

eInvest Income Generator Fund (Managed Fund)

ASX:EIGA
MONTHLY REPORT JULY 2021

	Month (%)	Quarter (%)	FYTD %	1 Year (%)	2 Years (% p.a)	Since Inception [^] (% p.a.)
Income Distribution	0.43	1.36	0.43	5.91	5.40	7.26
Capital Growth	0.60	4.05	0.31	23.55	0.36	-0.54
Total Return	1.03	5.41	0.75	29.46	5.76	6.73
Franking Credits [#]	0.16	0.64	0.17	2.59	2.30	3.14
Income Distribution including Franking Credits	0.60	2.00	0.60	8.40	7.70	10.40
Benchmark Yield including Franking Credits [*]	0.00	0.70	0.00	5.10	4.60	5.20
Excess Income to Benchmark[#]	0.60	1.30	0.60	3.30	3.10	5.20

[^]Inception date was 7 May 2018. Fund returns are calculated using net asset value per unit at the start and end of the specified period and do not reflect the brokerage or the bid ask spread that investors incur when buying and selling units on the ASX. ^{*}Benchmark yield is calculated based on the difference between the return of the S&P/ASX300 Franking Credit Adjusted Daily Total Return Index (Tax Exempt) and return of the S&P/ASX300 Index. [#]Franking credits are an estimate only, as tax components will only be known with certainty at the end of the financial year. Past performance is not a reliable indicator of future performance.

Overview

- The Australian market rose again in July, with the ASX300 Accumulation Index making another record high, finishing the month up +1.1% and bringing the total return for the last 12 months to a very healthy +29.1%.
- Resources were the standout over the month, with the sector rising strongly in anticipation of reporting strong profit results and large dividends, while Financials were weaker, as the recent COVID lockdowns weighted on sentiment towards the banks.
- Looking to the current financial year, market dividends are expected to increase significantly as corporate earnings recover post-COVID. The Fund is currently targeting a 33% increase in FY22 net monthly distribution to 1.72 CPU. Based on the unit price at the start of the year, this equates to a cash distribution yield of around 5.5% and 7.5%, including franking credits.

eInvest Income Generator Fund (Managed Fund)

The objective of EIGA is to provide investors with an attractive level of tax effective income, paid via monthly distributions. EIGA aims to provide a gross distribution yield, adjusted for applicable franking credits, above that provided by the S&P/ASX300 Franking Credit Adjusted Daily Total Return Index (Tax-Exempt).

Portfolio Manager	EIGA FUM
Stephen Bruce	\$30 million
Distribution Frequency	Management Cost
Monthly	0.80% (incl of GST and RITC)

Inception Date
7 May 2018

Portfolio Characteristics – FY22

	Fund	Market
Price to Earnings (x)	13.7	16.0
Price to Free Cash Flow (x)	11.0	14.1
Gross Yield (%)	7.8	5.5
Price to NTA (x)	2.9	2.9

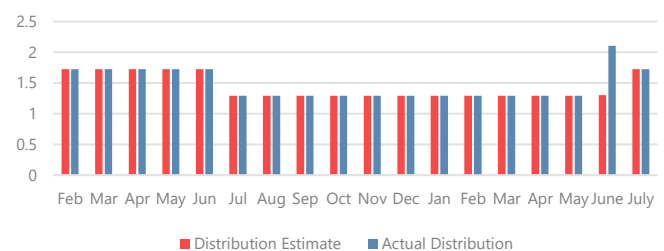
Source: Perennial Value Management. As at 31 July 2021.

The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

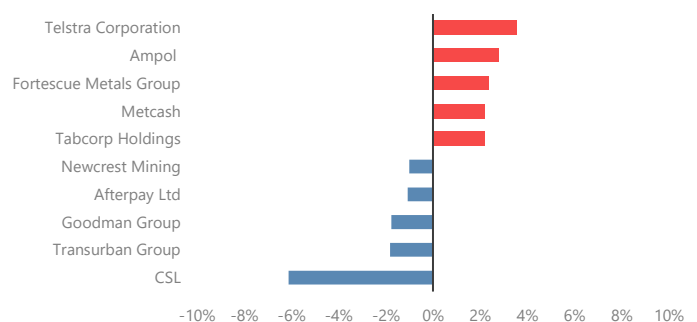
eInvest Income Generator Fund (ASX:EIGA) – Monthly Report July 2021

Income Distribution

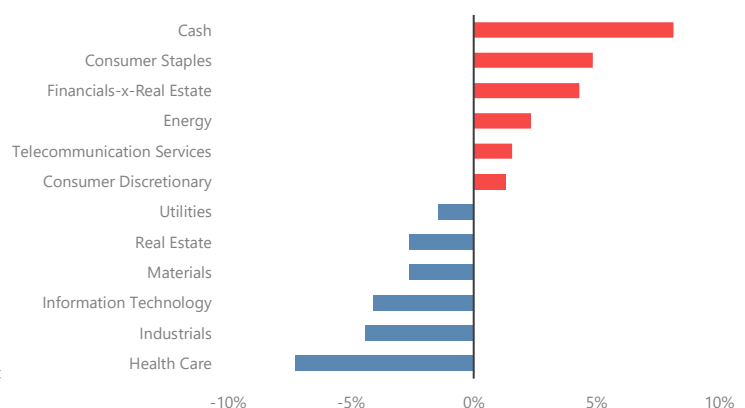
The EIGA distribution in July 2021 was 1.72 cents per unit.



Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

EIGA delivered a return, including franking credits and after fees of +1.2% in July, slightly ahead of the index return. Over the last 12 months, the Fund has performed strongly, delivering a return of +32.0%, outperforming the index by +1.5%. This performance highlights the Fund's leverage to the improving, post-COVID economy. Historically, value style investing has delivered significant outperformance during economic recoveries.

Stocks which contributed positively over the month included Seven Group Holdings (+14.3%), which performed well after moving to a 70% shareholding in Boral at the conclusion of its takeover offer. This is sufficient to give Seven Group operational and strategic control over Boral and we believe that there is the opportunity for them to significantly improve its performance over the coming years. Further, Boral's Australian businesses are a good fit with Seven's industrial operations and increase its exposure to the expected increase in infrastructure investment over coming years.

Resources holdings performed strongly over the month. While the iron ore price declined from its recent very high levels, the major miners were stronger, with BHP (+10.0%), Fortescue Metals (+6.7%) and Rio Tinto (+5.4%) on expectations of very strong profit results and dividends during the upcoming reporting season. Rio Tinto, the first of the miners to report, delivered a record first half result during the period

The current COVID outbreaks in NSW and elsewhere saw Healix (+5.2%) continue to outperform. As the second largest pathology services provider in Australia, the company stands to benefit from the associated increase in COVID testing during this period. While this will hopefully be only temporary, it is providing a helpful boost to earnings while the company undertakes steps to improve its operational performance and lift margins following the sale of its medical centre business. Global pathology provider, Sonic Healthcare (+4.2%), also outperformed as surging delta variant infections led to high levels of testing across many of its markets. While COVID testing revenue will subside over time, the cash flows being generated currently are rapidly degearing the balance sheet. This will give the company significant capacity to fund future acquisitions as it grows its global footprint.

Packaging company, Orora (+8.1%), performed strongly over the month. The company is the leading manufacturer of glass and aluminium containers in Australia and stands to benefit over time as environmental concerns see a shift over time away from plastic packaging. In the main time, the company has defensive earnings, serving the consumer staples sector and a very strong balance sheet.

The major banks were weaker in July, underperforming by an average of -3.0%, due to negative sentiment around the potential impacts of the current lockdowns. We believe that this will be short-lived and expect the banks to recover strongly once the COVID outbreak is brought under control. While lockdowns will clearly have an impact on the economy, the banks are in a very strong financial position. This has been demonstrated by the fact that both ANZ and NAB announced on market buy-back of \$1.5bn and \$2.5bn respectively during the month. The fact that the regulator signed off on this in the face of the current uncertainty, indicates they have a high level of confidence in the strength of the sector.

Fund Activity

During the month, EIGA added a position in leading grocery, liquor and hardware wholesaler, Metcash. The company is improving operationally and is expected to deliver solid growth in its hardware business. It has a strong balance sheet and recently announced a \$175m off-market buy-back. The Fund also increased its positions in Dexus and Charter Hall Long WALE REITs. At month end, stock numbers were 32 and cash was 5.0%.

Distribution

In order to provide a regular income stream, the Fund pays monthly distributions. We aim to pay equal cash distributions each month, based on our estimate of the dividend income to be generated over the year. Franking credits, surplus income and any realised capital gains will then be distributed, as per usual, with the June distribution.

Despite the current COVID outbreak, many businesses are seeing strong operating conditions. Further, corporate balance sheets are generally strong. In particular, the banks are holding significant surplus capital and the resources sector is largely debt-free and generating very strong cash flows. This should underpin an attractive level of dividends in the year ahead. In addition, many companies are likely to undertake capital returns such as off-market buy-backs to return excess capital and franking credits to investors.

As a result, the Fund is currently targeting a 33% increase in FY22 net distribution to 1.72 CPU. At the opening unit price of \$3.89, this represents a net distribution yield of 5.5% or 7.5% including franking.

Outlook


We believe that 2021 may well mark a significant turning point for the global economy and markets, with the prospects of a near-term rollout of an effective COVID vaccine underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop. The election result of a Biden presidency and Democratic Senate means there is likely to be increased fiscal stimulus, which should be positive for economic growth, corporate earnings and markets overall.

Domestically, key indicators around employment, business confidence and the property market are all surprising to the upside. Finally, the economy is underpinned by historically low interest rates and meaningful fiscal stimulus. If this improvement continues, then corporate earnings and dividends are likely to rebound strongly over the coming year.

The Fund is positioned to benefit from an ongoing economic improvement. In the meantime, the Fund continues to offer a higher forecast gross yield than the overall market and, as always, our focus will continue to be on investing in quality companies with strong balance sheets, which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend-yielding equities.

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