Perennial Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report September 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.0	1.0	6.4	7.3	7.7	7.4
Capital Growth	-3.0	-1.2	-1.2	6.3	5.3	-2.6	-1.9
Total Return	-2.5	-0.2	-0.2	12.6	12.7	5.1	5.5
Franking Credits#	0.2	0.3	0.3	2.1	3.1	3.3	3.2
Income Distribution including Franking Credits	**0.7**	**1.3**	**1.3**	**8.4**	**10.4**	**11.0**	**10.6**
Benchmark Yield including Franking Credits*	0.9	1.9	1.9	6.1	5.9	5.5	5.7
Excess Income to Benchmark#	**-0.2**	**-0.6**	**-0.6**	**2.3**	**4.5**	**5.5**	**4.9**

^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. Performance is shown to 29 September 2023, which was a public holiday in Melbourne. Since our unit registry is based in Melbourne, no unit price was struck for this day. An indicative unit price was calculated so that the performance of the Fund may be compared to that of the market (the ASX was open on 29 September 2023). No reliance should be placed on the indicative unit price for 29 September 2023.

Overview

Markets were weaker again in September, with stronger than expected economic data pushing bond yields higher. This saw the S&P500 fall -4.9%, the NASDAQ decline -5.8%, and the Nikkei 225 give back -2.3%. The FTSE100 bucked the trend, rising +2.3% as inflation data in the UK came in lower than expected, while the Shanghai composite was relatively stable, down only -0.3%.

The Australian market was also weak, with the ASX300 Accumulation Index finishing the month down -2.9%. The domestic economic data remains strong, and inflation continues to ease, allowing the RBA to remain on hold at its September meeting.

The Fund is currently targeting FY24 net monthly distributions of 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%.

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

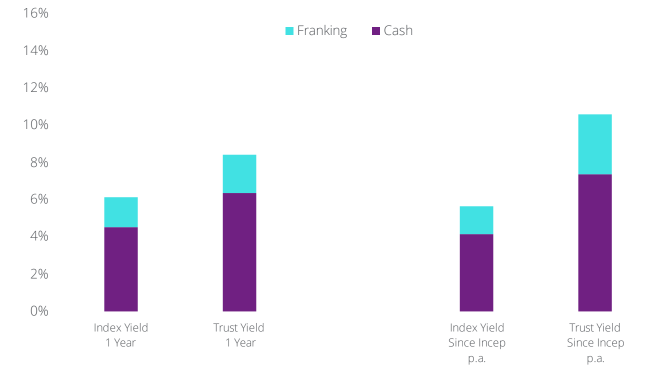
Fees
0.80% (incl. of GST and RITC)

Portfolio Characteristics – FY24	Fund	Market
Price to Earnings (x)	13.9	15.2
Price to Free Cash Flow (x)	13.1	14.3
Gross Yield (%)	5.9	5.4
Price to NTA (x)	2.0	2.5

Source: Perennial Value Management. As at 30 September 2023

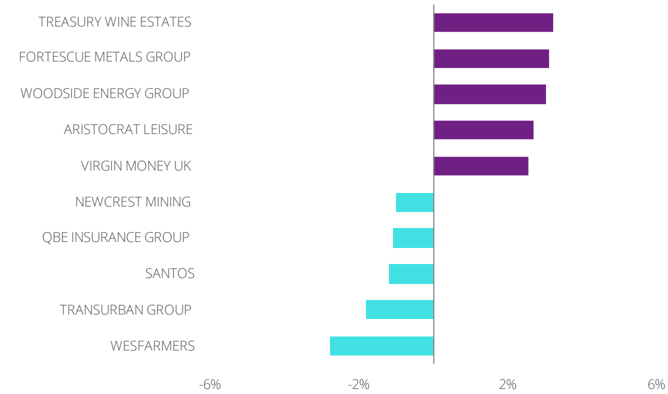
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Distribution Yield

