Perennial Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report November 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.5	2.0	5.8	7.1	7.9	7.3
Capital Growth	3.2	-3.5	-1.7	-4.0	0.8	-0.8	-1.9
Total Return	3.7	-2.0	0.3	1.8	7.9	7.0	5.4
Franking Credits#	0.2	0.5	0.7	1.8	2.9	3.3	3.1
Income Distribution including Franking Credits	**0.7**	**2.0**	**2.7**	**7.6**	**10.0**	**11.2**	**10.4**
Benchmark Yield including Franking Credits*	0.7	1.6	2.6	5.5	5.8	5.6	5.6
Excess Income to Benchmark#	**0.0**	**0.4**	**0.1**	**2.1**	**4.2**	**5.6**	**4.8**

^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 broke their losing streak in November, with a sharp fall in bond yields on slightly softer economic data, seeing equities markets roar back to life. All major indices finished higher over the month.

The Australian market was also very strong, with the ASX300 Accumulation Index finishing the month up +5.1%. Australian bond yields followed global yields lower, despite the RBA raising the cash rate at its November meeting. The fall in bond yields saw a strong sector rotation to the more rate-sensitive parts of the market, such as REITS, IT and Healthcare.

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

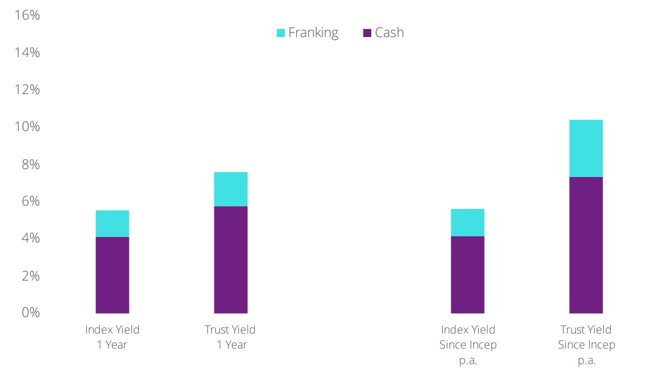
Fees
0.80% (incl. of GST and RITC)

Portfolio Characteristics – FY24	Fund	Market
Price to Earnings (x)	14.3	15.4
Price to Free Cash Flow (x)	13.4	14.5
Gross Yield (%)	5.8	5.3
Price to NTA (x)	2.1	2.5

Source: Perennial Value Management. As at 30 November 2023

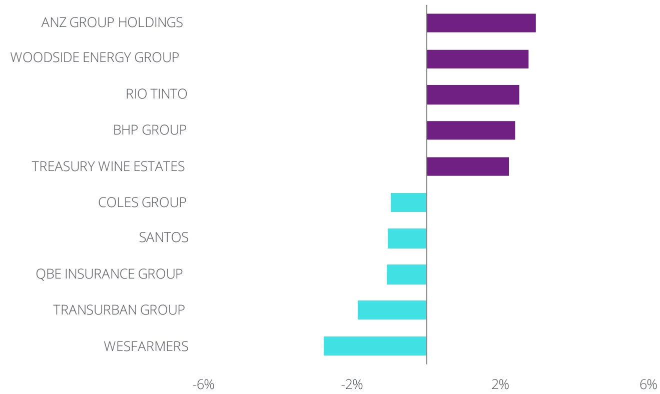
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Distribution Yield

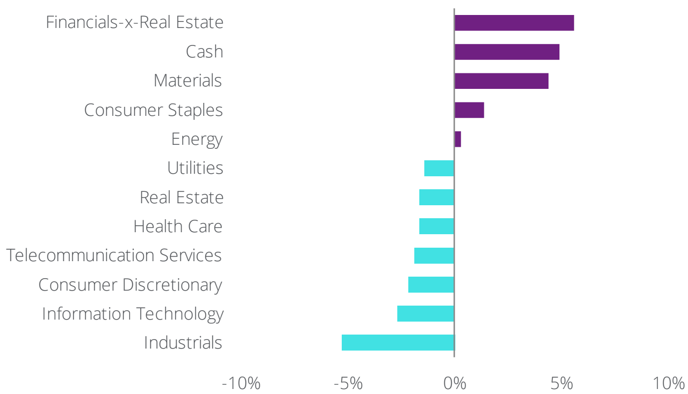


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned +3.9%, including franking credits and after-fees in November, underperforming the benchmark by -1.3%.

Key contributors to performance over the month included Seven Group (+15.9%), which rallied after upgrading FY24 guidance at their AGM, on the back of strong customer activity and performance across their infrastructure, construction and mining services businesses.

The bulk miners performed well over the month, with Fortescue Metals (+12.1%), Rio Tinto (+6.3%) and BHP (+4.0%). This was driven by the ongoing strength in the iron ore price, which remains over US$130/t, despite the weakness in reported Chinese economic activity. At current commodity prices, these stocks are trading on very attractive valuations, with P/Es of ~10x, generating very high returns on equity and all sitting with very low levels of gearing. We remain positive on their outlook and expect that there will be ongoing policy measures taken to support activity in China.

Gold holding, Northern Star (+8.9%) outperformed, with ongoing strength in the gold price, which has risen to over US$2,000/oz. With the relatively low AUD, this translates into very strong margins for the Australian miners.

CSL (+12.9%) was also strong over the month. This stock had been sold down aggressively over the past few months on a range of factors including fears over the impact on the new GLP-1 weight loss drugs on demand for some of their therapies. In our view, this concern is overblown and the sell-off represents an opportunity to acquire an outstanding business at a very attractive price.

The fall in bond yields saw REIT holdings outperform, with GPT (+13.8%), Vicinity Centres (+11.5%), Goodman Group (+9.7%), Scentre Group (+9.1%) and Dexus (+8.6%).

The major banks performed in line with the market in November, reporting their full-year results during the month. On the positive, the results confirmed that credit quality in their loan books remains very strong, reflecting the resilience that the economy has shown to date. However, their operating earnings continue to be under pressure from margin compression due to intense home loan competition. As a result, while credit quality is good, earnings are likely to decline in the year ahead. While the growth outlook is subdued, the sector is in a very strong financial position, with surplus capital and very strong funding and liquidity, and this will underpin healthy dividends to shareholders.

The main detractor from performance was Woodside Energy (-9.5%), which underperformed on the back of the lower oil price. However, given all that is going on in the world at the moment, it would not take much for this to reverse sharply.

Fund Activity

During the month, we took profits and exited our holding in Computershare. Proceeds were used to increase our holdings in the REITs, by adding new positions in Scentre Group, Vicinity Centres and Dexus. We also increased our holding in Macquarie Group, which has been softer of late. At month end, stock numbers were 32 and cash was 4.9%.

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 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

After proving surprisingly resilient in the face of the sharp rise in interest rates and other economic disruptions, there are early signs of softening in key economic US data such as employment growth. The combination of this softening of the labour market with inflation generally tracking in the right direction, has seen yields sold off sharply and a dramatic change in sentiment towards the outlook for interest rates going forward.

The Australian economy continues to look reasonably healthy, however, GDP growth is weakening. While activity is receiving a strong boost from record immigration, per capita GDP growth is negative. On the positive, the Resources and Agricultural sectors continue to experience positive conditions and a stabilisation in interest rates will be positive for sentiment.

Markets are now pricing for significant cuts to interest rates in 2024. However, we suspect it would only take a couple of data points for this to swing back the other way. In terms of positioning, we have adopted a more neutral stance to bond yields. We continue to have a positive view on the Resources sector, with the strong cash flows of the majors and many of the smaller miners having strategically valuable assets.

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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