eInvest

eInvest Income Generator Fund (Managed Fund)

ASX:EIGA

MONTHLY REPORT MARCH 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a)	Since Inception^ (% p.a.)
Income Distribution	0.45	1.39	4.18	6.21	7.99	7.09
Capital Growth	5.86	4.70	3.21	9.62	0.51	0.21
Total Return	6.30	6.09	7.40	15.83	8.51	7.30
Franking Credits#	0.15	0.51	1.52	2.29	3.51	3.01
Income Distribution including Franking Credits	**0.60**	**1.90**	**5.70**	**8.50**	**11.50**	**10.10**
Benchmark Yield including Franking Credits*	0.70	2.00	4.90	6.10	5.20	5.60
Excess Income to Benchmark#	**-0.10**	**-0.10**	**0.80**	**2.40**	**6.20**	**4.50**

^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

Markets staged a rally in March, with the S&P500 +3.6%, the Nikkei 225 +4.9% and the FTSE 100 +0.8%. The exception was the Chinese market, where renewed COVID lockdowns saw the Shanghai Composite down -6.1%.

The Australian market was a standout, with the ASX300 Accumulation Index returning a very strong +6.9% in March, and all sectors delivering positive returns.

Looking to the current financial year, the Fund is currently targeting a 30% increase in FY22 net distribution to 5.5 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. Any surplus income will be distributed with the June distribution.

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
Stephen Bruce

Management Cost
0.80% (incl of GST and RITC)

Distribution Frequency
Monthly

EIGA FUM
$33 million

Inception Date
7 May 2018

Investment Grade
Lonsec Research

Portfolio Characteristics – FY22

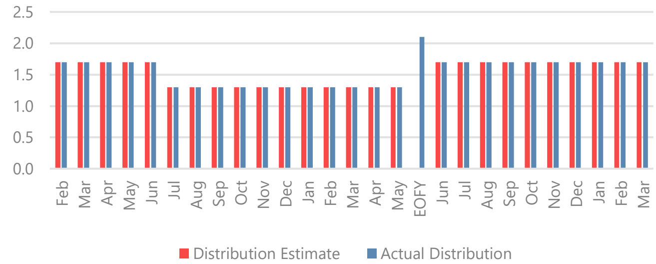
	Fund	Market
Price to Earnings (x)	14.0	16.4
Price to Free Cash Flow (x)	11.3	14.2
Gross Yield (%)	7.0	5.2
Price to NTA (x)	2.8	3.0

Source: Perennial Value Management. As at 31 March 2022.

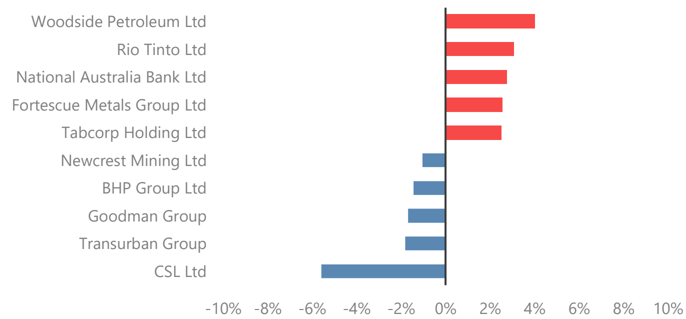
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Income Distribution

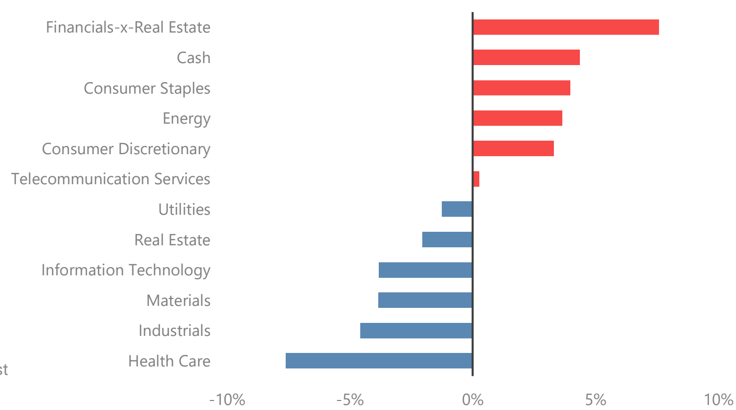
The EIGA distribution in March 2022 was 1.7 cents per unit.



Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

EIGA returned +6.5%, including franking credits and after-fees in March, underperforming the index by -0.6%. For the last 12 months, EIGA has delivered a return of +18.1%, outperforming the Index by +1.3%. This demonstrates the Fund's leverage to the value rotation which has been taking place as global growth has improved and interest rates have begun to rise from their historically low levels.

While the current uncertainties may cause a short-term pause, we expect that this rotation still has a long way to run, given the macro backdrop and the high level of valuation dispersion which exists in the market. As such we continue to position the portfolio to benefit from this trend.

Resources holdings performed strongly during the month. The bulk miners all rallied, with Fortescue Metals (+13.8%), BHP (+10.9%) and Rio Tinto (+6.4%) all performing well on the back of the iron ore price rising to over US$150/t. The demand outlook for iron ore remains robust, with the Chinese likely to implement measures to stimulate their property market, while the supply side remains constrained near term. As a result, these companies are expected to generate very strong cash flows and see earnings upgrades over the coming period.

The oil price continued to be volatile, but remained at high levels, finishing the month at over US$100/barrel. This saw a strong performance from our holding in Woodside Petroleum (+12.5%). Woodside is well positioned to benefit from the current high prices, with a significant proportion of its production uncontracted and able to be sold into the spot market.

Conditions in the agricultural sector continue to be very strong, with positive seasonal conditions and high soft commodity prices. Strong demand, combined with disruptions to global trade and surging gas costs, saw fertiliser prices spike to historically high levels. This benefited Incitec Pivot (+22.7%), which manufactures ammonia and fertilisers in Australia and the US.

Macquarie Group (+12.4%), outperformed as the high level of volatility in the commodities markets is expected to drive very strong earnings in their commodity trading operations. This is an area where the company has been investing significant capital in recent years.

Holdings which underperformed during the month included United Malt (-10.8%), which declined due to concerns over the impact of rising grain prices and energy costs. While these will present a near-term headwind, there is a more significant reopening story for this stock, and it remains one of our holdings where we see the greatest upside. Similarly, Virgin Money UK (-9.4%), was sold off along with the rest of the UK banking sector, on concerns over Ukraine impacts on the UK economy. Again, despite near-term headwinds, this is a stock were we see very significant medium-term upside.

The Fund was also impacted by not holding a number of expensive tech stocks which rallied during the month. Examples include Block (+19.3%) (the Australian listing of the company which acquired Afterpay), Seek (+12.7%) and Xero (+9.6%). While these stocks bounced in line with tech stocks globally, given the still elevated valuations of many of these types of stocks, we believe they still have considerable downside risks as rates rise. Further, they pay little or no dividends.

Fund Activity

March was a quiet month, with no significant changes to the portfolio. We are comfortable with our key exposures to the resources and banking sector, which should both generate attractive levels of dividend income and provide leverage to the ongoing economic recovery. We also see significant upside in the Energy sector to which we are exposed through Woodside Petroleum. These more cyclical exposures are balanced with high quality defensive holdings such as Woolworths and Telstra. At month end, stock numbers were 30 and cash was 4.4%.

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 30% increase in FY22 net distribution to 5.5 CPU. At the opening unit price of $3.82, this represents a net distribution yield of 5.5% or 7.5% including franking.

Outlook

On balance, we view the outlook as positive, with economies recovering strongly as COVID recedes. Economic data continues to be strong in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos and Consumer Staples.

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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