eInvest Income Generator Fund (Managed Fund)

ASX:EIGA

MONTHLY REPORT SEPTEMBER 2018

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	Since Inception^ (%)
eInvest Income Generator Fund#	0.5	2.0	2.0	-	4.7
Capital Growth	-0.1	0.2	0.2	-	2.9
Income Distribution#	0.6	1.8	1.8	-	1.8

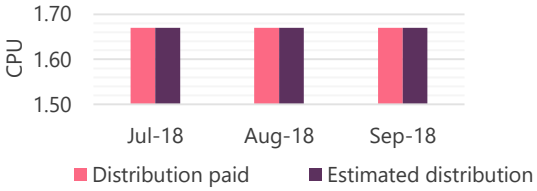
#Includes franking credits ^Since inception: May 2018. Fund returns are calculated using net asset value per unit at the start and end of the specified period and do not reflect the brokerage or the bid ask spread that investors incur when buying and selling units on the ASX .

Overview

- EIGA paid distribution of 1.67 cents per unit in September. This was in line with our distribution estimate.
- Australian stock market eased in September. The Fund's value style was rewarded during the month as the market became more favourable towards value stocks after a long period of being dominated by expensive growth and momentum stocks.
- Resources moved higher, +5.2%, on robust commodity prices, while the industrials declined -2.7%, with many expensive stocks pulling back from recent highs and banks weaker on continuing Royal Commission concerns.

Income Distribution

EIGA distribution of 1.67 cents per unit for September 2019. This is in line with our estimate.



eInvest Income Generator Fund (Managed Fund)

The objective of the Fund is to provide investors with an attractive level of tax effective income, paid via monthly distributions. The Fund 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
$21 million

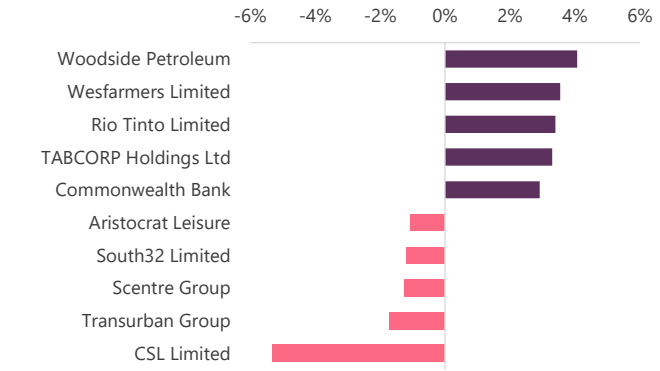
Distribution Frequency
Monthly

SMSF Compliant
Yes

Inception Date
7 May 2018

Management Cost
0.80% (incl of GST and RITC)

Top 5 Over / Underweight Positions vs Index



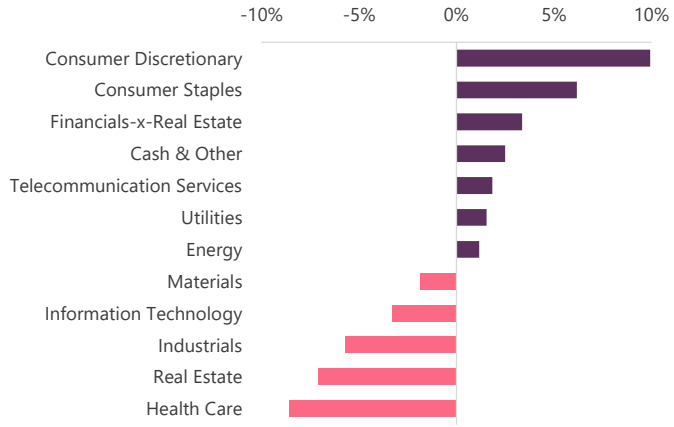
Portfolio Characteristics – FY19

	Fund	Market
Price to Earnings (x)	15.0	15.6
Price to Free Cash Flow (x)	13.6	15.2
Gross Yield (%)	7.2	5.9
Price to NTA (x)	2.4	2.4

Source: Perennial Value Management. As at 30 September 2018.

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.

Sector Active Exposure vs Index



Fund Review

The resources sector was the standout over the month, with Rio Tinto (+8.3%) rallying after announcing a $3.2bn buy-back program. In addition to continued healthy commodity prices, returns of capital and franking credits are a key part of our investment thesis supporting our positive view on the sector. BHP (+7.2%) is also cum-capital return following the sale of its shale assets while Woodside Petroleum (+ 4.6%) rallied on the positive oil price outlook and tightening LNG market. Other holdings which outperformed over the month included Telstra (+2.9%), Downer (+2.2%) and Tabcorp (+1.5%).

The Fund benefited from being underweight on valuation grounds in a number of expensive growth stocks including CSL (-11.0%), A2 Milk (-11.0%), Treasury Wines (-9.4%) and Transurban (-5.5%) all underperforming over the month. We have long argued that many of these stocks are trading on excessive valuations and at risk of being de-rated at some point.

The major banks underperformed marginally, delivering an average return of –2.1%. Sentiment towards the sector is still negative due to the combination of the Royal Commission and concerns around the outlook for the housing market. However, while the growth outlook for the banks is definitely very muted, they are trading on attractive valuations and offering compelling dividend yields.

The main detractors from performance were Suncorp (-6.6%), Flight Centre (-7.3%), AGL Energy (-6.2%) and IAG (-5.2%).

Fund Activity

During the month, we exited our holdings in Dexus and Scentre Group. Proceeds were used to increase our holdings in a number of stocks including HT&E, Flight Centre and Rio Tinto. At month end, stock numbers were 29 and cash was 2.5%.

Distribution

The Fund targets a 7% pre-tax annual income yield, comprising a 5% cash yield plus 2% franking credits. In order to give investors more certainty over their income payments, the fund aims to pay equal monthly cash distributions, based on our estimate of the income to be generated over the year. Franking credits and any realised capital gains will then be distributed with the June year-end distribution.

Outlook

Despite the ongoing negative political atmosphere, the economic backdrop continues to be positive, both domestically and offshore, with healthy growth and low unemployment in most major regions. This is supportive of ongoing moderate corporate earnings growth, healthy resources demand and financial system stability. The portfolio is exposed to this dynamic through its positions in the large-cap, low-cost resource stocks, the major banks and a range of quality industrials. We continue to avoid those sectors of the market where valuations are high and those which are exposed to the risk of rising interest rates such as Healthcare, REITs and Infrastructure.

The portfolio 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 which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	-1.2
Energy	+4.3
Materials	+4.1
Industrials	-2.1
Consumer Discretionary	-3.8
Health Care	-7.3
Financials-x-Real Estate	-2.2
Real Estate	-1.5
Information Technology	-0.6
Telecommunication Services	+2.7
Utilities	-3.1

Global, Currency & Commodities (%)

S&P500	+0.4
Nikkei225	+5.5
FTSE100	+1.0
Shanghai Composite	+3.5
RBA Cash Rate	+1.5
AUD / USD	+0.0
Iron Ore	+5.6
Oil	+6.8
Gold	-0.9
Copper	+5.0

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