eInvest Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report April 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.4	5.4	9.4	7.5	7.5
Capital Growth	0.3	-2.0	7.7	-7.1	7.7	-1.4
Total Return	0.8	-0.6	13.1	2.3	15.1	6.2
Franking Credits#	0.1	0.2	0.7	2.5	2.6	3.1
Income Distribution including Franking Credits	**0.6**	**1.6**	**6.1**	**11.9**	**10.1**	**10.6**
Benchmark Yield including Franking Credits*	0.0	2.0	6.0	6.0	5.6	5.6
Excess Income to Benchmark#	**0.6**	**-0.4**	**0.1**	**5.9**	**4.5**	**5.0**

^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.

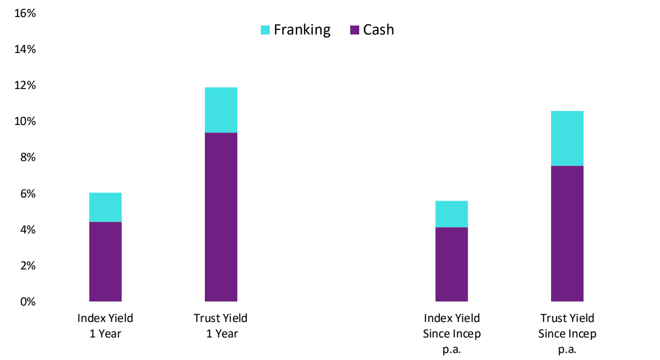
Overview

Further indications that inflation has peaked, combined with the banking sector issues apparently abating, saw markets trade positively in April. Key global indices rose, with the S&P500 +1.5%, the FTSE100 +3.1%, the Nikkei 225 +2.9%, the Shanghai Composite +1.5% and the NASDAQ +0.4%.

The decision by the RBA to pause its rate rises at the April meeting, lifted sentiment and boosted the Australian market, which returned +1.8% for the month.

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

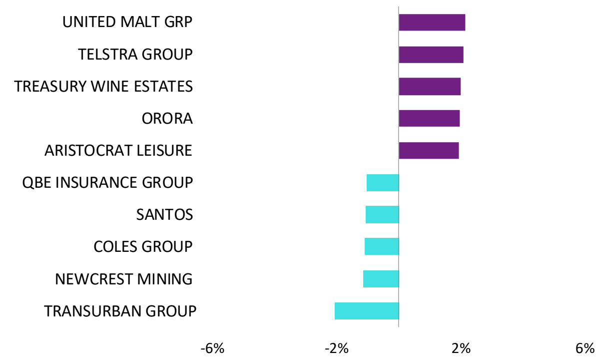
Fees
0.80% (incl. of GST and RITC)

Portfolio Characteristics – FY23	Fund	Market
Price to Earnings (x)	13.7	15.0
Price to Free Cash Flow (x)	14.0	13.9
Gross Yield (%)	5.8	5.5
Price to NTA (x)	2.3	2.6

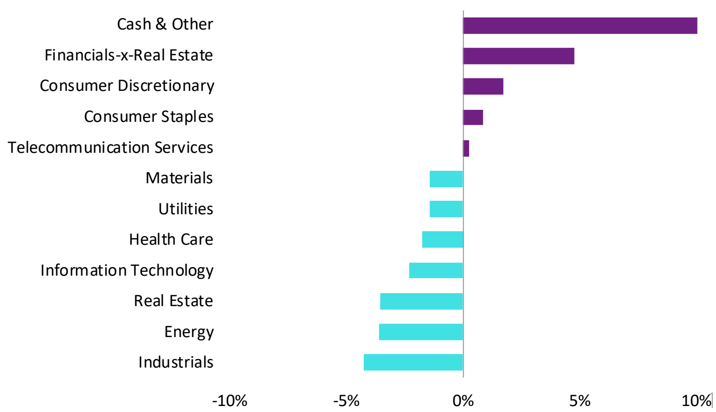
Source: Perennial Value Management. As at 30 April 2023

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.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned 0.8%, including franking credits and after-fees in April, underperforming the benchmark by –1.1%.

Financial stocks performed well over the month, with banking sector concerns easing and a generally more optimistic take on the outlook for interest rate rises. This saw Virgin Money UK (+10.5%) and Macquarie Group (+4.0%) recover last month's losses. When stresses appear in the banking system, selling can be quite indiscriminate. For example, Virgin Money UK was sold down last month, despite the fact analysis of its business indicates that the issues experienced by several of the US regional banks are not applicable to it (and discussions with management confirmed this). The major banks also outperformed (up an average of +3.8%).

Gold stock Northern Star (+9.3%) continued its strong performance on the back of falling real yields fell as investors factored in expectations of interest rate easing. Gold and gold stocks are finally coming into their own as defensive assets. We continue to hold a position in the gold sector, given the elevated level of macro, geopolitical and other risks at present. Further, we believe Northern Star could also be very attractive, being a global top-10 producer, with well-located assets and strong production growth.

Treasury Wine Estates (+6.6%), continued its strong performance on increased optimism that the Chinese tariffs would be removed, effectively reopening the largest export market for Australian wines. While this would be a boon for the company (and the industry), the company is well positioned if this does not happen, having already found alternative markets for their premium products such as Penfolds.

James Hardie (+5.2%) rallied on tentative signs of the US housing market having bottomed. In the short-term, the company is subject to the residential construction cycle. However, long-term, it should be able to continue to grow at above market rates as it gains market share from other building products.

Other outperformers included insurers IAG (+6.2%) and Suncorp (+3.1%), with industry dynamics remaining positive. Health insurer, Medibank (+6.0%) was also stronger as private health insurance membership levels remained strong.

Telstra (+3.6%) continues to perform well, with its defensive earnings and strong performance from its dominant mobile business, where price increases are being put through against an increasingly rational competitive backdrop.

The main detractors over the month were the bulk miners (down and average of -6.5%), on the back of a decline in the iron ore price. We expect that this decline will prove temporary, with demand picking up through the remainder of the year. Regardless, these stocks are trading on attractive valuations and generating very strong cash flows and dividends.

United Malt (-7.4%), declined after lowering first half earning guidance. The company is currently under takeover offer, and we do not believe this will have any impact on the deal completing. South32 (-3.0%) was softer, after delivering a weak quarterly production report, while Healius (-5.4%) also lagged. We remain comfortable with the outlook for each of these businesses.

Fund Activity

During the month, we reduced our holdings in the bulk miners and increased our holdings in the major banks ahead of their dividend paying period. At month end, stock numbers were 31 and cash was 10.7%.

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 the challenges of energy costs and other supply issues. Recent stresses in the banking sector have also had a negative impact on the outlook. While rapid regulatory responses seem to have contained these issues for now, the high levels of indebtedness and the long lags associated with the transmission of monetary policy, mean we are unlikely to be out of the woods. On the positive, it appears that inflation has peaked, and unemployment rates remain very low in most major markets. Despite record interest rate rises, the Australian economy continues to perform strongly, with a tight labour market, resilient retail sales and stabilising house prices. The resources and agricultural sectors continue to experience positive conditions and the coming surge in immigration will provide a further boost.

However, the level of uncertainty is elevated, and a degree of caution is warranted. This view is expressed in the portfolio through holding stocks with company specific drivers, as opposed to pure cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID normalisation, higher inflation, and higher interest rates. This is achieved through overweight positions to select parts of the Financial and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos, Insurance 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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