

Investors Mutual Concentrated Australian Share Fund

Quarterly Report June 2021

Fund status: OPEN

- ▶ Global sharemarkets enjoyed one of their strongest 12-month periods on record as economies around the world reopened
- ▶ The Australian sharemarket returned +28.5% for FY21, allowing the local sharemarket to post fresh record highs
- ▶ 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	+0.8%	+0.9%	+1.6%	+2.5%	+2.7%	+4.0%
Growth	+0.7%	+3.7%	+14.5%	+2.2%	+3.0%	+5.9%
Total Return*	+1.5%	+4.6%	+16.1%	+4.7%	+5.7%	+9.9%
Benchmark**	+2.3%	+8.5%	+28.5%	+9.8%	+11.3%	+9.3%

^% 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 sharemarkets enjoyed one of the strongest 12-month periods on record, with the MSCI World Index returning +37%, bouncing back strongly from the COVID-19-fuelled large selloff in the March quarter of 2021. The global benchmark rose in 10 out of the past 12 months and by so doing set new record highs through the year to June. The US led the way for sharemarket gains, with the S&P500 Index returning +40%, while the tech-heavy NASDAQ Index gained +45%, with both indices posting fresh record highs throughout the year. Across the Atlantic the mood was a little less ebullient and slow to kick off with the continent continually beset by lockdown measures as COVID-19 cases continued to flare up. However, Europe's Stoxx50 Index managed to recover to return +28% in the year to June. Similarly, Japan's Nikkei Index returned +31% for the same period.

Global sharemarkets have been riding a wave of optimism over the past 12 months, as both central banks and governments around the world unleashed record levels of spending and unconventional policies to drive the economic recovery. Joe Biden's victory over Donald Trump eased much of the political uncertainty in the US and cleared the path for significant fiscal expansion by way of a US\$2 trillion infrastructure bill, as well as US\$1,400 stimulus cheques to most households. In Australia, the Federal Government introduced the JobKeeper and JobSeeker subsidies, which were extended until March 2021, accompanied by the Reserve Bank of Australia's own asset purchasing program while cutting interest rates to near zero. Additionally, the unexpectedly fast development and subsequent rollout of vaccinations from November onwards allowed some economies to reopen, with the prospect of more to come accelerating a recovery in many cyclical sectors. With monetary and fiscal policy settings maintained at emergency levels while economies recover, inflationary concerns have begun to reappear, reflected in the global core inflation data, which reached quarter of a century high levels over the six months to June.

Commodity prices enjoyed a very strong year with record price appreciation across iron ore and many base metals. The iron ore price rose +110% to push above US\$230/tonne, supported by supply constraints out of South America due to COVID-induced mine closures and record Chinese steel production, a direct beneficiary of China's fiscal stimulus. Base metals and rare earth prices enjoyed one of their strongest years on record as investors chased anything associated with the electrification of the economy. The oil price also recovered strongly, gaining +80% over FY21, buoyed by a combination of OPEC-driven production cuts and economies reemerging from lockdowns. Conversely, the gold price had a lacklustre year, finishing slightly lower and reflecting investors' diminished risk aversion.

Domestically, the Australian sharemarket as measured by the S&P/ASX300 Index enjoyed its best financial year in over three decades, returning +28.5%, allowing the market to set fresh record highs in May. Australia's four major banks and the three major iron ore producers led the rally. Sector performance was generally positive, with the Financials sector returning +41%, driven primarily by the major banks, which all returned approximately +50% for FY21 as they benefitted from the confluence of loan-loss provision releases, strong credit growth, and an exuberant property market. The Resources sector gained +31%, with sector heavyweights BHP Billiton and Rio Tinto both returning +40%. In addition, companies exposed to the electrification thematic enjoyed substantial returns, such as the copper and lithium producers. The Consumer Discretionary sector similarly had a strong year, returning +49%, with corporate activity providing a significant boost to high-quality and cash-generative companies such as Tabcorp and Crown Resorts. In addition, Wesfarmers was a strong beneficiary of the COVID-induced redirection of household budgets into home improvement and working from home, with both Bunnings and Officeworks enjoying record sales.

The sharemarket returned +8.5% in the June quarter, with sector performance generally strong across the board. The Resources sector, courtesy of the miners, returned +7.8%, benefitting from record iron ore, base metals, and rare earths prices. Within the Industrials space, the Communication Services sector returned +11%, with strong performances from both Nine Entertainment and Telstra. Nine Entertainment continues to benefit from a strong rebound in TV advertising, streaming television and record subscriber growth for Stan. Telstra gained +27%, the company continuing to benefit from more rational pricing in the mobile industry, as well as the well-received news of Telstra's 49% stake sale in its mobile towers business for A\$5.9 billion, well above market expectations. Telstra also announced that it will be returning A\$1.4 billion to shareholders.

The local Technology sector also rallied strongly over the quarter, returning +12%, following the significant correction in the wake of the re-emergence of inflationary concerns and the resultant spike in bond yields earlier in 2021. On the negative side of the ledger, the Utilities sector fell -5%, primarily the result of AGL Energy's -15% slide after failing to provide comfort to its investors on the viability of its demerger plans.

Fund Information

APIR	IML0010AU
Inception	1 Sep 2010
Size	\$218 M
Application (Ex)	\$1.8614
Redemption (Ex)	\$1.8522
Cash	8.9%
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 (%)*

FY16	50.6%
FY17	38.2%
FY18	36.2%
FY19	31.4%
FY20	54.5%
FY21	79.7%

*As per FSC Standard

Performance & Strategy

The **Investors Mutual Concentrated Australian Share Fund** posted a positive return of +16.1% over the financial year, although this clearly lagged the benchmark's strong return of +28.5%. The market has focused on lower-quality, riskier names in the past year, and cyclical or speculative rallies in sectors such as Technology and Resources held back our market-relative performance. Our portfolio's positioning in defensive quality companies weighed on the Concentrated Australian Share Fund's market-relative return, although we remain very comfortable with the Fund's positioning.

