

## Perpetual Investment Funds

# PERPETUAL DIVERSIFIED INCOME FUND

June 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:** PER0260AU

**Mgmt Fee:** 0.59% pa\*

**Benchmark Yield:** 4.217% as at 30 June 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 30 June 2023

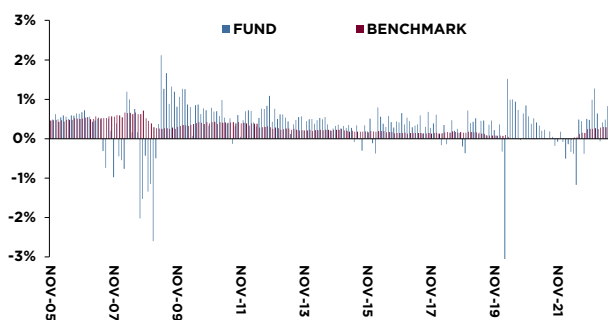
|                                     | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 2 YRS PA | 3 YRS PA | 5 YRS PA | 7 YRS PA | INCEPT PA |
|-------------------------------------|-------|--------|--------|------|----------|----------|----------|----------|-----------|
| Perpetual Diversified Income Fund   | 0.82  | 1.74   | 3.63   | 6.27 | 1.84     | 3.18     | 2.68     | 3.12     | 4.13      |
| Bloomberg AusBond Bank Bill Index** | 0.30  | 0.90   | 1.70   | 2.89 | 1.48     | 1.01     | 1.17     | 1.35     | 3.21      |

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.

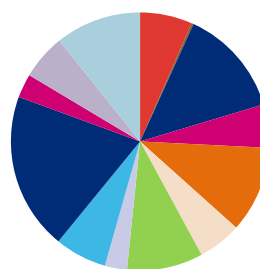
### POINTS OF INTEREST

- Bond yields selloff sharply; yield curve flattens;
- RBA increases cash rate; 400 bps of hikes in 13 months;
- Credit spreads rangebound; narrow slightly;
- Swap spreads tighten; primary market orderly.
- The outlook for credit is negative.

### MONTHLY PERFORMANCE SINCE INCEPTION



### PORTFOLIO SECTORS



|                    |
|--------------------|
| ■ ABS, 6.5%        |
| ■ SUPRA, 0.0%      |
| ■ SEMI, 0.0%       |
| ■ STRUCTURED, 0.3% |
| ■ BANK, 13.5%      |
| ■ CMBS, 5.4%       |
| ■ CORPORATE, 10.8% |
| ■ FINANCE, 5.5%    |
| ■ MORTGAGES, 0.0%  |
| ■ OS BANK, 9.5%    |
| ■ PROPERTY, 2.8%   |
| ■ RMBS, 6.5%       |
| ■ RMBS NC, 19.7%   |
| ■ UTILITIES, 3.0%  |
| ■ WRAPPED, 0.0%    |
| ■ GOVERNMENT, 5.7% |
| ■ CASH, 10.7%      |

### PORTFOLIO COMPOSITION

|                                 | BREAKDOWN |
|---------------------------------|-----------|
| Senior Debt                     | 56.00%    |
| Subordinated Debt               | 35.82%    |
| Hybrid Debt                     | 8.18%     |
| Core Component                  | 93.43%    |
| Plus Component                  | 6.57%     |
| % Geared                        | 0.00%     |
| Running Yield <sup>#</sup>      | 5.72%     |
| Portfolio Weighted Average Life | 3.26 yrs  |
| No. Securities                  | 125       |

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

## MARKET COMMENTARY

Global financial markets were mixed during June with equities continuing to rise and credit markets strengthening while bond yields sold off as investors parsed hawkish central bank rhetoric.

