

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.9	0.9	6.7	7.3	6.6	7.3
Capital Growth	-0.2	3.8	2.5	4.8	-0.1	0.5	-0.4
Total Return	0.2	5.7	3.4	11.4	7.2	7.1	6.9
Franking Credits [#]	0.0	0.2	0.2	1.6	2.7	2.6	3.0
Income Distribution including Franking Credits	0.5	2.1	1.1	8.3	10.0	9.2	10.3
Benchmark Yield including Franking Credits*	0.6	0.8	0.7	5.5	5.8	5.3	5.6
Excess Income to Benchmark[#]	-0.1	1.3	0.4	2.8	4.2	3.9	4.7

^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.

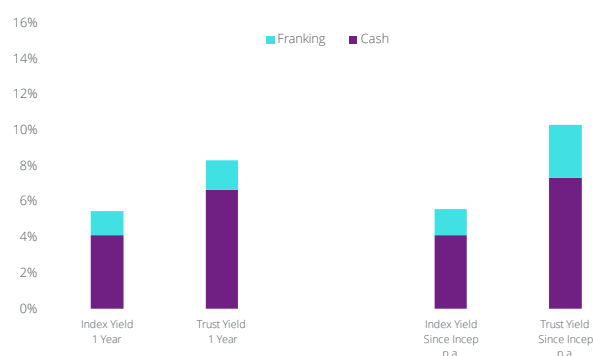
Overview

After a sharp sell-off early in the month, markets recovered to deliver relatively modest returns in August. The S&P500 finished the month up +2.3%, the NASDAQ rose +0.6%, and the FTSE100 closed up +0.1%. By contrast, the Nikkei 225 was down -1.2%, and the Shanghai Composite continued its underperformance, down -3.3%.

The Australian market rose slightly, with the ASX300 Accumulation Index returning +0.4% over the month. Overall, the company reporting season was generally positively received.

The Fund is currently targeting FY25 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 5.6%.

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.

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
\$34 million

Distribution Frequency
Monthly

Inception Date
7 May 2018

Fees
0.80% (incl. of GST and RITC)

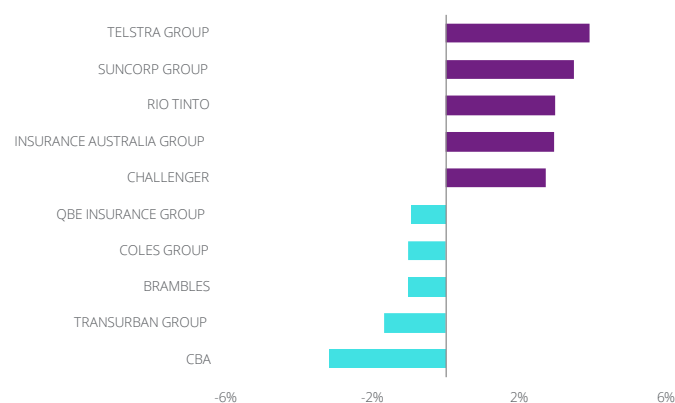
Portfolio Characteristics – FY25	Fund	Market
Price to Earnings (x)	17.8	18.1
Price to Free Cash Flow (x)	14.7	15.5
Gross Yield (%)	5.3	4.7
Price to NTA (x)	2.6	2.7

Source: Perennial Value Management. As at 31 August 2024.

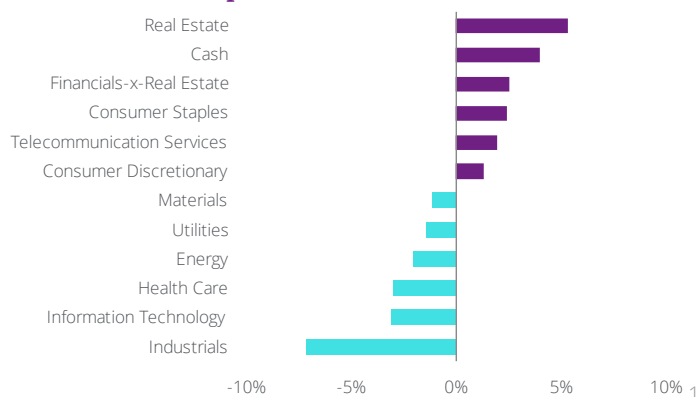
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Franking Levels (%)			
FY24	60.0	FY21	100.0
FY23	75.5	FY20	100.0
FY22	99.6	FY19	101.4

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned +0.2%, including franking credits and after-fees in August, underperforming the benchmark by -0.4%.

