Perennial Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report October 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.4	1.4	5.9	7.3	7.8	7.3
Capital Growth	-3.6	-7.4	-4.7	-2.0	3.8	-2.0	-2.5
Total Return	-3.1	-6.0	-3.3	3.8	11.0	5.8	4.8
Franking Credits#	0.2	0.5	0.6	1.9	2.9	3.2	3.1
Income Distribution including Franking Credits	**0.7**	**1.9**	**2.0**	**7.8**	**10.2**	**11.0**	**10.4**
Benchmark Yield including Franking Credits*	0.1	1.8	1.9	5.6	5.8	5.5	5.5
Excess Income to Benchmark#	**0.6**	**0.1**	**0.1**	**2.2**	**4.4**	**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.

Overview

Markets declined again in October, with ongoing strong economic data sending bond yields surging higher. This saw the S&P500 fall -2.2%, the NASDAQ decline -2.8%, and the Nikkei 225 give back -3.1%. The FTSE100 fell -3.8%, with inflation data in the UK ticking back up. The Shanghai composite resumed its decline, down -2.9%, as economic data out of China continued to be soft.

The Australian market was also weak, with the ASX300 Accumulation Index finishing the month down -3.8%, logging its third consecutive monthly decline.

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
$31 million

Distribution Frequency
Monthly

Inception Date
7 May 2018

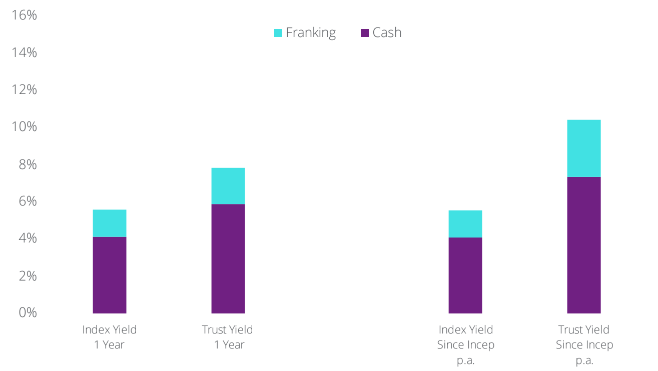
Fees
0.80% (incl. of GST and RITC)

Portfolio Characteristics – FY24	Fund	Market
Price to Earnings (x)	13.8	14.7
Price to Free Cash Flow (x)	13.0	14.0
Gross Yield (%)	6.1	5.5
Price to NTA (x)	2.0	2.4

Source: Perennial Value Management. As at 31 October 2023

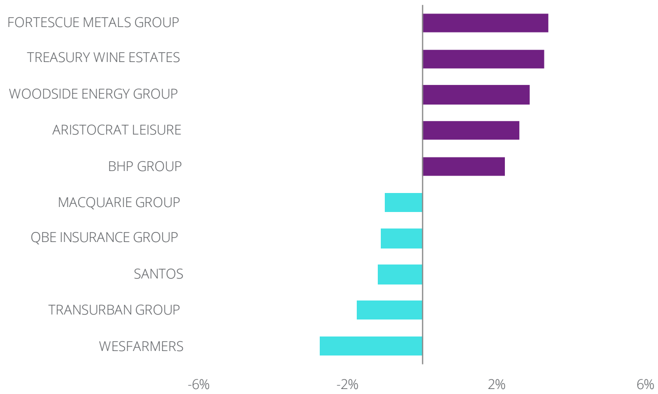
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Distribution Yield

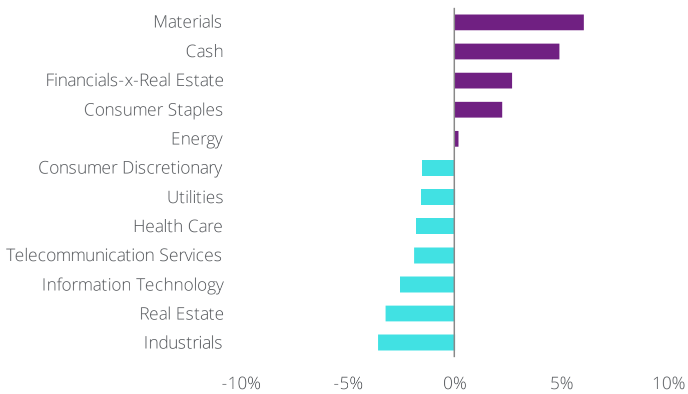


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned –2.9%, including franking credits and after-fees in October, outperforming the benchmark by 0.9%.

Key contributors to performance over the month included gold holdings Northern Star (+11.5%) and Newmont (formerly Newcrest, +5.3%), which rallied as the gold price rose +7% to just shy of US$2,000/oz, in response to the outbreak of conflict in the Middle East. We like to hold a position in gold to hedge the portfolio against tail events such as either an unexpected surge in inflation or unexpected shocks which send people fleeing to safety. While these stocks are being held primarily for the exposure to the gold price, in terms of quality, they are both top-10 global producers, with portfolios of tier 1, long-life assets. Further, in addition to their gold production, they also produce significant amounts of copper, for which demand is expected to outstrip supply over the medium term.

Despite the ongoing weakness in Chinese economic data, the iron ore price held firm, closing the month at just under US$120/t. The strength in the iron ore price and the ongoing high level of steel production, suggest that some parts of the economy are performing more strongly than the official data would indicate. As we know, Chinese data needs to be interpreted with a degree of caution at the best of times. Further stimulus measures were also announced over the month, aimed at supporting activity levels. This saw the bulk miners rallying, with Fortescue (+6.6%), Rio Tinto (+3.5%) and BHP (+0.6%) all outperforming.

Insurance stocks IAG (-0.2%) and Medibank (-0.3%), which benefited from the generally defensive nature of their earnings, as well as the benefit they receive from higher interest rates on their investment portfolios. Other outperformers included Telstra (-1.0%), Treasury Wine Estates (-1.9%) and South32 (-2.1%).

The main detractors over the month tended to be the smaller holdings, which suffered in the flight to safety. These included Healius (-21.3%), Virgin Money UK (-11.4%) and Seven Group (-10.9%). We see significant upside potential in each of these stocks.

Fund Activity

During the month, we increased our holdings in the major banks ahead of their upcoming results. We expect that the banks will deliver solid, yet unexciting results, and pay an attractive level of dividends given their strong capital positions. Importantly, we expect that they will continue to be experiencing a low level of bad debts, given the strength of the underlying economy. At month end, stock numbers were 29 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

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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