

eInvest Income Generator Fund (Managed Fund)

ASX:EIGA
MONTHLY REPORT MAY 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since Inception [^] (% p.a.)
Income Distribution	0.58	1.56	4.47	10.48	7.73
Capital Growth	5.85	-10.89	-18.43	-22.45	-10.88
Total Return	6.43	-9.32	-13.96	-11.96	-3.15
Franking Credits [#]	0.32	0.74	2.03	4.82	3.47
Income Distribution including Franking Credits	0.90	2.30	6.50	15.30	11.20
Benchmark Yield including Franking Credits [*]	0.20	1.00	4.00	4.40	5.50
Excess Income to Benchmark[#]	0.70	1.30	2.50	10.90	5.70

^{*}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

- Global markets continued to rally in May, as the peaking of coronavirus infections saw many countries moving to ease lockdowns and restart their economies.
- The Australian market was also strong, as infection rates fell to very low levels and restrictions began to be eased. The ASX300 Accumulation Index rose +4.6%, building on April's +9.0% rally and having now risen +27.5% from its mid-March low.
- The Fund continues to expect to deliver a pre-tax distribution yield for the FY20 financial year close to its 7.0% target. Looking to FY21, while market dividends will be lower, the Fund will seek out the best dividend opportunities and may seek to supplement income generation by undertaking limited call-writing.

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).

Portfolio Manager

Stephen Bruce

EIGA FUM

\$21 million

Distribution Frequency

Monthly

Management Cost

0.80% (incl of GST and RITC)

Inception Date

7 May 2018

Portfolio

Characteristics – FY21

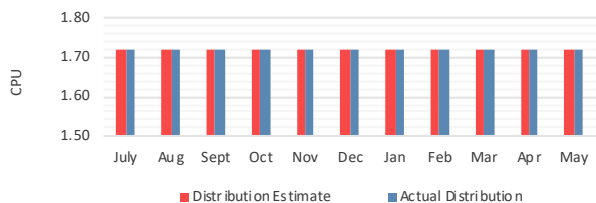
	Fund	Market
Price to Earnings (x)	16.3	17.8
Price to Free Cash Flow (x)	13.6	15.9
Gross Yield (%)	5.7	4.6
Price to NTA (x)	2.0	2.2

Source: Perennial Value Management. As at 31 May 2020.

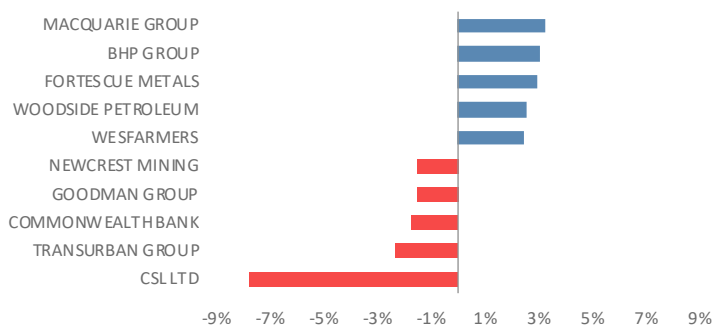
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Income Distribution

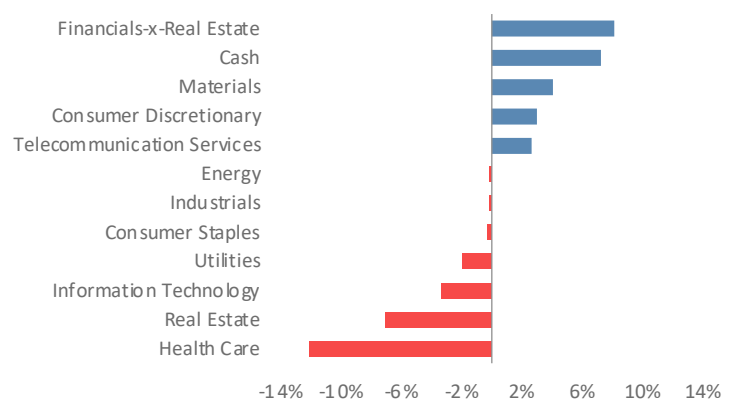
The EIGA distribution for May 2020 was of 1.72 cents per unit.



Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

Global markets continued to rally in May, as the peaking of coronavirus infections saw many countries moving to ease lockdowns and restart their economies. The Australian market was also strong, as infection rates fell to very low levels and restrictions began to be eased. The ASX300 Accumulation Index rose +4.6%, building on April's +9.0% rally and having now risen +27.5% from its March low.

Improving sentiment towards the economic outlook saw cyclical sectors lead the market higher, with the IT (+14.3%), Metals and Mining (+9.1%) and Consumer Discretionary (+6.9%) sectors all up strongly. Energy (+4.7%) also continued to recover and a strong rally from the major banks late in the month, saw the Financials sector (+5.3%) also outperform.

