eInvest Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report November 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.6	2.7	9.9	6.9	7.7
Capital Growth	5.3	4.5	7.8	0.3	-1.5	-1.5
Total Return	5.8	6.0	10.5	10.2	5.4	6.2
Franking Credits#	0.1	0.2	0.4	3.6	2.7	3.2
Income Distribution including Franking Credits	**0.6**	**1.8**	**3.1**	**13.5**	**9.6**	**10.9**
Benchmark Yield including Franking Credits*	0.6	2.4	3.5	6.2	5.1	5.6
Excess Income to Benchmark#	**0.0**	**-0.6**	**-0.4**	**7.3**	**4.5**	**5.3**

^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.

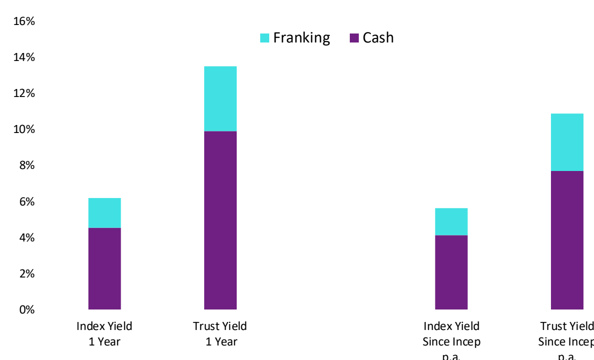
Overview

Markets continued to rally in November, as signs of easing inflation sparked hopes that the pace of Central Bank tightening would start to slow from the end of this year. Markets were also boosted by suggestions that the Chinese Government was beginning to soften its stance on COVID zero and loosen some of the restrictions.

The Australian market was also stronger in November, with the ASX300 Accumulation Index finishing the month up +6.5%. All sectors delivered positive returns, however, it was Metals & Mining (+18.3%), which was the standout, as the mining stocks rallied in anticipation of a pick-up in Chinese commodity demand.

EIGA is currently targeting a 5% increase in FY23 net monthly distributions to 1.8 CPU. Based on the unit price at the start of the financial year, this equates to an annualised cash distribution yield of around 6.2% or 8.8%, including franking credits.

Distribution Yield



Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Fund Characteristics

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

EIGA FUM
$33 million

Distribution Frequency
Monthly

Inception Date
7 May 2018

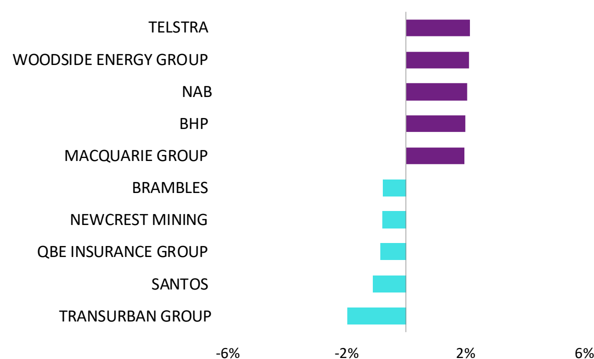
Fees
0.80% (incl. of GST and RITC)

Portfolio Characteristics – FY23	Fund	Market
Price to Earnings (x)	13.8	15.1
Price to Free Cash Flow (x)	13.3	14.0
Gross Yield (%)	6.1	5.3
Price to NTA (x)	2.6	2.7

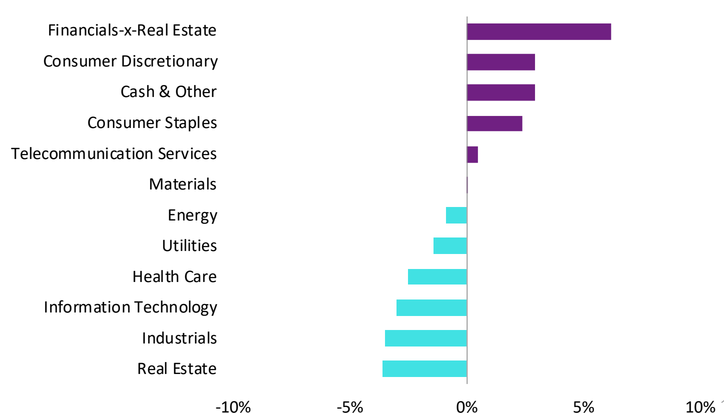
Source: Perennial Value Management. As at 30 November 2022

