eInvest

eInvest Income Generator Fund (Managed Fund)

ASX:EIGA

MONTHLY REPORT OCTOBER 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a)	Since Inception^ (% p.a.)
Income Distribution	0.53	1.53	2.09	9.28	6.78	7.63
Capital Growth	4.85	-0.19	2.36	-5.80	-2.64	-2.62
Total Return	5.38	1.34	4.46	3.47	4.13	5.01
Franking Credits#	0.07	0.27	0.31	3.52	2.82	3.27
Income Distribution including Franking Credits	**0.60**	**1.80**	**2.40**	**12.80**	**9.60**	**10.90**
Benchmark Yield including Franking Credits*	0.00	2.50	2.70	5.70	5.10	5.50
Excess Income to Benchmark#	**0.60**	**-0.70**	**-0.30**	**7.10**	**4.50**	**5.40**

^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

Despite inflation data continuing to come in above expectations, some signs of weakening economic data led to hopes of a "Central Bank pivot", which would see the pace of interest rate rises slow. This caused markets stage a rally in October, with most global markets rising.

The Australian market was also strong in October, with the ASX300 Accumulation Index finishing the month up +6.0%. Financials (+12.1%), REITs (+9.9%), Energy (+9.1%) and Consumer Discretionary (+8.8%) led the market higher, while Metals and Mining (-1.0%) was the worst performing sector, as most commodity prices fell.

EIGA is currently targeting a 5% increase in FY23 net monthly distributions to 1.8 CPU. Based on the unit price at the start of the financial year, this equates to an annualized cash distribution yield of around 6.2% or 8.8%, including franking credits.

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

Management Cost
0.80% (incl of GST and RITC)

Distribution Frequency
Monthly

EIGA FUM
$32 million

Inception Date
7 May 2018

Investment Grade
Lonsec Research

Portfolio Characteristics – FY23

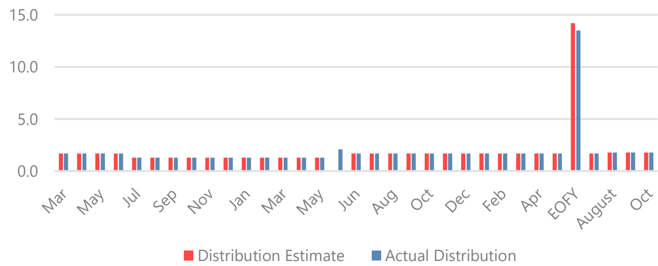
	Fund	Market
Price to Earnings (x)	13.3	14.8
Price to Free Cash Flow (x)	14.5	13.6
Gross Yield (%)	6.4	5.5
Price to NTA (x)	2.4	2.6

Source: Perennial Value Management. As at 31 October 2022.

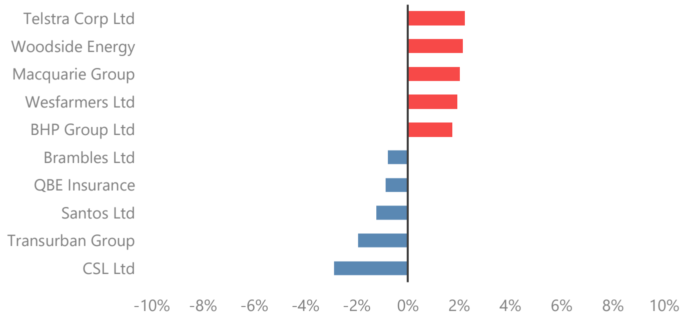
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Income Distribution

