

Investors Mutual Equity Income 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	+1.6%	+1.6%	+7.4%	+7.1%	+7.7%	+8.5%
Growth	+0.4%	+2.8%	+21.0%	-4.3%	-3.4%	-0.5%
Total Return*	+2.0%	+4.4%	+28.4%	+2.8%	+4.3%	+8.0%
Benchmark**	-1.9%	+1.8%	+30.9%	+9.9%	+10.5%	+8.6%

[^]% 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. The Fund has twin objectives of delivering (i) income greater than the S&P/ASX 300 Index yield +2% and (ii) returns with less standard deviation than S&P/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	IML0005AU
Inception	1 Jan 2011
Size	\$547 M
Application (Ex)	\$0.9108
Redemption (Ex)	\$0.9062
Management fee	0.993% p.a.
Investment horizon	4-5 years
Distributions	Quarterly
Managers	Anton Tagliaferro Michael O'Neill Tuan Luu

Level of Franking (%)*

FY17	53.4%
FY18	27.5%
FY19	39.6%
FY20	36.2%
FY21	28.8%

*As per FSC Standard

Security Category	Effective Exposure
Ordinary Shares	87.4%
Call Options	-12.3%
Put Options	3.2%
Cash	21.7%

Performance & Strategy

The **Investors Mutual Equity Income Fund** enjoyed a strong quarter, returning +4.4%, which was much better than the benchmark's return of +1.8%. The Fund benefited from the performance of many of our core holdings such as AusNet, Incitec Pivot, Telstra, Amcor, Origin Energy, Woodside Petroleum and Orica. The Fund also benefited greatly from its limited 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 September quarter, the Fund earned solid dividends from its key Industrial holdings while we used the increased market volatility over the quarter to earn additional income for the Fund by writing incremental option premium around some of the Fund's core stocks such as Alumina, Brambles, Incitec Pivot and Woodside Petroleum. The Fund also participated in Transurban's capital raising to help acquire the remaining WestConnex equity stake from the NSW Government.

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.

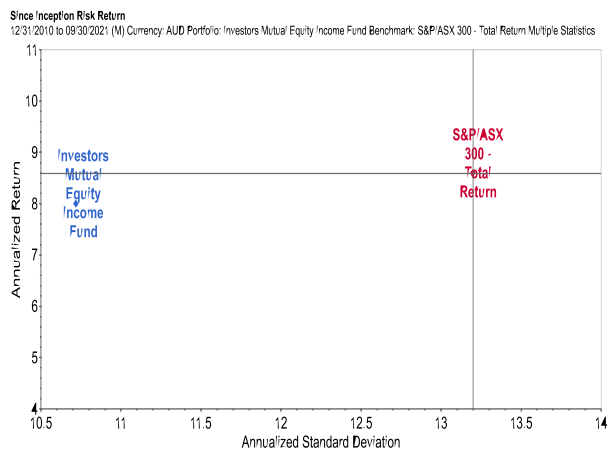
Outlook

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.

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

Portfolio Top Holdings	ASX Code
Telstra	TLS
National Australia Bank	NAB
AusNet	AST
Spark Infrastructure	SKI
Crown Resorts	CWN
Orica	ORI
Insurance Australia Group	IAG
Aurizon	AZJ
BHP	BHP
Tabcorp	TAH

Equity Income Fund Risk Return - Fund vs Benchmark* Since inception: 1 January 2011



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

The Value and Income Fund was restructured and renamed the Equity Income Fund on 1 January 2011 where the strategy of the Fund was changed to not hold international shares and to focus on its current strategy of generating income for unitholders. If the performance of the two funds are combined the results would be as follows:

	Fund return	Benchmark**
Since Inception^ 1 May 2004	+7.2%	+9.0%

^% Performance per annum *Fund returns are calculated net of management fees, and assuming all distributions are re-invested. Past performance is not indicative of future performance. Fund returns are the Value and Income Fund prior to 31 December 2010 and the Equity Income Fund from 1 January 2011. **The benchmark is the UBS Bank Bill+2% benchmark prior to 31 December 2010 and S&P/ASX 300 Accumulation Index from 1 January 2011.

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