Domestic bonds sold off along the curve over the month. Australian 10-year yields rose 42bps to end the month back above 4.0%. The 3-year tenor saw the sharpest upward move with the curve ending the month inverted between 3-and-10 year yields. The selloff in bonds was attributable in part to the 25bps rate increase agreed upon at the RBA's June meeting which defied consensus expectations. Since May 2022, the RBA has increased the target cash rate by 400 bps in the most aggressive rate tightening cycle in memory. The US AU 10-year spread returned to positive following the selloff in Australian bonds with the US 10-year rising less sharply over the month to 3.8%.

Domestic floating rate credit outperformed traditional fixed interest throughout the month as yields rose while credit spreads tightened. Domestic spread narrowed across most sectors while remaining in range of recent averages. Financial spreads performed well, led by offshore banks. US dollar and Euro spreads outperformed Australian dollar denominated credit, continuing to recover from the spike observed during March.

Primary market issuance was orderly, with multiple deals pricing across financials, corporates and securitised sectors. Westpac came to market with its first Australian Dollar denominated subordinated deal in over two years (The bank has issued tier-2 debt in USD during this period). The \$2.9B book broke the previous record volume for AUD tier-2 major bank issuance. Corporate issuance extended its nascent resurgence with new deals from Endeavour Energy, Transpower New Zealand and Australian Gas infrastructure Group who raised \$400M in a 7-year 6.109% fixed rate bond.

## PORTFOLIO COMMENTARY

The Fund's June relative return was notable, accounting for more than 25% of the Fund's annual outperformance target in a single month. Income return was a significant contributor to outperformance during the month, led by RMBS, domestic and offshore banks. The portfolio's running yield was 5.7% at month end, with the spread measured at 2.0%.

Credit spread tightening was the most substantial contributor to return during June. Domestic credit spread dynamics were relatively subdued, narrowing slightly on aggregate while remaining in range of recent levels. The Fund's exposure foreign denominated hybrid securities was the key contributing factor to the robust credit spread return. After reducing hybrid exposures early in the year, the Manager selectively added exposure to Macquarie and Westpac USD denominated hybrids at attractive levels following the sharp selloff in March in the wake of UBS's purchase of Credit Suisse. In June, the spreads on these positions narrowed substantially and the Manager elected to take profit on the Fund's USD Westpac hybrid exposures. Elsewhere, Euro denominated hybrids in the utilities and telecommunications sectors were significant contributors.

In recognition of tightening financial conditions, the Fund continues to maintain a highly liquid sleeve (~15-18%) of cash and government securities which protects against liquidity tail risks. Allocation to government bonds contribute to the fund's running income and allow the manager to inexpensively express duration positions. During the month the Manager added exposure to government bonds, increasing the Fund's duration to 0.6 years by month end.

The Fund was relatively active in primary and secondary markets during the month. The Manager elected to take part in the record-breaking subordinated deal from Westpac before monetising the new issue concession, trimming the exposure as spreads tightened. The Fund invested in the new fixed rate issue from AGI finance which the manager believes offers attractive carry for the level of risk. The Fund also bought some recently issued EUR denominated Sydney Airport senior bonds in secondary which were priced cheaply relative to the AUD BBB curve. The Fund remains defensively positioned while retaining the capacity to take advantage of relative opportunities.

## OUTLOOK

The Credit outlook remains marginally negative.

Valuation indicators are marginally negative. Spreads remain in range of historical averages across Australian investment grade, US investment grade and high yield. Widening USD AUD basis swaps increase the attractiveness of domestic markets for issuers, detracting slightly from the outlook.

Macro indicators remain negative. The slowing pace of economic growth and tightening financial conditions as described in the Fed's Senior Loan Officer continue to weight on the outlook.

Supply and demand indicators have improved over the month and are now marginally positive. Demand has been robust across primary and secondary markets with a number of new deals oversubscribed and performing well on the break. Meanwhile, the elevated pace of issuance observed through the first 6 months of the year weighs on the outlook.

Technical indicators have moderated while remaining positive. Cash levels of real money accounts and intermediary demand are benign. US equity and equity volatility indicators are supportive for the credit outlook.

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

## MORE INFORMATION

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