

eInvest Income Generator Fund (Managed Fund)

ASX:EIGA
MONTHLY REPORT AUGUST 2021

	Month (%)	Quarter (%)	FYTD %	1 Year (%)	3 Years (% p.a)	Since Inception [^] (% p.a.)
Income Distribution	0.43	1.77	0.87	6.27	7.78	7.31
Capital Growth	-0.59	1.19	0.01	21.35	-1.74	-0.70
Total Return	-0.15	2.96	0.88	27.62	6.04	6.61
Franking Credits [#]	0.17	0.73	0.33	2.73	3.52	3.19
Income Distribution including Franking Credits	0.60	2.50	1.20	9.00	11.30	10.50
Benchmark Yield including Franking Credits [*]	0.80	1.00	0.80	5.10	5.20	5.40
Excess Income to Benchmark[#]	-0.20	1.50	0.40	3.90	6.10	5.10

[^]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 August, with the ASX300 Accumulation Index making another record high, finishing the month up +2.6% and bringing the total return for the last 12 months to a very healthy +28.6%.
- Company reporting season was the key event during the month, with market earnings rising strongly as the economy bounced back from the first round of COVID disruptions. Earnings growth was broad-based and dividends were up sharply.
- Looking to the current financial year, the Fund is currently targeting a 33% increase in FY22 monthly net 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)	14.5	17.0
Price to Free Cash Flow (x)	11.7	15.3
Gross Yield (%)	6.9	4.9
Price to NTA (x)	2.8	3.0

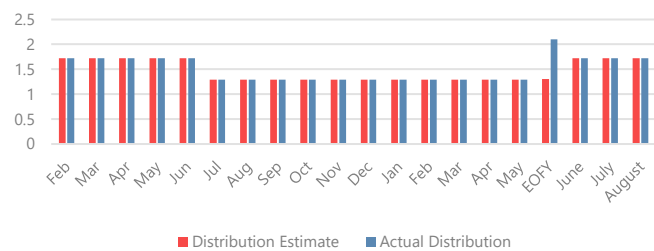
Source: Perennial Value Management. As at 31 August 2021.

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.

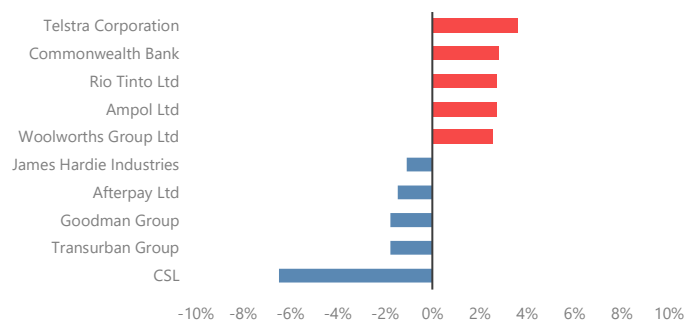
eInvest Income Generator Fund (ASX:EIGA) – Monthly Report August 2021

Income Distribution

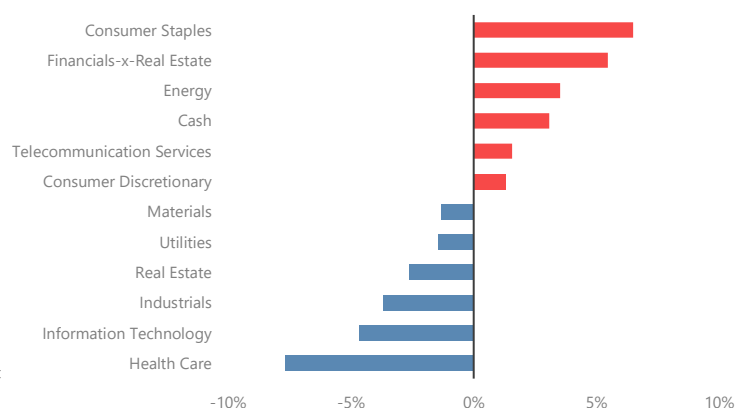
The EIGA distribution in August 2021 was 1.72 cents per unit.



Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The company reporting season was the highlight of the month. Investors had been anticipating strong results and were generally not disappointed, with all sectors of the market delivering earnings growth, as companies bounced back from the impacts of the first round of COVID disruptions.

As expected, very large amounts of cash were returned to shareholders, with well-capitalised companies showering investors with a combination of higher and special dividends, on and off-market buy-backs and capital returns. In this regard, the resources sector was the standout, with record profits allowing the big three iron ore miners to pay over US\$24bn dividends in the June half year.

Despite delivering record profits and dividends, the share prices of the iron ore miners declined, down an average of -13.6% over the month, as the iron ore price fell sharply from its recent very high levels. The fall in the iron ore price followed the announcement that the Chinese were aiming to reduce steel production in the coming year. However, even factoring in a significant decline in the iron ore price, these stocks are trading on very cheap valuations and will deliver, very strong earnings and cash flows over the coming year. Given their already lowly-gearred balance sheets, we would expect this to again translate into very strong dividends in the year ahead.

Other portfolio holdings which delivered solid results and announced capital management included Woolworths (+7.7%), with a \$2.0bn off-market buy-back, Telstra (+3.7%), with a \$1.35bn on-market buy-back and Wesfarmers (-1.9%) with a \$2.0bn capital return.

The major banks outperformed marginally (up an average of +3.8%), with CBA (+2.5%) delivering a solid result, underpinned by improving loan growth and continuing strong credit quality. The result overall provided a positive signal about the underlying health of the economy. In addition to a 17% increase in its full-year dividend, CBA announced a \$6.0bn off-market buy-back, adding to the \$1.5bn and \$2.5bn on-market buybacks announced by ANZ and NAB respectively.

Insurers Suncorp (+12.3%) and IAG (+10.7%) and both outperformed after delivering solid results on the back of strength in premium rates and positive claims experience. The insurers have been benefiting from relatively lower claims, with people spending more time in their homes and off the roads.

Graincorp (+21.0%) rallied strongly after upgrading earnings again on the back of the strength in the grain market, where it is benefitting from last years large crop, high wheat prices and strong export demand. Looking forward, conditions for the crop currently in the ground are very positive and this augurs well for earnings in the following financial also.

Aristocrat Leisure (+9.7%) outperformed as visitors returned in droves to US casinos post their reopening. This business is performing very strongly operationally and has a number of growth drivers, including its expanding online video game operations, which now account for nearly half of earnings.

Holdings which underperformed during the month included Seven Group Holdings (-8.6%) and Orora (-5.3%), both of which eased after strong recent share price performances and Woodside Petroleum (-8.6%) on the softer oil price. We remain comfortable with each of these holdings.

Fund Activity

During the month, EIGA increased its holdings in Woolworths, Rio Tinto and Woodside Petroleum and trimmed its holdings in IAG. The Fund also took part in the Metcash off-market buy-back. Participating in buy-backs generates an attractive after-tax return. At month end, stock numbers were 32 and cash was 3.1%.

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 monthly net distribution to 1.72 CPU. At the opening unit price of \$3.93, 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 accelerating rollout of effective COVID vaccines underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should herald greater government spending to drive higher growth, which will flow through to corporate earnings. Further, this should also usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop.

Domestically, while the current COVID outbreak and associated lockdowns are a clear setback, 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, EIGA 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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