

Investors Mutual Concentrated Australian Share Fund



Monthly report February 2021

Fund status: OPEN

- ▶ Global sharemarkets endured a fairly volatile month with an uptick in bond yields unnerving some investors
- ▶ The Australian sharemarket finished modestly higher, buoyed by the Resources sector
- ▶ We continue to use volatility to top up in good quality companies we believe can do well over the next 3-5 years

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^]
Total Return*	+0.5%	-1.2%	-2.7%	+2.6%	+5.8%	+9.3%
Benchmark**	+1.5%	+3.2%	+7.1%	+7.5%	+10.8%	+8.5%

[^]% Performance per annum. *Fund returns are calculated net of management fees, and assuming all distributions are re-invested. Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments.

**The benchmark for this Fund is the S&P/ASX 300 Accumulation Index (ASX300)

Sharemarket Commentary

A surge in bond yields late in the month caused volatility in global equity markets as investors grew increasingly wary about the potential for higher inflation. Yields on US 10-year bonds experienced one of their largest monthly spikes in modern times, rising 0.5% to a 12-month high of 1.4%. There are growing fears that central banks may have to raise interest rates earlier than expected, driven by the recovery in global economic activity, optimism about the COVID-19 vaccine rollout, the passing of President Biden's US\$1.9 trillion stimulus package, and the significant amount of easy money sloshing through the system.

Despite shedding -3% in the final week of the month, the MSCI World Index still finished the month up +2.4%. Similarly, the US S&P500 Index finished the month +2.7% higher, setting a new record high before inflationary fears sent ripples through the market. The tech-heavy NASDAQ Index finished the month only slightly higher after shedding -7% during a difficult final week of the month.

In Australia, the 10-year bond yield jumped over +0.7% to 1.9%, its highest level in nearly two years. The result saw the Reserve Bank of Australia ratchet up its quantitative easing programme late in the month by targeting longer-dated bonds in a bold move as the RBA looked to flatten the yield curve. Commodities all ended higher thanks to US\$ weakness and optimism over world growth as COVID-19 is brought under control. The iron ore price rallied a further +10%, while oil gained +18% over the month, returning to pre-pandemic levels, spurred on by the announcement of Saudi production cuts and improving demand. Similarly, the copper price jumped +16% on expectations of increasing demand.

The Australian sharemarket as measured by the S&P/ASX300 Index finished the month up +1.5%, with the rise in bond yields offsetting a solid reporting season for the first half of financial year 2021. Only two sectors finished the month in positive territory. The Resources sector gained +7% in lockstep with higher commodity prices. The Financials sector was up +5% as trading updates from Westpac, ANZ and NAB were well-received, predominantly on improving bad debt charges. On the negative side of the ledger, the IT sector finished -8% lower, as higher bond yields weighed on the ritzy valuations of many tech favourites such as Afterpay, Appen and Altium, which all sold off heavily. The Consumer Staples sector finished the month -5% lower, with supermarket stocks coming under pressure as their results started to reflect a slowdown from peak-COVID sales. Additionally, soft commodity plays such as A2 Milk, Bubs, and Synlait sold off heavily on weaker sales numbers through their Chinese daigou channels. Reporting season was generally positive, with many companies bouncing back following the challenges of COVID. We were encouraged by many companies that used the pandemic as an opportunity to lower their cost bases and report higher margins.

The *Investors Mutual Concentrated Australian Share Fund* was positive for the month, returning +0.5%, but below the benchmark's gain of +1.5%. The Fund's companies generally reported favourable results, but caution to the Resources and Banks sectors weighed on relative returns. We remain very comfortable with this positioning, especially given the elevated levels of commodity prices, particularly the iron ore price. Disappointingly, Orica endured a tough month after reporting a soft trading update affected by COVID-induced mine closures, slower coal exports to China and translation effects resulting from the strong \$A. In our opinion these are short-term impositions and volumes will rebound, and we took the opportunity to add to our holding on share price weakness. Encouragingly, our holdings in quality companies such as Tabcorp, Nine Entertainment, and Event Hospitality & Entertainment all enjoyed a strong month, buoyed by robust company updates. Over the month we trimmed our position in Virgin UK, which rallied strongly over the month, while adding to AusNet, Aurizon and Orica.

Following the release of results for the first half of financial year 2021, the sharemarket remains focused on the speed and strength of the economic recovery and the impact on inflation going forward. With many parts of the economy, such as retail sales and house prices, showing continued strength, sharemarkets will continue to monitor inflationary expectations, bond markets and central bank intentions. Any signs of inflation in published data moving forward will have an impact on sharemarkets.

While the worst of the COVID disruptions appear to be abating in many parts of the world, the strength of the recovery and the direction of interest rates remain closely watched. As such, we continue to focus on good quality companies which are well-managed and which we believe can do well over the next 3 - 5 years and which represent sound long-term value.

