

Investors Mutual Concentrated Australian Share Fund

Quarterly Report March 2021

Fund status: OPEN

- ▶ Global sharemarkets enjoyed a strong start to CY21, led once again by the US as investor confidence remained buoyant
- ▶ The Australian sharemarket returned +4.2% over the quarter following a solid reporting season
- ▶ 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 [^] |
|---------------|---------|----------|--------|----------------------|----------------------|------------------------------|
| Income | +0.0% | +0.0% | +2.4% | +2.8% | +2.8% | +4.1% |
| Growth | +4.1% | +4.7% | +15.7% | +1.4% | +3.2% | +5.6% |
| Total Return* | +4.1% | +4.7% | +18.1% | +4.2% | +6.0% | +9.7% |
| Benchmark** | +2.3% | +4.2% | +38.3% | +9.7% | +10.3% | +8.7% |

[^]% 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

Global equity markets enjoyed a strong first quarter of calendar 2021, returning +5.9% thanks to continued investor optimism as the global economy recovers from the turmoil caused by COVID-19 and as vaccines are rolled out around the world. These gains were made despite the headwinds of a substantial selloff in bond markets. The benchmark US 10-year bond rose 0.5% to a 12-month high of 1.7% by the end of March on inflationary fears as a combination of continued strong fiscal stimulus, strong commodity prices and continued record low overnight interest rates stoked investor concerns. Over the quarter President Biden's US\$1.9 trillion stimulus package was approved, with the new President now looking to get a proposed US\$2 trillion infrastructure plan approved by Congress, while in Australia the Federal Government unveiled a \$1.2 billion tourism support package.

The US S&P500 Index recorded fresh record highs in March, pushing through the 4,000 level for the first time. The S&P500's return of +6.1% for the first quarter marked the index's best 12-month rolling return since 1936 and a staggering +80% return since the March 2020 lows. Across the Atlantic, Europe's Stoxx50 jumped +10.7% for the quarter, while Japan's Nikkei Index returned +6.9%. Encouragingly, we saw the value style of investing as the main driver of quarterly returns, with the frothier end of the market coming under pressure.

In Australia, the selloff in US bonds and inflationary concerns saw the Australian 10-year bond yield spike +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 in February by targeting longer-dated bonds in a bold move as the RBA looked to flatten the yield curve. The continued strong rise in house prices has also led to expectations of the RBA re-imposing some sort of macroprudential controls in future, although the RBA appears reluctant to intervene at this stage. Commodities endured another strong quarter, although prices came off their highs in March, with the iron ore price down -5% while the Oil and the Base Metals index shed -4% and -3% respectively.

The Australian sharemarket as measured by the S&P/ASX300 Index enjoyed a solid quarter, returning +4.2%. At the sector level, performance was mixed, reflecting the rotation from the more speculative and momentum-driven end of the market into good quality companies trading on attractive valuations. The IT sector fell -10% over the quarter, with the likes of Afterpay, Xero, Appen, Altium, Megaport and Wisetech falling considerably as many investors reduced their holdings in light of rising bond yields which significantly affect valuations. Similarly, many of the speculative 'med-tech' names within the Healthcare sector, such as PolyNovo and Nanosonics, as well as e-commerce stocks such as Kogan, Temple & Webster and Redbubble, all came under increasing pressure. The Resources sector finished the quarter flattish, coming under increasing pressure through March with many of the miners falling as the prices of iron ore and base metals came off their highs. The REITs and Utilities sectors also came under pressure, falling -0.5% and -1.8% as bond yields rose.

On the positive side of the ledger, the Consumer Discretionary sector enjoyed a strong quarter, gaining +9%. Crown Resorts gained +22% over the quarter after receiving a takeover offer from US private equity giant Blackstone (which already owns a 10% stake) at a 19% premium to its pre-bid share price. Tabcorp gained +22% following confirmation of unsolicited bids for its wagering business of \$3 billion from Entain plc and other private equity players.

The Communication Services sector gained +9.0% courtesy of Telstra's +16% return over the quarter. Telstra's interim result showed the company continuing to win mobile customers from Optus and Vodafone thanks to the company's 5G rollout. In other highlights for the sector, Nine Entertainment gained +21% following a strong result which showed strong growth across all its key divisions including TV advertising, Stan subscriptions and its 60% holding in Domain. Nine will also benefit from an agreed deal with Google and Facebook, following pressure and subsequent legislation from the Federal Government to pay content fees to Australian media players.

| Fund information | |
|------------------------|---------------|
| APIR | IML0010AU |
| Inception | 1 Sep 2010 |
| Size | \$222 M |
| Application | \$1.7950 |
| Redemption | \$1.7860 |
| Cash | 14.3% |
| Management fee | 0.993% p.a. |
| Performance fee | 10.25% |
| Holdings | 10 -30 stocks |
| Stocks/sector limits | No |
| Investment horizon | 4-5 years |
| Distributions | Semi-annually |
| Manager | Hugh Giddy |
| Level of Franking (%)* | |
| FY15 | 62.8% |
| FY16 | 50.6% |
| FY17 | 38.2% |
| FY18 | 36.2% |
| FY19 | 31.4% |
| FY20 | 54.5% |

*As per FSC Standard

Performance & Strategy

The **Investors Mutual Concentrated Australian Share Fund** had a solid quarter, returning +4.7%, slightly ahead of the benchmark's return of 4.2%.

