

# eInvest Income Generator Fund (Managed Fund)

ASX:EIGA

MONTHLY REPORT DECEMBER 2018

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	Since Inception <sup>^</sup> (%)
Income Distribution	0.4	1.2	2.3	-	2.4
Capital Growth	-1.8	-10.7	-10.5	-	-8.2
Total Return	-1.4	-9.5	-8.2	-	-5.8
Franking Credits <sup>#</sup>	0.3	0.6	1.1	-	1.0
<b>Income Distribution including Franking Credits</b>	<b>0.7</b>	<b>1.8</b>	<b>3.4</b>	<b>-</b>	<b>3.4</b>
Benchmark Yield* including Franking Credits	0.3	1.0	2.7	-	3.7
<b>Excess Income to Benchmark<sup>#</sup></b>	<b>0.4</b>	<b>0.8</b>	<b>0.7</b>	<b>-</b>	<b>-0.3</b>

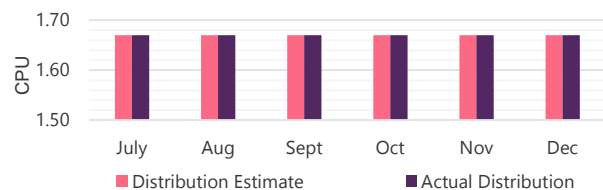
<sup>^</sup>Since inception: May 2018. Fund returns are calculated using net asset value per unit at the start and end of the specified period and do not reflect the brokerage or the bid ask spread that investors incur when buying and selling units on the ASX. \* Franking credits are an estimate only 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

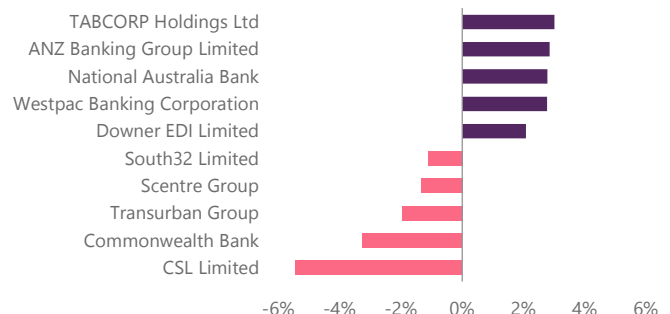
- Global markets sold off in December, with the S&P500 -9.9%, FTSE 100 -3.6%, Nikkei 225 -10.5% and Shanghai Composite -3.6%.
- The Australian market performed much better, finishing the month nearly flat at -0.2%, bringing the total return for the last 12 months to a modest decline of -3.1%.
- Metals and Mining was the best performing sector, rising +7.6%. Otherwise, defensive sectors generally outperformed the more cyclical ones.
- Following the recent declines, the market is now trading below its long-term average forward P/E ratio of 14.5x and offering an attractive gross dividend yield of over 6.0%, presenting many very good value opportunities available for investors with a longer-term time horizon.

## Income Distribution

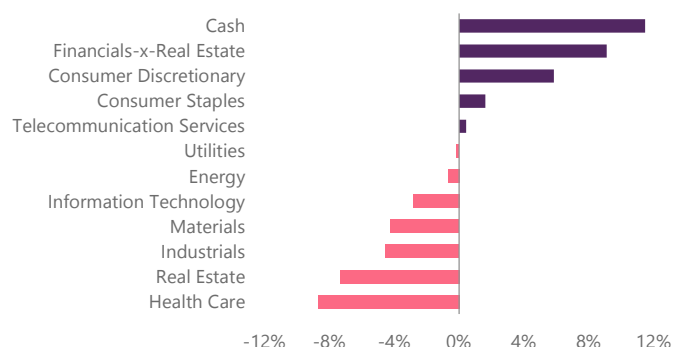
EIGA distribution of 1.67 cents per unit for December 2018. This is in line with our estimate.



## Top 5 Over / Underweight Positions vs Index



## Sector Active Exposure vs Index



## eInvest Income Generator Fund (Managed Fund)

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).

