

Perpetual Investment Funds

PERPETUAL DIVERSIFIED INCOME FUND

May 2023

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: \$1,434.5 million as at 31 March 2023

APIR: PERo26oAU

Mgmt Fee: 0.59% pa*

Benchmark Yield: 3.895% as at 31 May 2023

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 31 May 2023

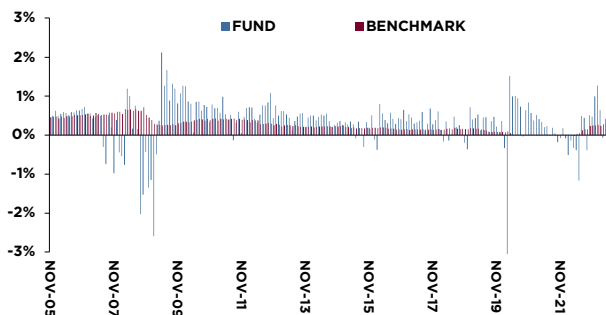
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Diversified Income Fund	0.48	0.84	3.80	4.17	1.53	3.24	2.52	3.05	4.10
Bloomberg AusBond Bank Bill Index**	0.29	0.89	1.65	2.64	1.33	0.91	1.14	1.33	3.21

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.

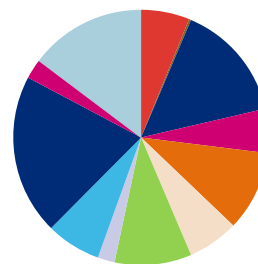
POINTS OF INTEREST

- Markets price further tightening;
- Domestic yields rise, curve steepens;
- Credit spreads rangebound; credit curve steepens;
- Corporate issuance rebounds; securitisation remains robust;
- The outlook for credit remains marginally negative;

MONTHLY PERFORMANCE SINCE INCEPTION



PORTFOLIO SECTORS



■ ABS, 6.2%
■ SUPRA, 0.0%
■ SEMI, 0.0%
■ STRUCTURED, 0.3%
■ BANK, 15.0%
■ CMBS, 5.6%
■ CORPORATE, 10.2%
■ FINANCE, 6.4%
■ MORTGAGES, 0.0%
■ OS BANK, 9.7%
■ PROPERTY, 2.2%
■ RMBS, 7.0%
■ RMBS NC, 20.3%
■ UTILITIES, 2.5%
■ WRAPPED, 0.0%
■ GOVERNMENT, 0.0%
■ CASH, 14.8%

PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	55.19%
Subordinated Debt	35.22%
Hybrid Debt	9.59%
Core Component	93.38%
Plus Component	6.62%
% Geared	0.00%
Running Yield [#]	5.56%
Portfolio Weighted Average Life	2.73 yrs
No. Securities	125

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

MARKET COMMENTARY

Financial markets saw mixed fortunes during May as equity and bond markets continue to price in starkly different outlooks for global growth. The fight over the US debt ceiling and the looming threat of a US default had an impact with US short end yields spiking during the month. Elsewhere, markets tried to anticipate the path of monetary policy tightening as central banks continue to grapple with stubbornly high core inflation and resilient labour data.

Domestic bond yields rose throughout May as markets adjusted to the RBA's surprise rate hike and parsed their increasingly hawkish commentary. The RBA elected to increase rates at their May meeting and their rhetoric was adjusted to include reaching target inflation levels "in a reasonable timeframe" which prompted markets to anticipate further rate hikes in the near term. While headline inflation has eased throughout 2023, this has been primarily attributable to moderating goods prices while services sector inflation remains intransigent. The domestic yield curve steepened as 1 and 2-year yields sold off sharply and the inversion of the short end deepened further.

Credit spreads were relatively benign during May, trading in range of recent levels. Financials marginally outperformed corporates on aggregate as global banking sector concerns continued to ease. The credit curve steepened with shorter dated spreads outperforming while long dated issues saw more widening. Swap to bond spreads narrowed as bond yields rose more rapidly than swap rates.

The domestic primary market welcomed back non-financial corporate issuance during May following an extended lean period. Australian Postal Corporation raised \$100M in a fixed rate Sustainability bond deal. Meanwhile, TransGrid (\$500M), Ausnet (\$700M) and PACCAR financial (\$200M) also contributed to the nascent resurgence in corporate issuance. Financial sector issuance remained robust, headlined by NAB's \$5.25B deal which priced in early May across 3 and 5-year fixed and floating tranches. The Securitisation market continued to be active with the recent trend of elevated Auto ABS issuance persisting.

PORTFOLIO COMMENTARY

Income return was the most significant determinant of outperformance during May. The Fund continues to collect a healthy running income in excess of the benchmark and rising interest rates continue to increase the coupons paid on the Fund's floating rate assets. The portfolio's running yield was 5.6% at month end, with the spread measured at 2.0%.

Credit spread tightening added modestly to performance. During a month of benign spread dynamics, non-financial corporate exposures detracted slightly due to limited spread widening across a small number of issuers with a modest positive contribution from utilities.

In recognition of tightening financial conditions, the Fund continues to maintain a highly liquid sleeve (14-15%) of cash and government securities which protects against liquidity tail risks. During the month the Manager actively traded government bonds electing to add to and later liquidate the position. Allocation to government bonds supported the Fund's running income during the month, the Fund's curve positioning contributed to outperformance.

The Fund was active in primary and secondary markets during May. The Manager was able to monetise new issue concessions on deals from NAB and Credit Agricole. The Fund added allocation to a number of RMBS and ABS issues, taking the opportunity to rotate into higher yielding tranches and longer dated issues. Domestic regional and offshore bank exposures were added to in primary. Non-financial corporate exposures were selectively trimmed with the Manager taking profits on a number of positions. This included a USD denominated NBN co fixed rate bond which performed well as a result of Moody's upgrading its credit rating during the month.

Throughout the first half of 2023, the Manager has reduced credit risk in the Fund in line with the negative outlook. The credit outlook has improved recently while remaining slightly negative. Accordingly, the Fund remains defensively positioned while retaining the capacity to take advantage of relative opportunities.

OUTLOOK

The Credit outlook improved towards the end of May, remaining slightly negative.

Valuation indicators have improved to neutral. Spreads remain in range of historical averages across Australian investment grade, US investment grade and high yield. The relative attractiveness of Australian Dollar credit has improved somewhat on the back of narrowing spreads vs offshore comparable as well as the tightening of USD AUD basis swaps.

Macro indicators continue to detract from the overall credit outlook. Tightened financial conditions as described in the Fed's Senior Loan Officer survey remain a significant headwind. The ratio of credit rating upgrades to downgrades has improved to neutral with a number of investment grade issuers upgraded following a US reporting season.

Supply and demand indicators remain marginally negative. Robust aggregate issuance volumes continue to weigh on the outlook for spreads.

Technical indicators are constructive. While cash levels across real money accounts have moderated, demand from intermediaries remains healthy. US credit, equity and equity volatility indicators are supportive for the credit outlook.

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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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