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.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

EIGA returned +5.8%, including franking credits and after-fees in November, underperforming the market by -0.9%. For the past 12 months EIGA has returned +13.8%, outperforming the market by +7.9%. This highlights the Fund's leverage to the value rotation currently underway as interest rates rise.

Key positive contributors to performance included the Fund's resources holdings. The iron ore miners all rallied, led by Fortescue Metals (+31.8%), while Rio Tinto (+24.3%) and BHP (21.8%) were both also strong. This performance was driven by the announcement of further incremental stimulus measures to support the property market, as well as indications that the harsh COVID lockdown measures may begin to be eased earlier than expected. Diversified base metals producer, South32 (+11.7%), was also strong.

Virgin Money UK (+25.6%) rallied strongly after delivering a solid full-year result. While the economic outlook in the UK is highly uncertain at present, the bank is well-positioned, with provisions for loan losses well above pre-COVID levels and significant surplus capital. Subject to regulatory approval, the company could potentially return up to GBP375m to shareholders in late 2023. This equates to around 15% of the current market cap of the company. Combined with the fact that the company is trading on less than 0.5x book value, then there is likely to be significant upside to the share price.

United Malt (+7.4%) rose after delivering its full-year result. While, as expected, the result was very poor, it is clear the headwinds that the company has faced over the last several years from COVID-related lockdowns and supply chain disruptions, to the failure of the Canadian barley crop, are now behind them. As a result, earnings are expected to rebound strongly over the coming years. Further, the global malt industry is consolidating, mirroring the consolidation that has occurred amongst their brewer customers. It is highly likely that United Malt will be party to this at some point.

Qantas (+6.8%), continued its strong performance, delivering another trading update which again increased guidance for first half earnings. This confirmed the current very positive operating conditions, with strong pent-up demand for travel intersecting with industry capacity constraints. The resulting pricing power has seen very strong profitability despite cost headwinds.

The main detractors over the month were James Hardie (-14.1%), which downgraded its guidance for next year on the back of weakness in the US housing market, where rapidly increasing mortgage rates have crimped demand for new homes. We remain very confident in the longer-term outlook for this business, with its differentiated, premium products and excellent direct-to-consumer marketing, which should allow it to continue to gain market share over time. Other detractors included Healius (-15.2%) and Aristocrat Leisure (-4.8%).

The major banks also detracted, despite delivering positive results and increasing their dividends. While operating conditions are currently positive, with expanding interest margins and strong credit quality, the market is looking ahead to when the economy begins to slow next year. While this will present headwinds to the banks, we note that they are all in very strong financial positions, with historically high levels of capital and large provisions for any increase in bad debts that may occur.

Fund Activity

During the month we exited holdings in Dexus and Lotteries Corporation and increased our holdings in the iron ore miners as well as reduced our underweight position in CSL. At month end, stock numbers were 33 and cash was 2.9%.

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.

Looking to the current financial year, while the economic outlook is more uncertain, most companies are in good financial shape, and we expect healthy dividends. The Fund is currently forecasting a 5% increase in FY23 monthly net cash distributions to 1.8 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 6.2% or 8.8%, including franking credits.

We do not expect the same level of off-market buy-backs or special dividends in the coming year compared to the high level seen in FY22, as many companies have now restored their balance sheets to their desired gearing ranges.

Outlook

Global growth is clearly slowing, as interest rates rise and economies grapple with the impacts of high inflation and energy supply problems. However, we believe that this will be offset to some extent by the benefits to economies as COVID disruptions continue to recede. While economic data is mixed, and varies greatly from region to region, unemployment rates are very low in most major markets. 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, Financials 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.

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