Perennial Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report December 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.3	2.8	6.2	7.3	6.6	7.2
Capital Growth	-3.3	-5.2	0.4	0.4	-0.3	0.0	-0.7
Total Return	-2.9	-3.9	3.2	6.6	7.0	6.6	6.5
Franking Credits#	0.0	0.1	0.2	0.9	2.3	2.4	2.8
Income Distribution including Franking Credits	**0.5**	**1.4**	**3.0**	**7.1**	**9.6**	**9.0**	**10.0**
Benchmark Yield including Franking Credits*	0.1	0.7	2.5	5.2	5.7	5.3	5.6
Excess Income to Benchmark#	**0.4**	**0.7**	**0.5**	**1.9**	**3.9**	**3.7**	**4.4**

^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 ended the year on a softer note, as expectations for Fed rate cuts were tempered and bond yields increased. The S&P500 declined -2.0% while the NASDAQ rose +1.5%. The FTSE 100 fell -1.3%, while the Nikkei 225 added +4.5%, and the Chinese market continued its recovery, with the Shanghai Composite up +0.9%.

The Australian market was weaker, with the ASX300 Accumulation Index declining -3.1%, bringing the return for the year to +11.4%. The index was weighed down by softness in both the Financials (-4.1%) and Metals & Mining (-4.0%).

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%.

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
$33 million

Distribution Frequency
Monthly

Inception Date
7 May 2018

Fees
0.80% (incl. of GST and RITC)

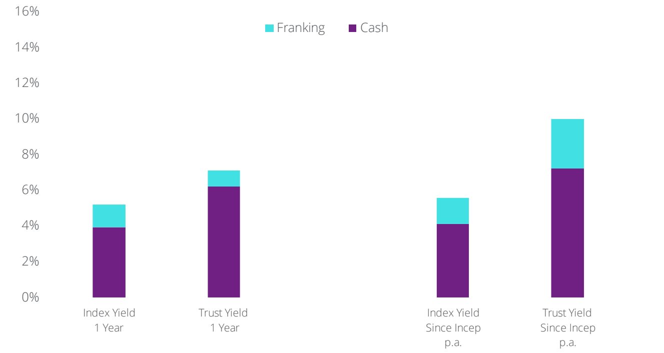
Portfolio Characteristics – FY25	Fund	Market
Price to Earnings (x)	17.5	19.0
Price to Free Cash Flow (x)	14.2	17.1
Gross Yield (%)	5.1	4.3
Price to NTA (x)	2.6	2.9

Source: Perennial Value Management. As at 31 December 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.

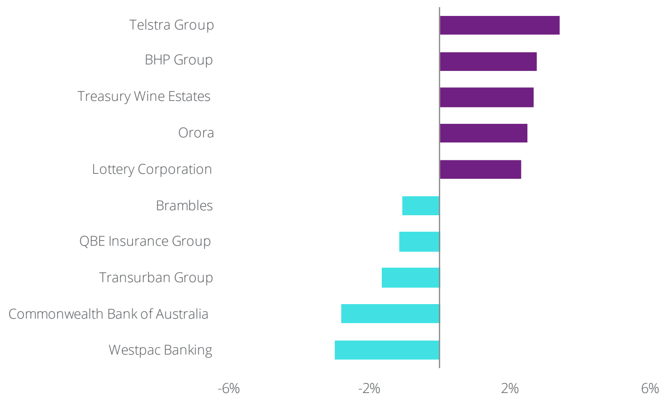
Franking Levels (%)			
FY24	60.0	FY21	100.0
FY23	75.5	FY20	100.0
FY22	99.6	FY19	101.4

Distribution Yield

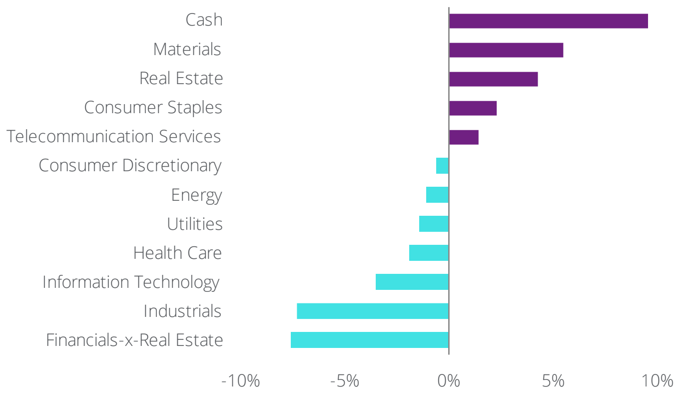


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

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 December, outperforming the benchmark by +0.2%.

December is typically a quiet month in markets, with little in the way of stock specific news. However, key contributors to performance included packaging company Orora (+1.2%), which continues to claw its way back into favour with the market. The stock was sold off heavily after announcing the acquisition of a European glass bottle maker in mid-2023, and subsequently downgrading earnings on the back of a global destocking in the luxury spirits market which they supply to. Subsequently, however, the company has exited its non-core US operations for a very attractive price, improving the overall quality of the business and de-gearing the balance sheet. They have also received a takeover bid from a US private equity firm. While the bid undervalued the company and was rejected by the Board (a decision we agreed with), it effectively puts a floor under the share price. In the meantime, there are indications that customer demand is beginning to normalise, which should flow through to earnings in the coming periods.

Telstra (+1.8%), also outperformed and remains one of our preferred defensive exposures, with a dominant market position and operating in an attractive industry structure. Further, there is significant unrecognised value in Telstra's extensive infrastructure assets which will likely be realised over time, supporting growing distributions to investors.

The major banks eased over the month, down an average of -5.0%. Despite this, the sector has finished the year up an average of +33.7%. This performance is all the more staggering when you consider that there have been minimal earnings upgrades to the sector over the last 12 months, and that the outlook is for negligible earnings growth over the next few years. The result is that the sector is trading on historically high valuations into an increasingly uncertain economic environment. While it seems that macro flows have been the main driver of the banks' outperformance, we have been increasing our underweight to the sector, seeing the risks clearly skewed to the downside.

The bulk miners outperformed marginally, with the iron ore price ticking up slightly and remaining >US$100/t. We continue to see attractive value in the Resources sector. By contrast, South32 (-8.6%) fell on generally weaker base metal prices.

Other detractors from performance were the Trust's REIT holdings, which declined on the back of higher bond yields, with Mirvac (-11.2%), Stockland (-6.5%), Dexus (-5.9%) and GPT (-5.7%). James Hardie (-10.9%) also declined on higher bond yields.

Fund Activity

During the month, we reduced our holdings in the major banks, which have become increasingly overvalued. At month end, stock numbers were 28 and cash increased to 9.6%.

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

Despite some fading of the "Trump trade" and the recent rise in bond yields, sentiment to the US outlook remains very positive at present. While trade tensions and tariffs present risks, the step-up in Chinese stimulus measures in response to their economic slowdown is also positive for the global outlook. As a result, the consensus view is that a soft landing will be achieved. This would be an excellent outcome. However, history suggests that soft landings are few and far between. Should inflation prove resurgent, then the sentiment could change quickly. In addition, it could be argued that factors such as the AI boom have driven a divergence between valuations and fundamentals, leaving large components of the market very fully-valued. Overall, we feel a degree of caution is warranted.

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. This all leaves us cautious on discretionary sectors.

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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