

## Perpetual Investments

# PERPETUAL WHOLESALE DIVERSIFIED INCOME FUND

June 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:** \$1,200.7 million as at 30 June 2021  
**APIR:** PERO26oAU  
**Mgmt Fee:** 0.59% pa\*  
**Benchmark Yield:** 0.034% as at 30 June 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 June 2021

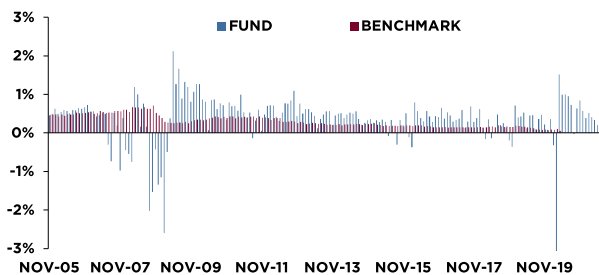
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Diversified Income Fund	0.23	0.77	2.10	5.92	3.28	3.26	3.65	3.49	4.43
Bloomberg AusBond Bank Bill Index**	0.00	0.01	0.01	0.06	0.45	0.96	1.29	1.61	3.43

Please note: Performance for Perpetual's complete list of investment funds is available on [www.perpetual.com.au](http://www.perpetual.com.au). Past performance is not indicative of future performance.

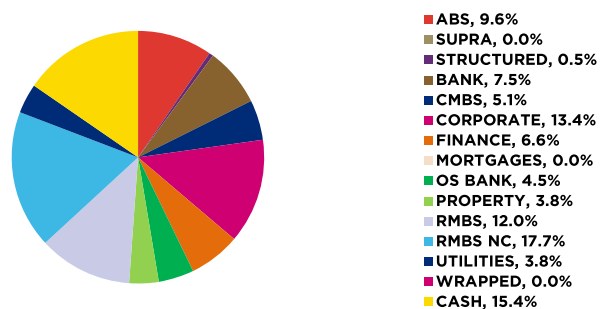
### POINTS OF INTEREST

- Domestic spreads tighten slightly; Financial spreads outperform.
- Credit curve steepens; Primary market activity orderly.
- Economic indicators remain strong;
- Inflation concerns subsiding; Yield curve flattens
- Credit outlook remains strongly positive.

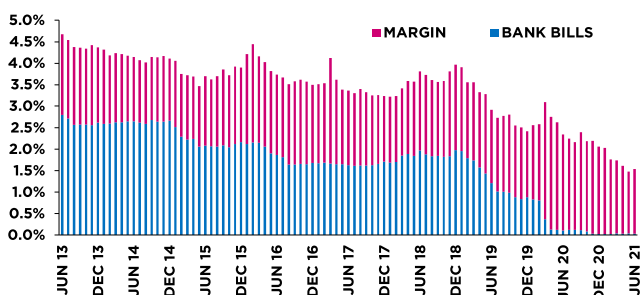
### MONTHLY PERFORMANCE SINCE INCEPTION



### PORTFOLIO SECTORS



### RUNNING YIELD



### PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	76.59%
Subordinated Debt	16.24%
Hybrid Debt	7.16%
Core Component	88.31%
Plus Component	11.69%
% Geared	0.00%
Running Yield	1.64%
Portfolio Weighted Average Life	2.97 yrs
No. Securities	167

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

## MARKET COMMENTARY

Financial markets continued to rise through June on the back of strong economic growth expectations, supportive monetary and fiscal policy and the continued COVID-19 vaccine rollout and reopening. Valuations were supported during June by easing inflation concerns which saw long term bond yields dip. Markets were resilient to COVID-19 concerns including the spread of the delta variant and a late June lockdown in NSW.

Domestic spreads continued to grind tighter through June. Shorter dated credit performed well and the credit curve steepened over the month. Sector performance was mixed with financials outperforming corporates. The best performing sectors were energy – on the back of the surging oil price – consumer sectors and industries leveraged to reopening including universities. Corporate sector performance was sensitive to recent issuance volumes with sectors that have seen elevated issuance including utilities and listed property underperforming.

