

Perpetual Investment Funds

PERPETUAL DIVERSIFIED INCOME FUND

December 2024

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: \$1,790.2 million as at 30 September 2024
APIR: PER0260AU
Mgmt Fee: 0.59% pa*
Benchmark Yield: 4.363% as at 31 December 2024
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 December 2024

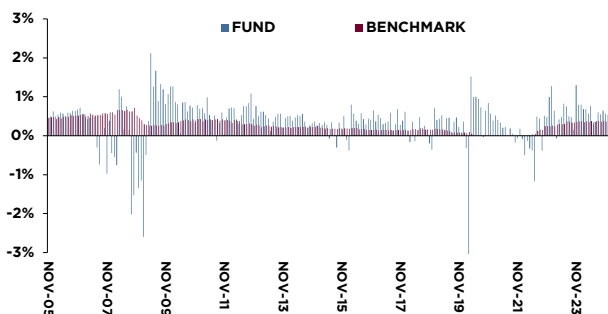
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Diversified Income Fund	0.54	1.75	3.30	7.27	7.53	4.93	3.95	3.64	4.40
Bloomberg AusBond Bank Bill Index**	0.38	1.12	2.24	4.47	4.18	3.19	1.98	1.91	3.30

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.

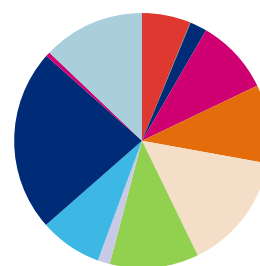
POINTS OF INTEREST

- RBA on hold; Fed lowers rates by 25 bps;
- Bond yields rise marginally. Domestic credit resilient;
- Primary market activity winds down;
- The outlook remains negative.

MONTHLY PERFORMANCE SINCE INCEPTION



PORTFOLIO SECTORS



ABS, 6.2%
SUPRA, 0.0%
SEMI, 0.0%
STRUCTURED, 0.1%
BANK, 2.1%
CMBS, 9.6%
CORPORATE, 10.0%
FINANCE, 14.9%
MORTGAGES, 0.0%
OS BANK, 11.3%
PROPERTY, 1.6%
RMBS, 7.9%
RMBS NC, 23.0%
UTILITIES, 0.6%
WRAPPED, 0.0%
GOVERNMENT, 0.0%
CASH, 12.9%

PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	33.35%
Subordinated Debt	55.47%
Hybrid Debt	11.18%
Core Component	94.56%
Plus Component	5.44%
% Geared	0.00%
Running Yield [#]	5.86%
Portfolio Weighted Average Life	2.74 yrs
No. Securities	116

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

MARKET COMMENTARY

December marked the close of a robust year for risk assets, though equities saw some pressure as expectations for US monetary policy moderated. The Federal Reserve's decision to implement a 25bps rate cut was in line with market expectations, while its updated dot plot forecasted only two additional rate cuts in 2025. This shift in outlook led to some volatility in risk markets.

Bond markets experienced mixed movements, with Australian government bond yields rising slightly, with the 10-year yield up 3bps to 4.37%. In contrast, U.S. Treasury yields saw a sharper increase as the market priced in a slower pace of rate cuts. In Australia, the Reserve Bank of Australia (RBA) kept the cash rate steady at 4.35%, with the December meeting accompanied by a more dovish statement reflecting easing wage growth. By month's end, market pricing anticipated up to two rate cuts by May, ahead of the federal election.

On the credit front, domestic spreads remained stable throughout December, contributing to a strong year for credit. Despite occasional volatility driven by global events, the overall "risk-on" sentiment—fuelled by strong equity performance, soft economic landings, central bank easing, and low credit defaults—supported spread compression. This positive environment provided an encouraging backdrop for the credit market, concluding 2024 on a strong note.

December is historically a quiet month for primary issuance and wound down in the second half of the month. CIBC raised \$1.5B across fixed and floating tranches in the last major deal of the year. There were a pair of corporate hybrid deals priced during early December from Pacific National (\$500M) and Ampol (\$600M). The deals met strong demand, benefitting from forthcoming changes to bank hybrid capital. The securitisation market capped off a very busy 2024 with a \$1.2B prime RMBS deal from Columbus Capital.

PORTFOLIO COMMENTARY

Credit spread dynamics were constructive for performance during December. Domestic spreads traded in a relatively tight range and the portfolio benefitted from issuer and security selection to generate positive spread performance. Allocation to offshore banks was the most substantial contributing factor to spread return, supported by non-financial corporate and securitised asset exposures.

The Fund's yield premium above bank bills was the most substantial contributor to performance during the month. Allocation to RMBS, domestic and offshore banks – led by subordinated issues – remain the key contributors to income return. The portfolio's running yield was 5.9% at month end, with the spread (credit yield premium) measured at 1.7%.

Sector and risk allocations were actively managed. The Manager elected to deploy a portion of the Fund's cash as the credit outlook improved. The Fund selectively took on credit risk, increasing allocation to BBB and BB corporates. The Fund also move down the capital structure, taking part in a pair of new corporate hybrid deals from Pacific National and Ampol. The deals met strong investor demand, realising a tailwind from the forthcoming changes to bank hybrid capital. Elsewhere, the Manager elected to rotate offshore bank exposures and add to the regional domestic bank allocation.

The credit outlook improved in early December to reach a neutral reading. The Manager continues to look for attractively priced issues and relative value opportunities while carefully managing credit and liquidity risks.

OUTLOOK

The credit outlook improved in mid-December to reach neutral territory for the final reading of 2024.

Valuation indicators are marginally negative. US high yield spreads are trading below the fair value range and AU swap spreads remain very tight. Elevated demand and attractive rates conditions for borrowers continued to contribute to elevated levels of opportunistic issuance in early December.

The growth outlook remains neutral. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain slightly challenging.

Supply and demand indicators improved in early December ending the month marginally negative. The high volume of recent issuance continues to weigh on the outlook. Market demand and the issuance pipeline have moderated somewhat reflecting seasonal trends.

Technical indicators remained in positive territory. Intermediary positioning has normalised however cash levels among real money accounts remains elevated. US credit spreads, equity markets and equity market volatility indicators are all constructive.

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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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

