Perpetual Investment Funds

PERPETUAL DIVERSIFIED INCOME FUND

August 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: $1,652.9 million as at 30 June 2024
APIR: PER0260AU
Mgmt Fee: 0.59% pa*
Benchmark Yield: 4.346% as at 31 August 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 August 2024

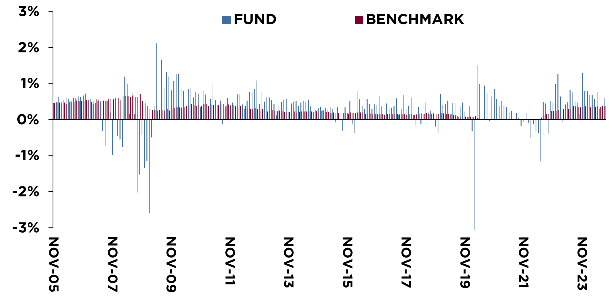
	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Diversified Income Fund	0.60	1.26	3.30	7.71	7.15	4.13	3.71	3.54	4.35
Bloomberg AusBond Bank Bill Index**	0.38	1.11	2.22	4.39	3.88	2.69	1.75	1.77	3.28

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.

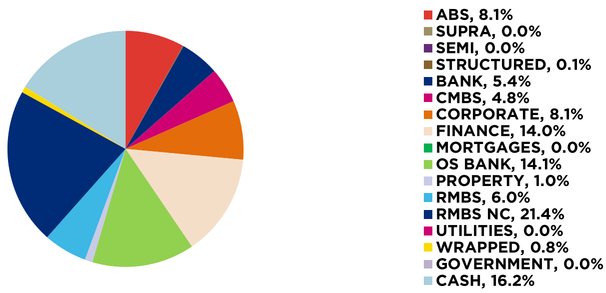
POINTS OF INTEREST

•Volatility spikes on US jobs data and BOJ rate hike;
•Bonds rally; credit spreads recover;
•Credit liquidity impacted early before normalising;
•Primary market activity resurgent after earnings season blackout;
•The outlook for credit is negative.

MONTHLY PERFORMANCE SINCE INCEPTION



PORTFOLIO SECTORS



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	44.48%
Subordinated Debt	48.90%
Hybrid Debt	6.61%
Core Component	96.11%
Plus Component	3.89%
% Geared	0.00%
Running Yield#	5.78%
Portfolio Weighted Average Life	3.09 yrs
No. Securities	103

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

MARKET COMMENTARY

Volatility spiked in August with financial markets selling off sharply early before recovering over the remainder of the month. Softer than anticipated US jobs data triggered the Sahm rule and associated recession fears saw equities selloff and credit spreads widen globally. This was exacerbated by the Bank of Japan's decision to raise interest rates (by 15bps) for the second time since the GFC (Feb 2007). A strong rally in the Yen ensued and the subsequent unwinding of carry trades contributed to the elevated financial market volatility. The turnaround in sentiment was swift, supported by strong retail sales and corporate earnings alongside doveish comments from Fed Chair Powell at the Jackson Hole conference.

Bond yields moved sharply lower as US recession fears spiked in early August. Domestic 10-year yields fell below 4% after rallying 14bps over the month. The yield curve steepened as short end (2-5 year) yields rallied further. The RBA held rates at 4.35% in line with expectations, continuing to stress that policy will need to remain restrictive to lower inflation over time to sustainably settle in the target range.

Domestic credit spreads sold off in the first week of August before rallying to end the month within range of their starting level. Synthetic spreads tightened further with the iTraxx Australia 5 year spread narrowing 5 bps to 61bps by month end. Swap to bond spreads also contracted during the month remaining tight relative to historical levels.

In August, credit market issuance experienced a brief slowdown as a result of heightened volatility alongside seasonal factors including reporting season and the NSW bank holiday. Despite this, the market saw a number of securitisation deals successfully priced. As the blackout period for banks and corporates ended, issuance picked up pace. CBA raised $4.35B in senior debt while Macquarie Bank ($1.25B) and BNP Paribas ($800M) issued subordinated notes. Additionally, NBN Co set a record with the largest-ever volume by an Australian corporate issuer in the domestic market with their $1.75B deal.

PORTFOLIO COMMENTARY

The Fund's yield advantage over the benchmark was the most substantial contributing factor to outperformance during August. Fund's RMBS allocation remains the most substantial contributor to income return, supported by domestic and offshore banks. The portfolio's running yield was 5.8% at month end, with the average spread measured at 1.5%.

Credit spread dynamics were marginally positive for outperformance during August. Spreads were impacted by early month volatility and liquidity concerns before recovering. Credit spread tightening was constructive among financial and securitised sectors.

Sector and risk allocations were actively adjusted. After a number of months spent derisking the portfolio prior to August, the Fund moved down the capital structure, increasing allocation to subordinated spreads. The Manager also selectively added credit risk among RMBS exposures, rotating into marginally lower rated tranches to lock in gains and take advantage of attractive spread differentials. Allocation to offshore banks was increased over the month. The Fund took part in a pair of new deals, investing in the 3-year senior unsecured issuance from ING Bank and the 10-year subordinated bond from Lloyds Banking group.

With a negative outlook for credit, risk management remains paramount. The Mandate remains defensively positioned and retains an elevated cash allocation to defend against liquidity risks, such as the volatility observed early in August. This cash allocation also offers the ammunition to take advantage of relative value opportunities as they arise.

OUTLOOK

The credit outlook continued to decline during August, ending the month with a firmly negative reading.

Valuation indicators remained negative on the back of narrow swap to bond spreads and the wide AUD USD basis swap.

The macro-outlook remained very marginally positive during August. Although concerns around US growth peaked in early August, access to equity capital and the ratio of credit rating upgrades to downgrades remained supportive. Lending conditions as expressed by the Senior Loan Officer survey also improved to neutral for the first time in 24 months.

Supply and demand indicators degraded further during August, ending the month with a strong negative reading.

A paucity of upcoming maturities aligned against a heavy pipeline of new issuance are weighing on the outlook. Year to date issuance remains robust, contributing to the negative supply outlook.

Technical indicators remain marginally negative. Intermediary positioning and US equity market indicators are positively contributing, while cash levels of domestic real money accounts and US credit spread indicators are detracting from the overall outlook.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

Perpetual