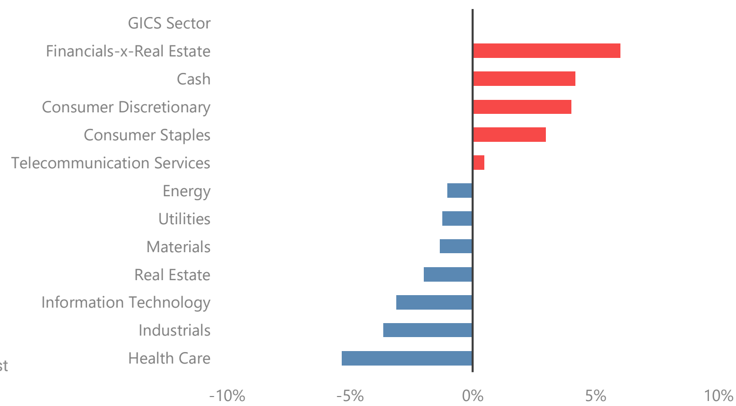
The EIGA distribution for October 2022 was 1.8 cents per unit.



Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

EIGA returned +5.4%, including franking credits and after-fees in October, underperforming the market by -0.6%. For the past 12 months EIGA has returned +7.0%, outperforming the market by +8.1%. This highlights the Fund's leverage to the value rotation currently underway as interest rates rise.

Key positive contributors to performance included Qantas (+16.3%), which continued its strong performance, delivering a trading update which guided for first half earnings of more than double what the market was forecasting. This confirmed the current very positive operating conditions, with strong pent-up demand for travel intersecting with industry capacity constraints. The resulting pricing power has seen very strong profitability, despite cost headwinds.

Macquarie Group (+11.0%), outperformed, due to a combination of its high market beta and the delivery of a very strong half-year result. Of note, the high level of volatility has led to very strong results from their Commodities and Global Markets business. In particular, the energy trading business has benefited from dislocations in the global gas markets, which have driven strong trading profits, as well as high levels of customer demand for hedging products. The asset management business continues to grow, with strong demand for green energy investments. Macquarie is uniquely placed to meet this demand, with their expertise in originating and developing renewable energy projects.

Virgin Money UK (+15.8%), continued its volatile performance, buffeted by the political turbulence in the UK. While the economic outlook for the UK is highly uncertain to say the least, this is more than reflected in the valuation of the stock, which is trading at 0.4x book value. Further, the bank has a strong capital position and is carrying large provisions against bad debts. From the current depressed valuation, we believe it is likely this stock may double as the economy recovers.

Holdings in the major banks, outperformed, rallying an average of +14.2% over the month. This strong performance was sparked by the Bank of Queensland result, which showed a larger than expected benefit to margins from rising interest rates. This was also a characteristic of the ANZ result and is expected to be repeated when NAB and Westpac report in early November. The ANZ result also highlighted that credit quality remains very strong, with no signs of stress at present, consistent with the ongoing strength in the Australian economy.

Energy sector was stronger, on a rally in the oil price, with Woodside Energy (+13.6%). Energy prices are likely to remain elevated, given ongoing underinvestment in the sector.

The main detractors over the month were the Fund's Resources holdings. Declines in the prices of key commodities such as iron ore and copper, saw BHP (-3.0%), Rio Tinto (-5.6%) and Fortescue Metals (-12.6%) all lower. This resulted from disappointment that the Chinese Party Congress, gave no indication of significant new stimulus measures or an easing of the COVID-zero policy. In our view, it is only a matter of time until this occurs, and we remain positive on the outlook for commodities medium-term.

Fund Activity

During the month we took profits and trimmed our holdings in Qantas and Woodside, both of which had outperformed in recent times and replaced Charter Hall Long WALE REIT with Goodman Group. At month end, stock numbers were 35 and cash was 4.2%.

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 5% increase in FY23 monthly net cash distributions to 1.8 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 6.2% or 8.8%, including franking credits.

We do not expect the same level of off-market buy-backs or special dividends in the coming year compared to the high level seen in FY22, as many companies have now restored their balance sheets to their desired gearing ranges.

Outlook

Global growth is clearly slowing as interest rates rise and economies grapple with the impacts of high inflation and energy supply problems. However, we believe that this will be offset to some extent by the benefits to economies as COVID disruptions continue to recede. While economic data is mixed, and varies greatly from region to region, unemployment rates are very low in most major markets. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Financials and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos and Consumer Staples.

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.

Contact Us

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