

## Perpetual Investment Funds

# PERPETUAL DIVERSIFIED INCOME FUND

July 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:** \$1,451.7 million as at 30 June 2023

**APIR:** PER0260AU

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

**Benchmark Yield:** 4.160% as at 31 July 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 July 2023

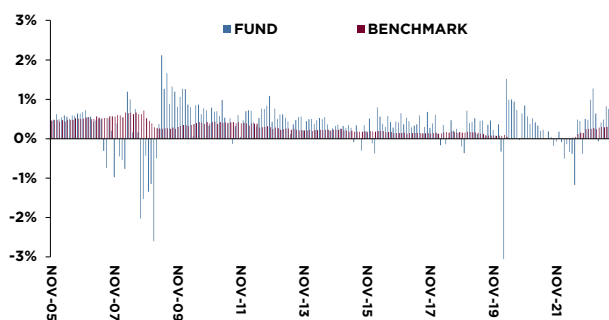
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Diversified Income Fund	0.75	2.07	3.09	6.54	2.22	3.12	2.74	3.15	4.16
Bloomberg AusBond Bank Bill Index**	0.37	0.97	1.81	3.15	1.67	1.13	1.20	1.38	3.21

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.

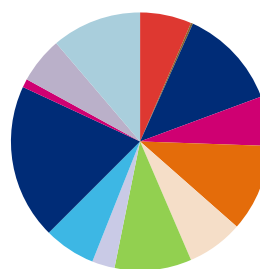
### POINTS OF INTEREST

- RBA on hold; Yield curve flattens;
- Domestic credit spread tightens; Bank sub outperforms;
- Primary market issuance very light; secondary demand robust
- The outlook for credit has improved to neutral.

### MONTHLY PERFORMANCE SINCE INCEPTION



### PORTFOLIO SECTORS



■ ABS, 6.5%
■ SUPRA, 0.0%
■ SEMI, 0.0%
■ STRUCTURED, 0.3%
■ BANK, 12.7%
■ CMBS, 6.2%
■ CORPORATE, 10.9%
■ FINANCE, 7.0%
■ MORTGAGES, 0.0%
■ OS BANK, 9.6%
■ PROPERTY, 2.8%
■ RMBS, 6.5%
■ RMBS NC, 19.4%
■ UTILITIES, 1.1%
■ WRAPPED, 0.0%
■ GOVERNMENT, 5.8%
■ CASH, 11.2%

### PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	58.04%
Subordinated Debt	36.63%
Hybrid Debt	5.33%
Core Component	94.37%
Plus Component	5.63%
% Geared	0.00%
Running Yield <sup>#</sup>	5.67%
Portfolio Weighted Average Life	3.19 yrs
No. Securities	124

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

## MARKET COMMENTARY

Global financial markets consolidated on a strong first half for risk assets in July. Equities continue to grind higher, while credit spreads tightened across multiple markets. Bond yields were mixed with domestic yields sedate following the RBA's decision to hold in early July, while US long term yields moved higher, responding to further tightening from the Fed.

The RBA elected to keep rates on hold at 4.1% in July following the surprise hike in early June. 2nd quarter CPI released during the month showed moderating headline inflation however inflation in services sectors remains intractable and employment data remains robust. Futures markets at month end had priced an imminent peak in tightening suggesting less than one 25bps increase remaining. The domestic yield curve steepened during the month with long-term yields rising marginally while the short end rallied. US 10-year yields sold off as the Fed continued to raise rates and maintained its hawkish outlook and rhetoric.

Domestic credit spreads tightened over the month supported by improving investor risk appetites. Corporate and tier 2 financial spreads saw the most substantial tightening reflecting lack of supply in primary. Euro and US Dollar spreads continued to outperform domestic peers, rallying during July.

Primary issuance was subdued relative to average monthly volumes over the last 12 months. July saw the lowest aggregate monthly volume thus far in 2023. While this reflects seasonal trends – domestic issuers typically come to market after reporting season – it represents a significant cooling of issuance activity relative to the strong start to the year. Securitisation volumes remained resilient with Bank of Queensland pricing \$1B of RMBS while Think Tank raised \$500M in a CMBS deal.

## PORTFOLIO COMMENTARY

Income return was a substantial contributor to outperformance during the month, led by RMBS, banks and non-financial corporates. The portfolio's running yield was 5.7% at month end, with the spread measured at 1.8%.

Credit spread tightening was the most significant contributing factor to return during the month. Domestic spreads narrowed over the month on supportive supply dynamics and increasing investor risk appetites. Subordinated bank exposures performed well as tier 2 and hybrid paper tightened, reflecting elevated secondary market demand and a paucity of new issues. Tightening RMBS spreads also contributed to outperformance. Lastly, the Fund benefitted from exposure to foreign denominated credit across multiple sectors. USD spreads outperformed AUD counterparts and the Fund's exposure to USD denominated corporates, domestic and offshore banks were constructive. The Manager elected to lock in recent profits on foreign denominated issues from Ausnet and Macquarie following rallies early in the month.

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. The Fund maintains a small (0.6 years) duration exposure as a result of the government bond allocation.

Primary market activity was subdued and the Manager was selective in purchases made during the month. The Fund increased its exposure to CMBS via a new \$500M Think Tank deal. Early in July, the Manager elected to add exposure to a recently issued EUR denominated Morgan Stanley senior bond which tightened throughout the remainder of the month, contributing to outperformance.

While the outlook for credit has improved, the Manager remains conscious of the implications of slowing growth and tightening financial conditions for credit valuations and liquidity. The Fund remains defensively positioned while retaining the capacity to take advantage of relative opportunities presented as the outlook improves.

## OUTLOOK

The Credit outlook improved to neutral over the course of the month.

Valuation indicators remain negative. While spreads remain in range of historical averages across Australian and US investment grade, tightening US high yield spreads no longer offer attractive value relative to recent levels. Widening USD AUD basis swaps increase the attractiveness of domestic markets for issuers, continuing to detract 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 weigh 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. While primary market activity eased in July, the elevated pace of issuance observed through the first 6 months of the year continues to weigh on the outlook.

Technical indicators have improved, providing a solidly positive signal by month end. Cash levels of real money accounts remain benign while intermediary demand is supportive. US credit, 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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