Perennial Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report January 2025

Perennial Partners

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.4	3.3	6.3	7.5	6.6	7.2
Capital Growth	2.6	0.4	3.0	2.0	1.6	0.0	-0.3
Total Return	3.1	1.8	6.3	8.3	9.1	6.7	6.9
Franking Credits#	0.0	0.0	0.2	0.7	2.3	2.4	2.8
Income Distribution including Franking Credits	**0.5**	**1.4**	**3.5**	**7.0**	**9.8**	**9.0**	**10.0**
Benchmark Yield including Franking Credits*	0.0	0.7	2.6	5.4	6.0	5.3	5.5
Excess Income to Benchmark#	**0.5**	**0.7**	**0.9**	**1.6**	**3.8**	**3.7**	**4.5**

^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 started the year strongly, with investors excited by the prospect of the Trump administration ushering in a more free-wheeling, pro-growth, business-friendly backdrop. The S&P 500 was up +2.8%, the NASDAQ was up +1.7% and the FTSE 100 rose +6.2%. Asian markets were weaker, being perceived most at risk from trade tensions.

The Australian market was also very strong, up +4.5% to a new record high, with moderating inflation and the prospect of interest rate cuts to boost already resilient consumer demand.

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)

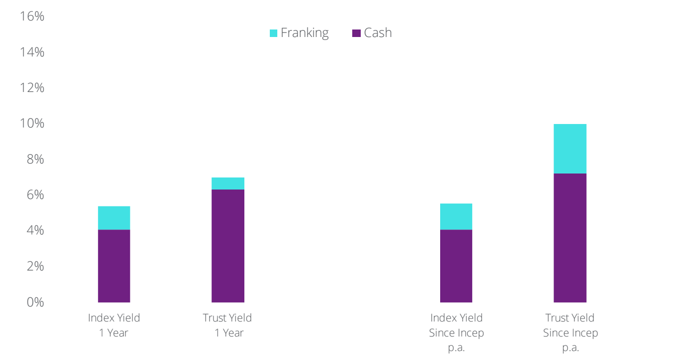
Portfolio Characteristics – FY25	Fund	Market
Price to Earnings (x)	18.0	19.4
Price to Free Cash Flow (x)	14.3	16.9
Gross Yield (%)	4.9	4.3
Price to NTA (x)	2.6	3.0

Source: Perennial Value Management. As at 31 January 2025.

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.

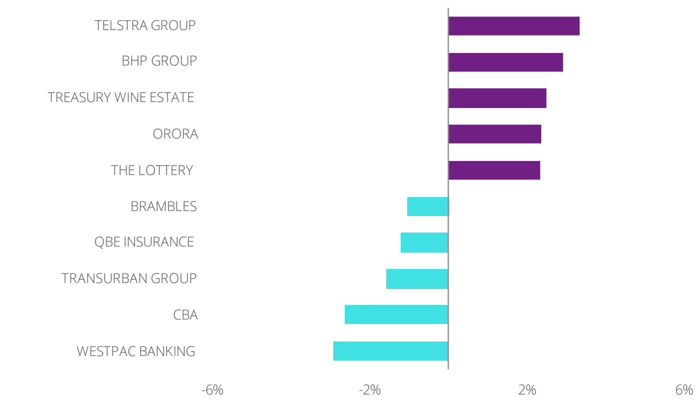
Franking Levels (%)			
FY24	60.0	FY21	100.0
FY23	75.5	FY20	100.0
FY22	99.6	FY19	101.4

Distribution Yield

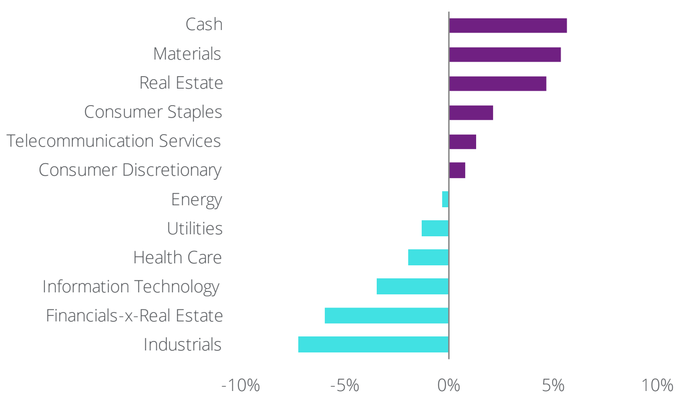


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned +3.1%, including franking credits and after-fees in January, underperforming the benchmark by –1.3%.