<b>Portfolio Manager</b>	<b>EIGA FUM</b>
Stephen Bruce	\$21 million
<b>Distribution Frequency</b>	<b>SMSF Compliant</b>
Monthly	Yes
<b>Inception Date</b>	<b>Management Cost</b>
7 May 2018	0.80% (incl of GST and RITC)

## Portfolio

### Characteristics – FY20

	Fund	Market
Price to Earnings (x)	12.5	13.8
Price to Free Cash Flow (x)	11.5	13.6
Gross Yield (%)	8.2	6.7
Price to NTA (x)	2.0	2.2

Source: Perennial Value Management. As at 31 December 2018.

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.

## Fund Review

Given the weakness in offshore markets, the Australian market performed very well over the month to close nearly flat at -0.2%. The Resources sector led the way (+4.8%), driven by strong performances from BHP (+11.5%) and Rio Tinto (+7.1%), on the back of ongoing resilience in the iron ore price. During the month, EIGA participated in the BHP off-market buy-back, which generated a significant fully-franked dividend and a strong after-tax return.

Other stocks which performed well included Graincorp (+25.6%), which received a conditional takeover proposal at a 43.0% premium to the current share price. While the company's earnings are depressed due to the drought in Eastern Australia, this serves as a reminder of the opportunities the market's short-termism often presents for investors with a longer-term time horizon. As a value investor, we seek to identify these sort of situations where the market has become overly pessimistic on the outlook for stocks due to transient factors. AGL Energy (+9.5%), Downer (+7.8%), Star Entertainment (+4.1%), Wesfarmers (+2.0%) and Woolworths (+1.7%) also outperformed.

Stocks which detracted from performance included Flight Centre (-12.1%), Caltex (-7.4%) on lower refining margins and Coca-Cola Amatil (-5.2%) on a subdued trading update.

Financials were also generally weaker, with the major banks down an average of -4.0% on housing market concerns and Clydesdale Bank (-8.0%) on Brexit worries. Janus Henderson Group (-7.9%) and Macquarie Group (-5.0%) fell on weaker global markets. These companies are trading on very attractive valuations and, in our view, offer significant long-term upside potential.

## Fund Activity

During the month we initiated positions in Amcor, Ausdrill and Seven Group Holdings and added to our position in Downer. This was funded by reducing our holdings in AGL Energy, BHP and Macquarie Group. At month end, stock numbers were 32 and cash was 11.5%.

## Market Review – Australia (%)

S&P/ASX300 Accumulation Index	-0.2
Energy	-2.2
Materials	+5.1
Industrials	-0.3
Consumer Discretionary	-1.9
Health Care	+2.7
Financials-x-Real Estate	-3.1
Real Estate	+1.7
Information Technology	-4.1
Telecommunication Services	-5.1
Utilities	+2.8

## Distribution

EIGA targets a 7% pre-tax annual income yield, comprising a 5% cash yield plus 2% franking credits. In order to give investors more certainty over their income payments, the fund aims to pay equal monthly cash distributions, based on our estimate of the income to be generated over the year. Franking credits and any realised capital gains will then be distributed with the June year-end distribution.

## Outlook

Following the recent sell-off, the market is now trading below its long-term average, with a one year forward P/E of 14.1x and offering an attractive gross dividend yield of over 6.0%.

Within the overall market, we are currently finding many good value, high-yielding investment opportunities. Across both the industrial and resources sectors, we are seeing many quality companies trading on attractive valuations which should deliver solid returns to investors from these levels.


By contrast, there remain large pockets of expensive growth and momentum style stocks which present significant de-rating risks both as interest rates rise and if the lofty growth rates implied in their valuations are not able to be met. We do not hold these types of stocks as they do not meet our value criteria.


**EIGA 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 which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.**


## Global, Currency & Commodities (%)

S&P500	-9.9
Nikkei225	-10.5
FTSE100	-3.6
Shanghai Composite	-3.6
RBA Cash Rate	1.50
AUD / USD	-3.6
Iron Ore	+8.9
Oil	-10.5
Gold	+4.6
Copper	-5.6

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