The Fund paid a distribution of 1.5385 cents per unit for the June half, taking the total distribution for the financial year to 2.5385 cents per unit representing a full-year distribution yield of 1.56%.

Over the final quarter of FY20, the Fund returned +4.6%, below the benchmark's strong return of +8.5%. Our caution to speculative or cyclical sectors such as Technology, which rallied significantly, held back our relative performance. Over the June quarter, the Fund benefited from its holdings in quality industrials such as CSL, Tabcorp, Telstra, Steadfast Group, and Metcash.

Over the quarter we trimmed our exposures to stocks such as Alumina, Crown Resorts, Event Hospitality & Entertainment, and Mayne Pharma. We used the funds generated from these sales to top up in good quality companies such as Aurizon, IAG, and Orica, which in our opinion all represent compelling valuations, especially given their medium to long-term prospects, which the market is yet to appreciate.

Stock Stories

Metcash (MTS) reported solid financial year 2021 results in the June quarter (the company has an April financial year-end). Food was modestly below our expectations, liquor was in line, while hardware was better than our forecasts, and Total Tools was extremely strong. (Metcash has only owned Total Tools for eight months.) There were earnings upgrades from a wide range of sellside brokers. The company also surprised the market with an off-market buyback, expected to be around A\$175m in the coming months, which should be mid-single-digit earnings per share-accretive, and came despite the company increasing its payout ratio from 60% to 70% earlier in the year.

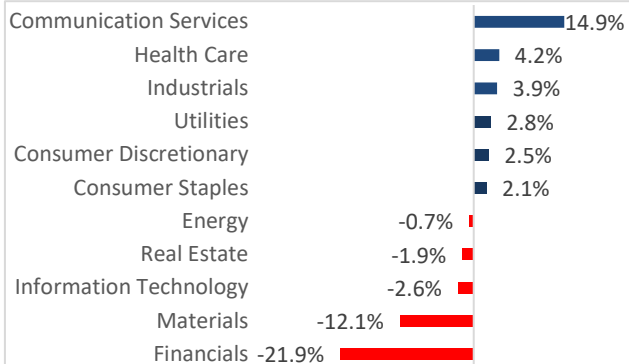
Steadfast Group (SDF) had a strong quarter, with management updating the market on expectations for underlying earnings per share growth of 15-20% this financial year. SDF's insurance broking and underwriting agency business continues to deliver recurring cashflows and organic growth. The company should continue to gain share organically through its investment in technology ahead of peers, as well as through selective bolt-on acquisitions of brokers in its network.

Outlook

Sharemarkets around the world, including Australia's, remain well-supported as economic growth continues to rebound from COVID-19 lows and central banks continue to hold interest rates at low levels, despite increasing signs of rising inflationary expectations.

The Australian sharemarket is now trading at close to record levels, with seemingly very little on the horizon to halt its ongoing rise. Having said this, we continue to steer away from some of the riskier parts of the sharemarket, and remain focused on good quality companies which are well-managed, where valuations remain justifiable, and which we firmly believe can do well over the next 3-5 years.

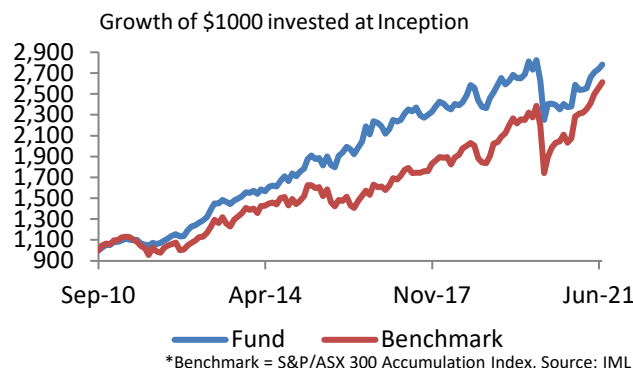
Sector Active Weights



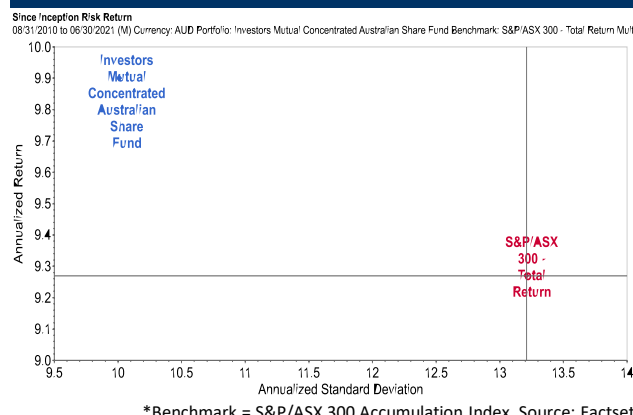
Portfolio Top Holdings

Portfolio Top Holdings	ASX Code
CSL	CSL
Tabcorp	TAH
Telstra	TLS
Aurizon	AZJ
Metcash	MTS
Brambles	BXB
Chorus	CNU
AusNet	AST
Steadfast Group	SDF
Orica	ORI

Since Incept. Cumulative Perf. Fund vs Benchmark*



Since Incept. Risk Return - Fund vs Benchmark*



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