# eInvest Income Generator Fund (Managed Fund)

## ASX: EIGA

Monthly Report January 2023

Perennial Partners

| | Month (%) | Quarter (%) | FYTD (%) | 1 Year (%) | 3 Years (% p.a.) | Since Inception^ (% p.a.) |
|---|---|---|---|---|---|---|
| Income Distribution | 0.5 | 1.6 | 3.9 | 10.1 | 6.9 | 7.7 |
| Capital Growth | 5.3 | 7.3 | 9.9 | 2.1 | -0.9 | -1.0 |
| Total Return | 5.8 | 8.9 | 13.7 | 12.2 | 6.1 | 6.6 |
| Franking Credits# | 0.1 | 0.3 | 0.5 | 3.3 | 2.7 | 3.1 |
| **Income Distribution including Franking Credits** | **0.6** | **1.8** | **4.4** | **13.4** | **9.6** | **10.8** |
| Benchmark Yield including Franking Credits* | 0.0 | 0.8 | 3.8 | 6.6 | 5.1 | 5.5 |
| **Excess Income to Benchmark#** | **0.6** | **1.0** | **0.6** | **6.8** | **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

Early signs of easing inflationary pressures, slightly better economic growth forecasts and a faster than expected reopening of China, combined to boost investor sentiment in January. This saw strong rallies in all major global markets.

The Australian market was also strong in January, with the ASX300 Accumulation Index finishing the month up +6.3%. All sectors, other than Utilities (-3.0%) delivered positive returns. The prospect of a soft landing, saw Consumer Discretionary (+10.1%) the best performing sector, while the rapid reopening of China, saw the Metals & Mining sector (+9.4%) again perform strongly.

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.

## 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**
$34 million

**Distribution Frequency**
Monthly

**Inception Date**
7 May 2018

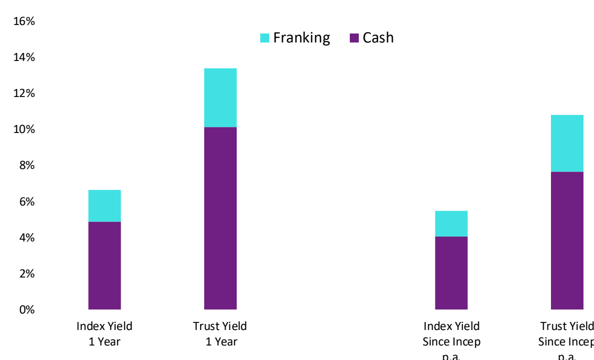
**Fees**
0.80% (incl. of GST and RITC)

| Portfolio Characteristics – FY23 | Fund | Market |
|---|---|---|
| Price to Earnings (x) | 15.5 | 16.6 |
| Price to Free Cash Flow (x) | 15.5 | 15.4 |
| Gross Yield (%) | 5.4 | 4.8 |
| Price to NTA (x) | 2.8 | 2.9 |

**Source:** Perennial Value Management. As at 31 January 2023

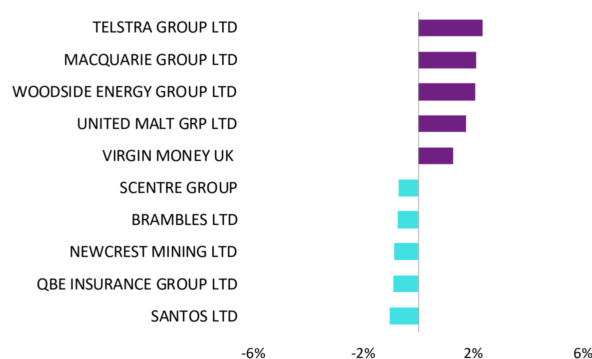
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

## Distribution Yield

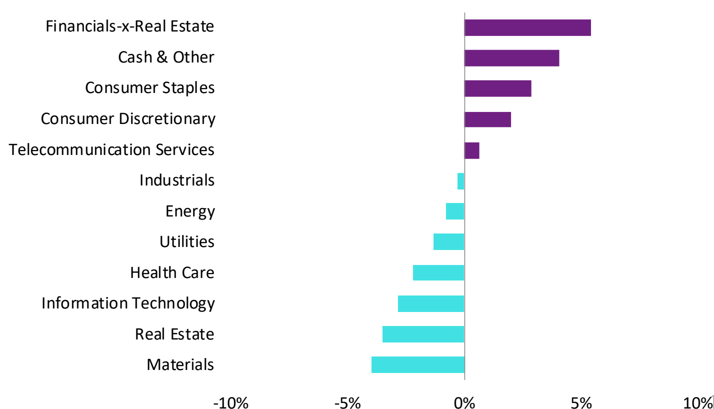



Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

## Top 5 Over / Underweight Positions vs Index




## Sector Active Exposure vs Index



## Fund Review

The Fund returned +5.8%, including franking credits and after-fees in January, underperforming the benchmark by –0.5%

Key positive contributors to performance included the Fund's resources holdings, with the prospects of Chinese reopening seeing rallies in the prices of iron ore (+9.7%) and other metals, with copper (+10.9%) also up strongly. The bulk miners were all higher, with Rio Tinto (+8.8%), Fortescue Metals (+8.4%) and BHP (+8.2%). Diversified base metal miner, South32 (+13.5%) also rose strongly.

Sharply rising mortgage rates in the US have been impacting the housing market and the share prices of building materials companies. However, the key 10 and 30-year mortgage rates have retreated significantly from their recent highs, seeing an improvement in the outlook for the construction sector. This saw James Hardie (+19.1%), which is exposed to the US construction sector rally strongly. We are very positive on the medium-term outlook for this company, which holds a strong position in its markets, and whose innovative, differentiated products should allow it to grow market share over time. James Hardie has been investing heavily into consumer marketing, driving demand from homeowners based on premiumisation, rather than pushing through builders who would be more price conscious.

Macquarie Group (+12.2%) was strong over the month, as investors began to upgrade earnings expectations on the back of ongoing commodity market volatility, which is likely to drive very strong earnings from their commodities trading division. During the month, it was also noted that various Macquarie entities had completed a number of asset realisations, despite generally tougher market conditions. This was a positive, as ongoing asset sales, from both principal investments and from funds is critical to generating profits and performance fees.

The Fund remains underweight the REIT sector. The sector is facing rental income pressure in retail as spending slows and in offices as companies reduce space as people continue to work from home. Rising interest costs will also present a headwind when debt needs to be refinanced. While reported cap rates have not moved significantly as yet, this is likely only a matter of time, and when this happens, many REIT balance sheets may come under pressure. An exception is Goodman Group (+15.0%), which we added to the portfolio in October. The stock had been sold down sharply and offered attractive value at our entry price of $16.68. Goodman Group is a high quality business and, unlike other parts of the property market, the industrial sector is experiencing continued demand for logistics and distribution facilities and seeing strong rental growth.

The main detractors over the month were energy stocks, with Woodside (+2.3%) and Incitec Pivot (-8.5%), which were held back by the lower oil price. More defensive healthcare and telco holdings also lagged in the risk-on environment. Given the likely slow-down in corporate earnings, we think these stocks have an important place in the portfolio.

## Fund Activity

During the month, we took profits and reduced our holdings in BHP, Rio Tinto and Fortescue Metals, following their strong outperformance in recent months. At month end, stock numbers were 33 and cash was 4.1%.

## 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.

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 higher 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.

## Contact us

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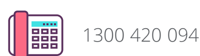
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