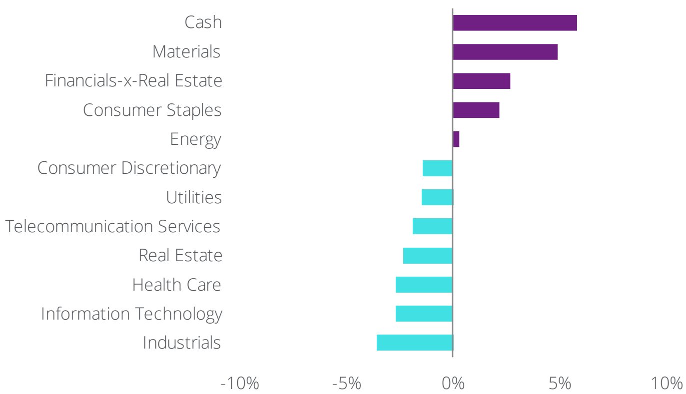


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned -2.3%, including franking credits and after-fees in September, outperforming the benchmark by 0.3%.

Key contributors to performance over the month included Seven Group (+12.2%). The stock has performed very strongly over the last 12 months, as investors have become increasingly confident that management will be able to improve the operational performance of the Boral business, in which Seven Group holds a 72.6% stake. More broadly, the business is well-placed, with its Westrac Caterpillar franchise benefitting from the strength of the Resources sector, while its Coates Hire business is benefitting from the high level of infrastructure investment currently being undertaken. This is also benefitting Boral, with both volumes and sales increasing across key products. Despite its strong performance, the stock is still trading on a relatively attractive valuation, with an FY24 P/E of around 14x, well below the average of the Industrials.

Treasury Wine Estates (+5.7%) again outperformed on speculation that the tariffs on Australian wine exports to China would soon be removed. This follows the restoration of more normal diplomatic activity between Australia and China and the recent resumption of barley exports. Should this occur, it would be very positive for earnings, with the Chinese market a key destination for their premium labels such as Penfolds. While there is no guarantee that this will happen, it was interesting to note that in their results presentation, the company stated that given the potential for the tariffs to be removed, they were "taking a measured approach to phasing of shipments of Penfolds across all markets…". This suggests that they have some degree of confidence that this will occur.

The main detractor from performance over the month was packaging company, Orora (-13.8%), which fell after announcing a $1.3bn capital raising to fund the $2.2bn acquisition of Saverglass. Based in France, but with global operations, Saverglass is a manufacturer of glass bottles, with a leading position in the luxury spirits market. The size and location of the acquisition make it relatively high risk, however, management has a good track record, and the valuation is undemanding.

Other detractors included James Hardies (-12.3%), which gave back some of its recent strong gains, as US mortgage rates moved higher. Macquarie Group (-5.5%) was also softer, given ongoing weakness in M&A activity, as well as the continuing challenging environment for asset realisations, which are a key driver of profits and performance fees.

Other holdings which outperformed included stocks positively leveraged to higher interest rates such as QBE Insurance (+4.9%) and Computershare (+3.1%). In our view, these are ideal holdings for the current market, being positively leveraged to a "higher for longer" interest rate environment, having defensive characteristics and offering good value. For example, both QBE and Computershare are trading on undemanding valuations, with FY24 of P/E multiples of 10.7x and 13.6x respectively.

Fund Activity

During the month, we exited our holdings Wesfarmers, Kathmandu and Perpetual, all of which are facing a more challenging environment. Proceeds were used to increase holdings in the banks and miners. At month end, stock numbers were 29 and cash was 5.8%.

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 economic disruptions. Further, recent data suggests that, while inflation is proving sticky, it appears to have peaked. Importantly, unemployment rates remain very low in most major markets. The Australian economy continues to perform strongly, with strong employment growth, robust spending and rising property prices. The resources and agricultural sectors continue to experience positive conditions and the surge in immigration is providing a further boost to activity.

While the backdrop is currently sound, growth is slowing and the level of uncertainty is elevated, given the long lags in the transmission of monetary policy. 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, in addition to stocks with solid defensive characteristics. Importantly, the portfolio is set for an environment of slowing growth, higher inflation, and higher interest rates.

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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