and NSW Electrical Network Finance (the financing arm of Transgrid). The Fund also took part in new deals from Transurban Queensland and Bank of Queensland. The Fund is well positioned to take advantage of the positive credit outlook and retains capacity to exploit relative value opportunities.

OUTLOOK

The credit outlook is positive.

Valuation indicators are neutral to the overall credit outlook. Investment grade credit spreads have tightened significantly over the last year with spreads below their pre-COVID levels on aggregate. Domestic spreads are broadly in line with offshore peers.

The growth outlook remains very constructive for credit spreads. Leading economic indicators have continued to surge with the ISM US manufacturing PMI reaching its highest activity level since 1983. First quarter GDP growth figures were strong although coming from a lower base as the economic recovery from the COVID pandemic continues. The volume of equity market capital raising also positively contributes to the macroeconomic outlook. Strong US first quarter earnings results saw an increase in the ratio of upgrades to downgrades as ratings agencies continued to roll back post COVID downgrades as earnings rebound.

Demand and supply indicators have further improved, continuing to support the overall credit outlook. A busy upcoming maturity scheduled paired with expectations of corporate issuance taking a breather in the near term is expected to be supportive for spreads. While non-financial issuance has been elevated recently, overall aggregate credit issuance is in line with expectations. Demand for primary issuance remains robust with multiple deals meeting strong demand and, pricing tighter than guidance and tightening in secondary.

Technical indicators remain positive for the overall credit outlook. Tightening US credit spreads alongside robust equity valuations and volatility are all supportive for domestic credit.

The sustained rally in credit spreads continues to be supported by positive leading and trailing macroeconomic indicators, supply and demand conditions and technical factors. The team remains well positioned to benefit from further spread contraction offered by the current conditions.

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

MORE INFORMATION

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