eInvest Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report June 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	1.0	1.9	6.9	6.9	7.4	7.8	7.6
Capital Growth	0.8	-2.0	5.2	5.2	4.4	-2.3	-1.8
Total Return	1.8	-0.1	12.1	12.1	11.8	5.4	5.8
Franking Credits#	0.0	0.5	2.3	2.3	3.0	3.3	3.3
Income Distribution including Franking Credits	**1.0**	**2.4**	**9.2**	**9.2**	**10.4**	**11.1**	**10.9**
Benchmark Yield including Franking Credits*	0.2	0.8	6.8	6.8	5.7	5.5	5.6
Excess Income to Benchmark#	**0.8**	**1.6**	**2.4**	**2.4**	**4.7**	**5.6**	**5.3**

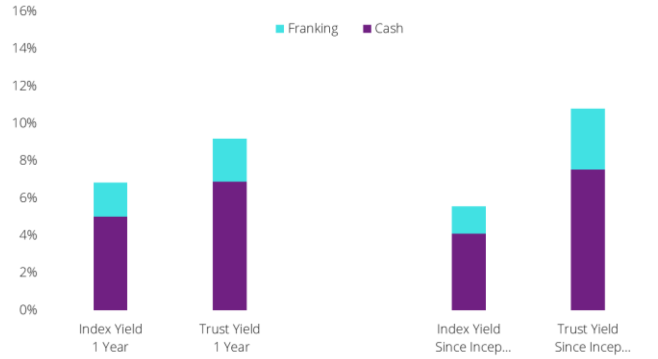
^Inception date was 7 May 2018. Fund returns are calculated using net asset value per unit at the start and end of the specified period and do not reflect the brokerage or the bid ask spread that investors incur when buying and selling units on the ASX. *Benchmark yield is calculated based on the difference 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 were strong in June, with improving inflation trends and a pause by the Fed, seeing a broadening of the rally in US equities from the Tech sector to other parts of the market. The NASDAQ added +6.6%, while the S&P500 rallied +6.5% on stronger economic data. The Nikkei 225 rose +7.5%, while the FTSE 100 was up a more modest +1.1%. The exception was the Shanghai Composite, which eased -0.1%. The Australian market was also strong, with the ASX300 Accumulation Index finishing the month up +1.7%. Despite the RBA lifting the cash rate again, investors took a positive stance as inflation eased and economic data remained positive.

The Fund is currently targeting FY24 net monthly distributions to remain flat at 1.785 CPU. Based on the unit price at the start of the financial year, this equates to an annualised cash distribution yield of 5.0%.

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
$32 million

Distribution Frequency
Monthly

Inception Date
7 May 2018

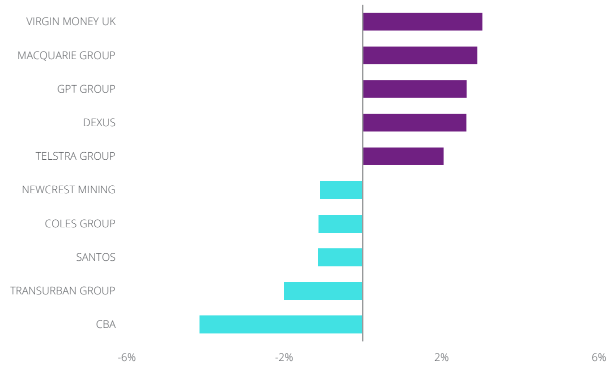
Fees
0.80% (incl. of GST and RITC)

Portfolio Characteristics – FY24	Fund	Market
Price to Earnings (x)	13.3	14.7
Price to Free Cash Flow (x)	13.4	13.4
Gross Yield (%)	6.0	5.6
Price to NTA (x)	2.1	2.5

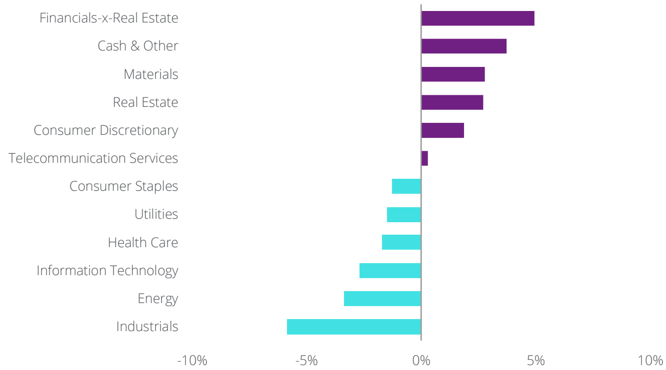
Source: Perennial Value Management. As at 30 June 2023