Yields were broadly stable over the month. The AUD yield curve flattened with longer tenors outperforming significantly. Inflation concerns subsided as the Australian CPI came in below expectations and the recent spike in CPI was considered transitory by investors. Semi-government spreads widened slightly over the month. Spread expansion was led by NSW as a result of reintroduced lockdowns and the announcement of a larger than expected borrowing program for the 2022 financial year.

Primary market activity was increased in June following a very quiet May. Corporate issuance was active, led by utilities and listed property sectors. AGI Finance – the financing arm of the Australian Gas infrastructure group – came to market for \$575M across two tranches. The deal met strong demand and priced tighter than guidance. Wesfarmers raised \$1B across 7 and 10-year tranches. The bond was Wesfarmers first sustainability linked issue and was significantly oversubscribed. Financial issuance was more subdued. Macquarie Bank, priced \$750M of tier-2 subordinated paper. Goldman Sachs raised \$325M in a senior unsecured deal.

## PORTFOLIO COMMENTARY

The portfolio continued to collect running income in excess of the benchmark. This contribution from positive carry primarily came from non-financial corporates, RMBS and domestic banks. The portfolio running yield at month end was 1.64% with the spread measured at 1.50% above the benchmark.

Credit spread dynamics were the key contributing factor in outperformance over the month. Credit spreads continued their steady grind tighter during June. Financial spreads outperformed corporates on aggregate. Portfolio allocation to domestic banks, non-financial corporates, and offshore banks were the key contributing sectors to outperformance. Of note, the portfolio's allocation to Macquarie bank debt was a particularly strong contributor. The manager elected to increase allocation to Macquarie via their June subordinated AUD deal which tightened on issue after meeting robust demand. The manager also elected to increase allocation to a Macquarie US dollar hybrid offering attractive relative value. Both issues performed well and were substantial contributors to outperformance.

The manager was active in primary and secondary markets during the month, deploying a portion of the portfolio's cash position. The portfolio took part in new deals from AGI Finance and Goldman Sachs group. Credit duration was increased with the manager choosing to increase allocation to longer dated corporate positions. Valuations are stretched in some sectors and the manager remains selective, investing where there are compelling relative value opportunities.

Portfolio risk was actively managed throughout June. Allocation to BBB rated issuers was increased while AAA exposures were trimmed. Meanwhile portfolio exposures were moved up the capital structure, reducing subordinated exposures and increasing the senior allocation. Domestic bank sub debt in particular has performed well recently, and valuations are looking full as the hunt for yield continues. Despite the positive credit outlook, the manager remains selective. With many credit spreads tighter than their pre-COVID levels, active management is crucial to identifying the remaining pockets of compelling relative value in the credit market.

## OUTLOOK

The credit outlook remains strongly positive. Valuation indicators have degraded slightly and are now marginally neutral. Spreads have contracted significantly over the past year reaching below their pre COVID levels. US high yield in particular now appears expensive relative to medium term averages and is detracting from the overall credit outlook.

The growth outlook remains strongly positive. Leading and trailing economic indicators suggest conditions for explosive economic growth and robust support for spreads. During the month the ratio of credit upgrades to downgrades improved further on the back of strong commodity price tailwinds and positive economic growth expectations.

Demand and supply indicators have continued to support the overall credit outlook. Reduced primary market activity over the recent months and reduced pipeline for issuance are supportive for credit spreads. Demand is orderly with spreads being sensitive to issuance volume. Technical indicators remained positive for the overall credit outlook. Broker inventories remain somewhat reduced and intermediaries are adding selectively. 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 portfolios remain well positioned to benefit from further spread contraction offered by the current conditions.

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Total return shown for the fund(s) 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 entry or exit fees or taxation (except in the case of superannuation funds, as applicable).

Past performance is not indicative of future performance.

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

## MORE INFORMATION

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