

# Investors Mutual Concentrated Australian Share Fund

Quarterly Report September 2021

Fund status: OPEN

- ▶ Global sharemarkets endured a volatile quarter as investors were confronted with several issues
- ▶ The Australian sharemarket returned +1.8%, despite significant weakness from iron ore miners as the iron ore price fell
- ▶ We continue to use volatility to top up on 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%	+1.7%	+2.6%	+2.7%	+4.0%
Growth	-0.1%	+5.4%	+21.8%	+2.0%	+3.3%	+6.2%
Total Return*	-0.1%	+5.4%	+23.5%	+4.6%	+6.0%	+10.2%
Benchmark**	-1.9%	+1.8%	+30.9%	+9.9%	+10.5%	+9.2%

^% 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

The MSCI World Index declined -0.3% in a volatile September quarter to record its first loss since the March 2020 quarter. Following a positive start to the quarter, most world sharemarkets fell heavily in September, led by the US S&P 500 which declined -5% during the month. Concerns over inflation rose as energy prices and shipping costs soared. Supply chain disruptions were apparent in several sectors of the global economy which led to price rises as many companies scrambled to offset soaring input costs. Fears of contagion from financial woes at giant Chinese developer Evergrande, and debate about lifting the US debt ceiling to avoid government shutdowns also weighed on investor sentiment.

Commodity markets endured a volatile and unpredictable quarter. Oil and coal prices soared over the quarter as a lack of investment in the sector led to supply concerns. Conversely, the iron ore price halved over the September quarter as concerns over the strength of the Chinese economy and the Chinese authorities' commitment to curb carbon emissions via reductions in steel producing capacity took its toll. Domestically, August saw the release of FY21 company results, with most companies in the last 12 months buoyed by strong economies both in Australia and overseas, as accommodative fiscal and monetary stimulus helped the global economy recover strongly from the lockdown measures imposed. In aggregate, net profits rose over +30% from FY20 levels although a great deal of this was due to strength in the Resources sector thanks to the very strong commodity prices over FY21.

The Australian sharemarket as measured by the ASX300 finished the quarter with a +1.8% return with strength in the Industrials sector offsetting the -9.0% fall in the Resources sector. All sectors within the Industrials segment of the market finished the September quarter higher, buoyed by solid results and a flurry of takeover activity. The Communication Services sector enjoyed a strong month, led by Telstra with investors reacting positively to its FY21 result which reflected improving profitability across the company's mobile division. Investors also welcomed Telstra's expected growth in earnings through FY22. The Utilities sector was buoyed over the quarter as takeover bids emerged for both Spark Infrastructure and AusNet. Similarly, NZ's major fuel distributor Z Energy rallied 30% after receiving a takeover offer from Australia's Ampol, while Sydney Airport's share price rallied strongly over the quarter after receiving three incremental takeover offers from a consortium of infrastructure investors, including Australia's largest superannuation funds. In addition, retail giant Wesfarmers bid for pharmaceutical distributor Australian Pharmaceutical Industries as it opted to expand into a new retail segment.

## Fund Information

APIR	IML0010AU
Inception	1 Sep 2010
Size	\$223 M
Application (Ex)	\$1.9614
Redemption (Ex)	\$1.9516
Cash	9.5%
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** enjoyed a strong quarter, returning +5.4%, which was much better than the benchmark's return of +1.8%. The Fund benefited from the performance of many of its holdings such as AusNet, Incitec Pivot, Telstra, Amcor, Steadfast, Z Energy, Chorus and Event Hospitality & Entertainment. The Fund also benefited greatly from its zero exposure to iron ore companies as we have been wary of the highly elevated level of the iron ore price for some time.

Over the quarter, we trimmed our holdings in stocks such as IAG, Sonic Healthcare and AusNet as the share prices of these companies rallied strongly while we deployed the proceeds to add to our positions in quality companies that we believe are very undervalued such as Nine Entertainment, Orica and Brambles.

### Stock Stories

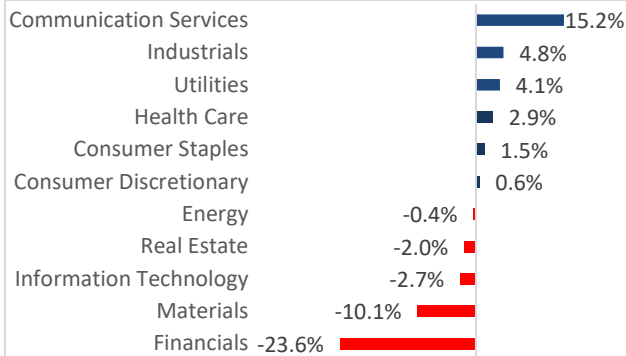
**Incitec Pivot (IPL)** had a very strong quarter rising 23% after announcing the successful restart of its Waggaman fertiliser plant in Louisiana following a lengthy maintenance turnaround. Strong fertiliser prices also contributed to the share price gain, as fertiliser prices globally are rising on the back of high gas prices, which is impacting the cost of production of other fertiliser companies, particularly those in Europe where there are some plant shut-downs. Incitec is in a fortunate position, where their gas costs are significantly lower in Australia and the US and in some cases fixed for a number of years. However, this perfect storm for Incitec will not last forever and we continue to evaluate our holding.

**AusNet (AST)** gained +30% over September as Brookfield made an unsolicited takeover offer for the company at a 25% premium to the prevailing price. This is a great outcome for investors in IML's funds as we have significantly increased the weighting to the stock across all our portfolios over the past two years. AusNet is a quality company that owns a suite of critical monopoly energy infrastructure assets in Victoria. The company has a significant competitive advantage and has delivered a recurring and predictable earnings stream which has grown steadily over time. AusNet has been an extremely attractive investment due to the positive growth outlook for many of its assets through legislative changes. In addition, AusNet has consistently paid a dividend yield of 5-6% with franking, further enhancing returns and reducing downside risk.

### Outlook

The recent falls and volatility in certain segments of the Australian sharemarket, exemplified by iron ore companies, was a reminder to many of how quickly sentiment can change, particularly in popular and overpriced sectors. We continue to steer away from the riskier parts of the sharemarket and remain focused on identifying and holding good quality companies that in our opinion are well-managed, which offer sound value and which we believe can do well over the next 3-5 years.

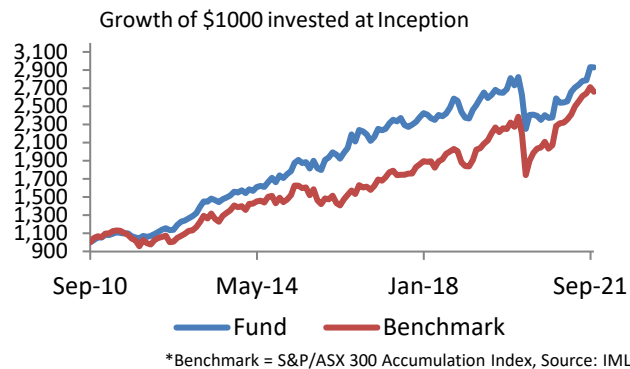
### Sector Active Weights



### Portfolio Top Holdings

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

### Since Incept. Cumulative Perf. Fund vs Benchmark\*



### Since Incept. Risk Return - Fund vs Benchmark\*