The Fund benefitted from good performances over the quarter from our holdings in quality industrials such as Tabcorp, Telstra, Virgin Money UK, News Corporation, Event Hospitality & Entertainment, Nine Entertainment, Crown and Fletcher Building, offset by weakness in companies including CSL, Orica and Chorus.

Over the quarter the Fund reduced its holding in Crown following news of a takeover bid, while adding companies that the manager believes are undervalued such as Chorus, Z Energy, Aurizon, and Orica.

Stock Stories

Tabcorp (TAH) performed strongly for the March quarter, with the stock up +22%. There were two key drivers for this performance. The first was a solid interim result where lotteries continued to exceed expectations. The second was confirmation of multiple unsolicited bids for Tabcorp's wagering business at ~\$3bn. Concurrently, the company is conducting a strategic review including a potential demerger of wagering to unlock value, which should conclude by the end of June. We continue to see attractive latent value in Tabcorp and expect any acquisition of wagering will need to be at a higher price. Alternatively, a demerger is likely to unlock the full value in lotteries while retaining the flexibility for wagering to be acquired.

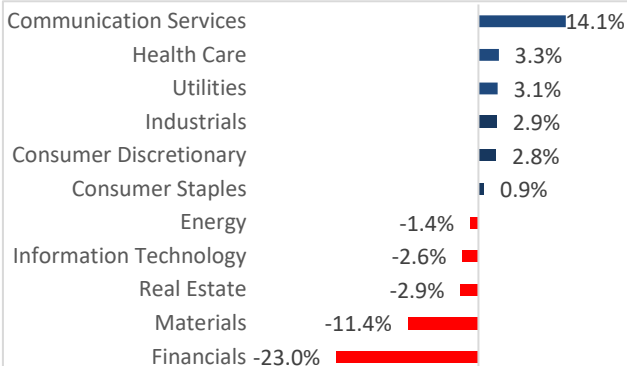
Telstra (TLS) performed well during the quarter, with a total return of +16%. The half year results announcement in February showed that the mobile business is gaining market share, growing subscribers by +80,000 in the six months to December, even though this was a difficult period for competitors where both Optus and Vodafone lost customers. Pricing in the mobile market is also recovering, with Telstra's new customers paying on average \$3/month more than last year. In other news, the earnings headwind from the NBN rollout is coming to an end, and Telstra continues to progress its strategy to separate its valuable infrastructure assets, with a sale of mobile towers likely later this year. The market is recognising these positive trends and the value of Telstra's 4.6% fully-franked dividend yield.

Outlook

It has been a long wait, but it appears that value is making a strong comeback and we are finally beginning to see this play out for many of the companies in IML's portfolios. With bond yields rising and by extension the equity risk premium, we are seeing the steam come out of many of the speculative leaders of the past 12 months. Further increases in bond yields will likely see these trends accelerate. It looks likely that we are seeing a sustained return to favour for good quality companies previously shunned amid the momentum-driven mania of recent years.

We continue to look for companies that possess the key attributes we look for and that we believe continue to look like reasonable value and which we think can do well in the next 3 to 5 years.

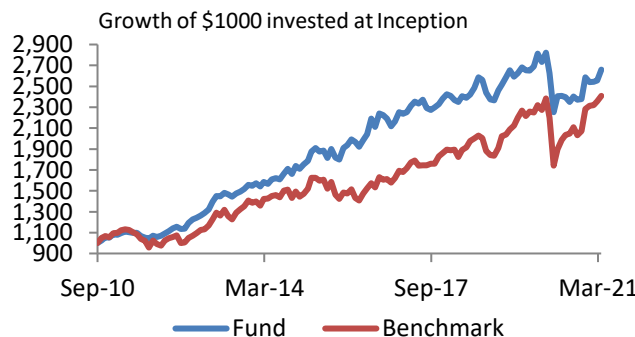
Sector Active Weights



Portfolio top holdings

| Portfolio top holdings | ASX Code |
|------------------------|----------|
| CSL | CSL |
| Tabcorp | TAH |
| Telstra | TLS |
| Aurizon | AZJ |
| Chorus | CNU |
| Metcash | MTS |
| AusNet Services | AST |
| Brambles | BXB |
| Steadfast Group | SDF |
| Orica | ORI |

Since Incept. Cumulative Perf. Fund vs Benchmark*



Since Incept. Risk Return - Fund vs Benchmark*