January is typically a fairly quiet month in markets, with many investors on holidays, corporate activity at a low ebb, and most domestic companies in blackout ahead of the February reporting season. This year was something of an exception, given the excitement and uncertainty around Trump's assumption of power, as well as the shock to the Mega-Tech/AI complex, following the claims by DeepSeek that it had produced a rival LLM at a fraction of the cost. While the veracity of this claim is being disputed, the massive loss in market capitalisation it caused once more highlights the narrowness of the US market rally and its dependence on the Tech sector to deliver earnings growth sufficient to maintain its valuation multiples. Despite it all, both the US and local market set new highs.

Positivity around the US growth outlook under a more economically liberal Trump regime, saw strong performances from stocks leveraged to the US. Gaming machine manufacturer, Aristocrat Leisure (+10.5%), stands to benefit as it has significant sales into markets which are leveraged to increased oil and gas production. Similarly, James Hardie (+9.1%), outperformed on optimism around the US growth outlook. Of course, if inflationary policies such as tariffs see interest rates stay higher and/or all the construction workers get deported, then this may prove optimistic. We will be watching all this closely. Importantly, though, it is worth noting that the stock is trading well below its historical levels on relative valuation basis. We are always on the lookout for quality stocks which have been sold down to levels which, while not necessarily super cheap relative to the market overall, represent very good value given the quality of business.

Macquarie Group (+8.6%), rallied following strong results from the US investment banks plus its leverage to the "animal spirits" that are being unleashed. Insurance stocks were also strong, with Suncorp (+9.5%) and IAG (+8.7%) both outperforming.

The banks marginally outperformed over the month, as passive flows pushed them higher. We remain underweight the sector, where we see valuations becoming increasingly divorced from fundamentals.

The main detractors from performance over the month were the Fund's resources holdings which were generally softer on concerns over the potential impact of tariffs and other trade barriers. Interestingly, despite this risk, commodity prices were generally stronger, with iron ore still trading above US$100/t, despite the gloom surrounding the Chinese outlook.

Other stocks which detracted from performance included Treasury Wine Estates (-4.7%), which fell on concerns around the outlook for Chinese consumer demand. The company has made strong sales as it re-enters the Chinese market, however, retail demand is potentially subdued near-term, given the weaker economic backdrop. Longer-term, the business is well-positioned both in the Chinese and the key North American luxury wine markets. Defensives holdings such as CSL (-0.4%) and Telstra (-1.5%), also lagged in the risk-on environment.

Fund Activity

During the month, we increased our holdings in Wesfarmers, on consumer resilience and Macquarie Group, which should benefit from a pick-up in corporate activity. At month end, stock numbers were 28 and cash was 5.7%.

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

So far, the market has responded positively to the flurry of activity and dramatic rhetoric in the first weeks of the Trump administration. While deregulation is generally positive for economic growth and markets, the risk of disruptive actions is also higher. Time will tell how this plays out. However, it seems that the result may be generally higher growth, higher inflation and higher interest rates than would otherwise be the case. Against this backdrop it's plausible that the performance of the market will broaden out, with more cyclical stocks beginning to outperform, rather than the market relying solely on the Tech sector to drive performance.

Any sustained increase in confidence and activity lift in the US is likely to set a positive tone for other markets, including ours. As we stand today, while we face a range of structural issues, and are in a per-capita recession, the consumer is displaying remarkable resilience and the latest inflation data suggests that rate cuts are coming. This should help ease some pressure points. Critical to Australia, of course, is how the Chinese economy performs, and the heightened trade and geopolitical tensions add an extra degree of risk to the outlook.

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

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 420 094

invest@perennial.net.au

www.perennial.net.au