Reporting season was positively received overall, with more companies surprising to the upside than the downside. Despite growing pressures in the domestic economy, it seems that demand has remained sufficiently resilient for many companies to protect margins by raising prices to recover higher operating costs. By contrast, offshore earners tended to be slightly weaker. In aggregate, company earnings declined slightly over the FY24 financial year. In terms of the outlook, guidance was generally cautious, leading to net downgrades and a reduction in market earnings forecasts for the current financial year. The consensus forecast is now for the market to deliver roughly flat earnings in FY25.

Positive contributors to performance over the month included, packaging company, Orora (+25.0%). The company delivered a result which was slightly ahead of expectations and highlighted the resilience of its business. However, the surge in the share price was driven by the news that US private equity firm, Lone Star, had made an offer for the business at \$2.55 per share. This was rejected by the Board as being opportunistic and undervaluing the business. We agree with this assessment. The Orora share price is currently depressed following its acquisition of Saverglass, a European manufacturer of glass bottles, serving the high-end spirits market. Demand for spirits has softened as post-pandemic normalisation of inventories has seen a destocking in retail channel. This is likely to be a temporary phenomenon, and we expect the business to re-rate as the acquisition case is proven out. In the meantime, management has begun a sale process to divest the US packaging business, leaving Orora as a specialised, global beverage packaging company.

Medical diagnostics company, Healius (+10.6%), also outperformed. This sector has faced significant challenges in recent years, with depressed patient volumes and persistently high labour cost inflation. However, these headwinds are now beginning to abate, and earnings are growing again. Further, this is a sector of the market where there is a high probability of corporate activity.

The bank juggernaut continued, with the major banks outperforming, up an average +2.9%. As expected, the CBA result and Q3 updates from the others, showed a total lack of earnings growth. However, there is a clear weight of money flowing into the sector on a macro view of (1) soft landing benefits outweighing the negative impacts of rate cuts on bank earnings, and (2) not wanting to buy Resources, on weak China data. This has pushed valuations to unprecedented levels, and we remain overweight the sector.

By contrast, Resources (-2.9%), underperformed, with ongoing negative sentiment towards China, where the economic data continues to be weak and the stimulus measures continue to be rolled out incrementally, with no "Big bang" actions to boost confidence. However, despite all the gloom and doom, it's worth noting that the iron ore price is still hanging in there at around US\$100/t. At this level, the major miners are printing cash, and if we assume that spot commodity and exchange rates persist for the remainder of the FY25, then BHP, Rio Tinto and Fortescue are trading on an average P/E ratio of around 10x. While we have reduced our holdings, overall, we remain overweight the Resources sector.

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Fund Activity

During the month, we reduced our holdings in some of the Resources stocks given the weak near-term outlook. Proceeds were used to increase our holdings in Suncorp, IAG and Telstra. At month end, stock numbers were 29 and cash was 4.0%.

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 are expected to continue to pay 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 5.6%.

Outlook

Globally, inflation continues to moderate, albeit at a slowing pace. However, the consensus view is that US rate cuts will begin in September, and while the timing of cuts has been pushed out, there will be no further rate rises in Australia. As a result, growth will be supported, and a soft landing will be achieved. This would be an excellent outcome. However, history suggests that soft landings are few and far between, so a degree of caution is warranted. Should inflation prove resurgent, then the sentiment could change quickly. Given that much of the market – particularly the Tech sector – is very fully-valued, there is not much margin for error here.

Corporate earnings have generally proven resilient to date, however, outside of the US, there is clear evidence that growth is slowing. In Australia, economic growth has stalled, and the economy has been in a per-capita recession for some time now. While tax cuts will boost disposable income, the consumer remains under pressure, and there are numerous stress points in the economy. Further, immigration – a key plank of growth – has become a political issue and is set to be curtailed. This all leaves us cautious on discretionary sectors. This is at odds with the optimism that seems to be factored into the share prices of many consumer-facing stocks.

While Chinese data continues to be weak, sentiment is very poor, and this is now reflected in the prices of many resource stocks.

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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