Monthly Movements

S&P 500	+2.8%
Euro Stoxx 50	+4.6%
Nikkei	+4.8%
ASX 300 Accum	+1.5%
AUD/USD	+0.9%
Gold	-6.5%
Oil	+18.3%
Iron Ore	+10.1%

Fund information

APIR	IML0010AU
Inception	1 Sep 2010
Size	\$213 M
Application	\$1.7284
Redemption	\$1.7162
Cash	17.8%
Mngmnt fee	0.993% p.a.
Holdings	10-30 Stocks
Stocks/sector limits	No
Investment horizon	4-5 years
Distribution	Semi-annually
Manager	Hugh Giddy

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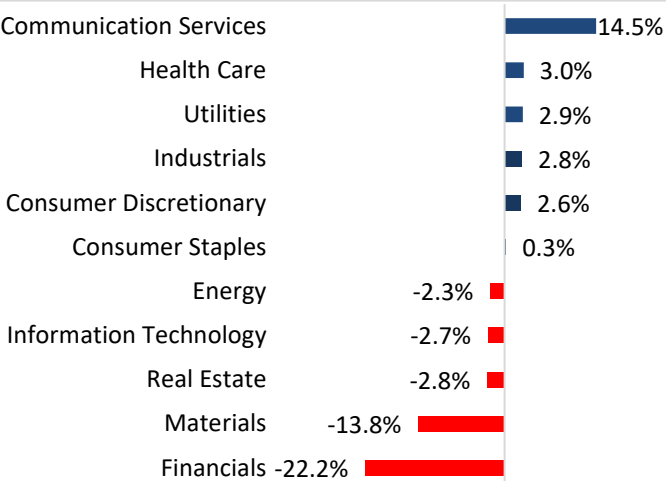
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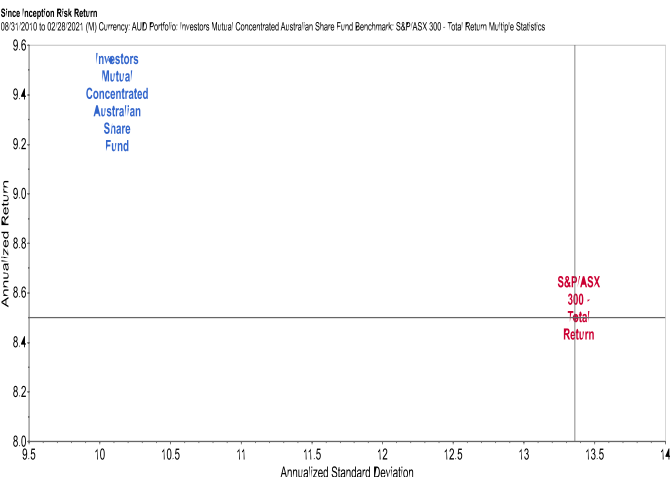
Characteristics	Fund	Benchmark
Number of stocks	28	300
Portfolio Turnover*	9.0%	N/A
Annualised Tracking Error	6.76	N/A
Volatility (STD DEV) since inception	10.08	13.36
Portfolio Beta (since inception)	0.66	1.00

*Annual portfolio turnover over the last 12 months is computed by taking the lesser of purchases or sales and dividing by the average monthly net assets

Active Sector Weights



Since Incept. Risk Return Fund vs Benchmark*



*Benchmark = S&P/ASX 300 Accumulation Index, Source: Factset

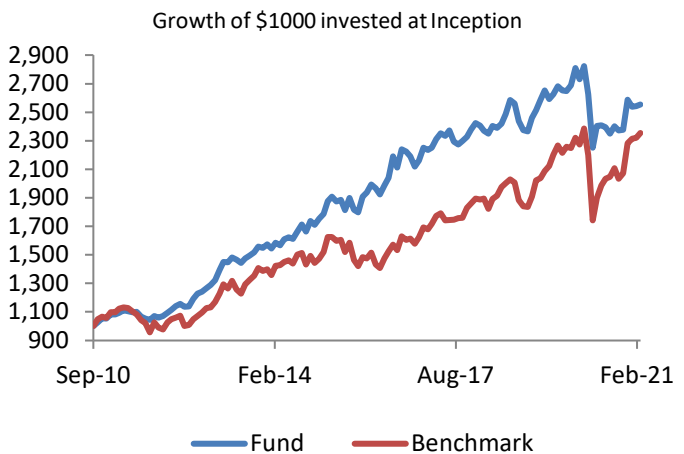
Researcher	Rating
Lonsec	Contact IML for the most recent rating
Zenith	Recommended
Morningstar	Gold

Portfolio top holdings

ASX Code	Company Name
CSL	CSL
TAH	Tabcorp
TLS	Telstra
AZJ	Aurizon
CNU	Chorus
AST	AusNet
BXB	Brambles
MTS	Metcash
EVT	Event Hospitality and Entertainment
NEC	Nine Entertainment

Source: IML

Since Incept. Cumulative Perf. Fund vs Benchmark*



*Benchmark = S&P/ASX 300 Accumulation Index, Source: IML



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