The Fund returned +6.7% net of fees and including franking credits, outperforming the market by 2.1%, with strong performances from a broad range of stocks. Key positive contributors included fund managers Janus Henderson (+35.4%) and Platinum Asset Management (+14.3%), mining services company Perenti (+30.8%), tourism operators Flight Centre (+19.0%) and Event Hospitality (18.2%) as well as Ampol (formerly Caltex +8.7%) and Downer EDI (+8.2%).

Resources stocks also performed well, on the strong iron ore price, with Fortescue Metals (+16.2%), BHP (+7.1%) and Rio Tinto (+6.7%). The strong cash flows the major miners are currently generating, along with their ungeared balance sheets, positions them well to deliver strong dividends in the year ahead.

May also saw the conclusion of the interim reporting season for the major banks. All four have now announced significant increases to their bad debt provisions ahead of expected coronavirus impacts. In addition, ANZ, NAB and Westpac have all either deferred or significantly reduced their half-yearly dividends. Concern over the impacts of coronavirus, as well as ongoing fallout from the Royal Commission, had seen the bank underperform significantly over the past 12 months, to trade at levels where they offered good long-term value. As a result, the increased optimism around the economic outlook saw a sharp rally, leaving the majors up an average of +5.0% for the month. Should conditions turn out to be not as bad as feared, then the banks may be able to resume paying dividends later in the year.

Macquarie Group (+8.9%) also reported its full-year result in May, delivering its second highest ever annual profit. This was achieved despite taking a significant increase in provisions, which one suspects may well turn out to be conservative. Graincorp (+24.9%) delivered a weak, drought-affected result but rallied strongly on the very positive seasonal outlook, while the recently-demerged United Malt Group (+5.2%) also outperformed. Packaging company Amcor (+7.0%) rallied after delivering a positive Q3 trading update, while Orora (+3.1%) announced a large special dividend to be paid in June.


The key negative contributors over the period included the Fund's more defensive holdings such as Woolworths (-1.1%), Coles (-1.0%) and Suncorp (0.0%), while gaming stocks Crown Resorts (-3.0%) and Tabcorp (0.0%) also underperformed.

Fund Activity

During the month, we took profits and trimmed our holdings in BHP, Rio Tinto and Fortescue Metals. The Fund also participated in a raising by United Malt Group. At month end, stock numbers were 34 and cash was 7.3%.

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The Responsible Entity is Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 275101. The Investment Manager is Perennial Value Management Limited ABN 22 090 879 904 AFSL: 247293. This report has been prepared by ETF Investments Australia Pty Ltd trading as eInvest Australia ('eInvest') ABN: 88 618 802 912, as the corporate authorised representative of Perennial Investment Management Limited. This report is for information purposes only. Accordingly, reliance should not be placed on this information as the basis for making an investment, financial or other decision. This information does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. The current relevant product disclosure statement can be found at www.perennial.net.au/EIGA

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.

The Fund declared a distribution for May of 1.72 cpa, bringing the total income return for the last 12 months to 10.5% or 15.3% including franking credits. The distribution yield over the past 12 months was boosted as a result of the Fund participating in a number of off-market buy-backs. This will not be repeated in the current year.

Across the market, a number of companies have announced the reduction or suspension of their dividends in order to conserve cash in the face of the downturn. However, the Fund has now banked the majority of the dividends budgeted to be received in the FY20 financial year. As a result, at this stage, we are still expecting the Fund to deliver a pre-tax distribution yield for the FY20 financial year close to the target level of around 7.0%, comprising a 5.0% cash yield plus 2.0% in franking credits.

Looking forward, we will assess the outlook for dividends for FY21 over the next few months. While it is certain that many companies will be reducing their dividends, the market overall should still be expected to generate an attractive level of dividend income in the year ahead, particularly compared to other alternative sources of yield.

In addition, we may seek to enhance the income generation of the Trust by undertaking limited call-writing.

Outlook

Despite the rally, the market is still well down from its February highs. While the sharp slowing of activity means that forecasting near term earnings for many companies is difficult, the market's fall means a significant amount of bad news is now factored being factored into share prices.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. While it is impossible to know how this will ultimately play out, signs are emerging that worst of the health crisis may be behind us and the first steps towards normalisation may not be too far away.

Further, Australia has so far fared very well relative to most other countries, meaning it is reasonable to expect that we are well placed to lead others in terms of a recovery in activity.

The silver lining of a downturn such as this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices. Indeed, having stress tested our key portfolio holdings, we believe they offer exceptional upside from the current oversold levels.

In the meantime, 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. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.