Perennial Income Generator Fund (Managed Fund)

ASX: EIGA

Monthly Report February 2025

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.3	3.7	6.2	7.3	6.7	7.2
Capital Growth	-3.4	-4.2	-0.5	0.4	-0.2	1.3	-0.8
Total Return	-3.0	-2.9	3.2	6.6	7.1	8.0	6.3
Franking Credits#	0.0	0.1	0.1	0.5	2.2	2.3	2.7
Income Distribution including Franking Credits	**0.5**	**1.4**	**3.8**	**6.7**	**9.5**	**9.0**	**9.9**
Benchmark Yield including Franking Credits*	0.6	0.7	3.1	5.0	5.6	5.3	5.5
Excess Income to Benchmark#	**-0.1**	**0.7**	**0.7**	**1.7**	**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 retreated in February, reversing January's strong gains. The heightened level of economic uncertainty, arising from the constantly changing threats of tariffs, as well as ongoing geopolitical tensions, saw the S&P500 decline -2.9%, and the NASDAQ fall -5.5%. The Japanese market was also weaker, with the Nikkei 225 down -6.0%, while the FTSE100 rose +2.0% and the Chinese market was up +2.2%.

The Australian market was also weaker, with the ASX300 Accumulation Index falling -3.8%, with defensive sectors outperforming cyclicals.

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)

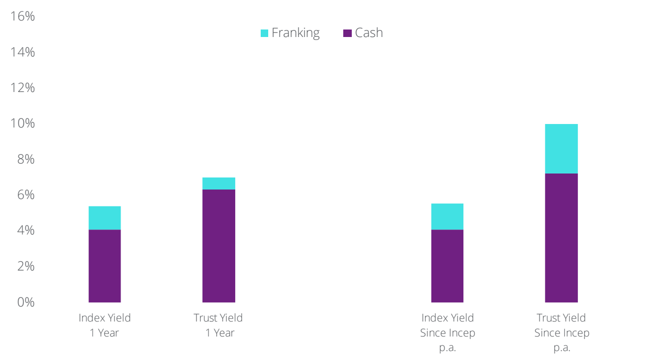
Portfolio Characteristics – FY25	Fund	Market
Price to Earnings (x)	14.8	18.1
Price to Free Cash Flow (x)	11.0	15.7
Gross Yield (%)	5.7	4.4
Price to NTA (x)	2.3	2.4

Source: Perennial Value Management. As at 28 February 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.

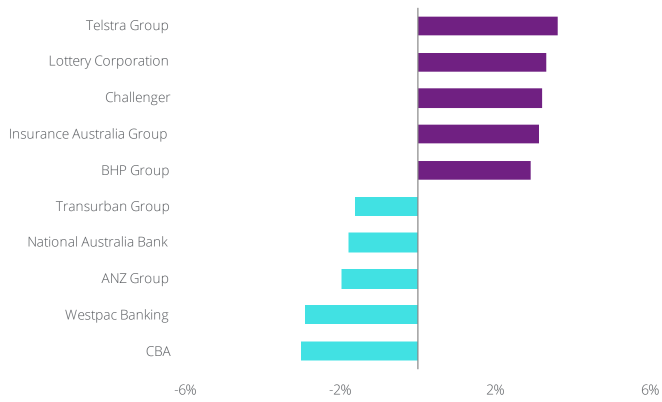
Franking Levels (%)			
FY24	60.0	FY21	100.0
FY23	75.5	FY20	100.0
FY22	99.6	FY19	101.4

Distribution Yield

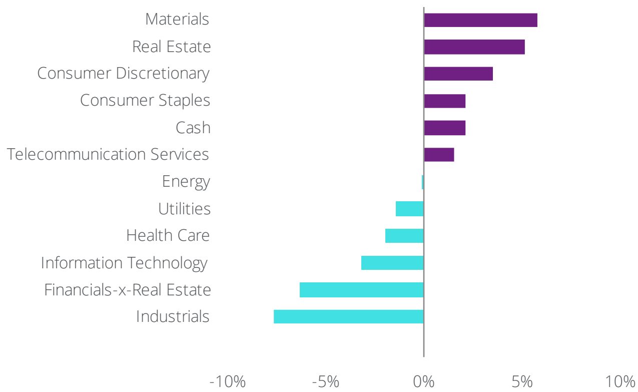


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Fund Review

The Fund returned -3.0%, including franking credits and after-fees in February, outperforming the benchmark by +0.6%.

February was a very volatile month, with the combined impacts of heightened global macro uncertainty, as well as sharp stock specific moves, on the back of profit reporting season.

Telstra (+7.3%), was a key positive contributor over the month, rallying after delivering a solid first half result, highlighting the strong performance of their mobile business, which holds an increasingly dominant position in the market. Combined with good cost management, this saw both earnings and dividends increased +6%, and the announcement of a $750m on-market buy-back. The company also highlighted the significant investments they are making to capitalise on the growth in demand for data transmission and connectivity, which is expected to increase even faster as AI systems are rolled out by businesses. For example, they have laid over 3,000km of new inter-city fibre since 2023 and are in the process of rolling out 7 new routes, with the first to become operational this year. Telstra remains one of our preferred defensive exposures.

The major banks finally lost momentum in February, with NAB (-12.1%) and Westpac (-5.7%) sold off sharply, while CBA (-1.0%) and ANZ (-2.7%) also fell but managed to outperform the market slightly. The CBA first half result and trading updates from the other banks largely confirmed that, while credit conditions remain benign, the sector is delivering negligible earnings growth. Should there be more interest rate cuts, then bank margins are likely to come under increased pressure, further impacting their earnings growth outlook. The Fund continues to be underweight the banks, seeing them as fully-valued, with risks to the downside.

Overall, the market was in risk-off mode, with the threat of trade disruptions impacting sentiment to the major miners, with BHP (-2.3%) and Rio Tinto (-3.4%), both lower, despite reporting solid results during the month. While earnings were down on the prior period, good cost control, and growth in commodities such as copper and aluminium, partially offset the lower iron ore price. Speaking of the iron ore price, it stubbornly remains over US$100/t, despite the negative sentiment. By contrast, South32 (+4.8%) was stronger on higher aluminium prices. In our view, the Resources sector offers attractive value, and the Fund remains overweight.

US-exposed cyclicals were weaker on the risk of tariff-driven inflation and higher interest rates impacting demand. This saw holdings in James Hardie (-7.4%), underperform as it would be impacted by any US slowdown. By contrast, Treasury Wines (+1.2%) outperformed, despite being leveraged to both the US and Chinese economies. Treasury delivered a sound half-year profit result and reaffirmed full-year profit guidance.

Fund Activity

During the month, we further reduced our holdings in the major banks, reinvesting the proceeds to increase holdings in the insurers. At month end, stock numbers were 30 and cash was 2.1%.

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

The market has become increasingly volatile in response to the unpredictable economic and other policy actions in the US. While deregulation is generally positive for economic growth and markets, the risk of disruptive actions is also higher. In particular, the potential unintended consequences of tariffs (should they actually be implemented). 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, versus the Tech sector which has been the recent driver of the market.

Any sustained change in confidence and activity in the US is likely to set the 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.

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