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 +1.8%, including franking credits and after-fees in June, outperforming the benchmark by +0.1%. Key positive contributors to performance over the month included the Fund's Resources holdings. Commodity prices were generally stronger over the month as concerns around sluggish Chinese growth were more than offset by speculation that the Central Government would implement stimulus measures to revive the property market and address emerging issues such as high youth unemployment. Further, the better-than-expected US inflation and economic data led to hopes that the rate rise cycle is close to ending and that a soft landing could be achieved, all of which is positive for growth and commodities demand. This saw the bulk miners up strongly, with Fortescue Metals (+15.4%), Rio Tinto (+7.2%) and BHP (+7.1%).

Both BHP and Rio Tinto have significant copper assets. Assuming the shift to renewables proceeds at anything near the pace required to meet global emission reduction objectives, then the demand for copper will grow significantly. Given the long delays in developing new mines, it is likely that demand will significantly exceed supply over the coming years. Further, the "low-hanging fruit" of shallow, easily accessed deposits of most minerals have been mined first (some of the world's largest copper mines, for example Rio's Bingham Canyon mine in Utah, are over 100 years old!) and new mines are often in more "challenging" locations (for example Rio Tinto's Oyu Tolgoi mine in Mongolia). These new deposits will push up the global cost curve and be supportive of commodity prices.

Insurers rallied, with IAG (+9.8%) outperforming, as rate rises boost their investment earnings and ongoing strong premium increases, which continue to run ahead of inflation. Should the interest rate increase cycle prove more prolonged than the market currently expects, then the insurers are well-placed to outperform given their positive leverage to higher rates, relatively defensive earnings and undemanding valuations.

James Hardie (+4.9%) added to last month's rally, with indications that the US housing market has stabilised after being impacted by the rapid rise in mortgage rates. As is the case in Australia, there is a shortage of housing in the US, with inventories of single family (ie detached) homes well below pre-pandemic levels. While James Hardie is primarily exposed to the renovation, as opposed to new construction market, this bodes well for underlying demand. Renovation activity has been impacted by rising interest rates. However, higher mortgage rates are likely to slow the rate of people upgrading to larger homes as this requires them to refinance existing cheap mortgages to new ones at higher rates. The result is likely to be more people deciding to extend and renovate their current properties. While the company is subject to the cycle, over time this has consistently outgrown the overall market as its premium, differentiated products take share from other building materials.

Other outperformers included Seven Group (+5.4%), Aristocrat Leisure (+4.1%) and Macquarie Group (+4.0%).

In the more positive environment, defensives such as Telstra (-1.4%), Northern Star (-6.4%) and Healthcare stocks were the main detractors to performance. Of particular note, CSL (-9.5%) fell after issuing FY24 guidance which, while strong at +8-13%, was below the expectations of the more bullish analysts in the market. Regardless, in our view, the company is well placed to deliver strong earnings growth and is attractive over the medium-term.

Fund Activity

During the month, we trimmed our bank holdings and added to our REIT exposure, establishing positions in Dexus and GPT. These are now offering reasonable value following a period of significant underperformance. At month end, stock numbers were 32 and cash was 3.7%.

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 flat monthly net cash distribution of 1.785 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 5.0%.

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

Outlook

The global economy has proven surprisingly resilient in the face of the sharp rise in interest rates and other disruptions. However, the data is becoming increasingly mixed and there are long lags associated with the transmission of monetary policy. On the positive, while inflation is proving sticky, it appears to have peaked, and unemployment rates remain very low in most major markets. The Australian economy continues to perform strongly, and the unemployment rate remains low. The resources and agricultural sectors continue to experience positive conditions and the coming surge in immigration will provide a further boost to activity. However, while house prices are rising again, retail sales are showing volatility and key forward indicators such as building approvals have fallen sharply.

While the backdrop is currently sound, the level of uncertainty is elevated, and it seems that the rate rise cycle is not yet complete. As a result, a degree of caution is warranted and we prefer holding stocks with positive 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 in the Diversified Financials, Resources, and very select parts of the Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Healthcare, Insurance, Telco and Gold sectors.

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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