

Investors Mutual Equity Income Fund

Monthly report November 2020

Fund status: OPEN

- ▶ Global sharemarkets surged over the month thanks to positive vaccine news and US election clarity
- ▶ The Australian sharemarket enjoyed one of its best months on record, gaining +10.2% for the month
- ▶ We continue to be selective in our approach looking to buy companies that are well positioned for the next 3 to 5 years

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^] 1-Jan-2011
Income	+0.0%	+1.9%	+6.9%	+7.6%	+7.8%	+8.6%
Growth	+10.8%	+5.8%	-18.0%	-8.8%	-4.9%	-1.4%
Total Return*	+10.8%	+7.7%	-11.1%	-1.2%	+2.9%	+7.2%
Benchmark**	+10.2%	+8.3%	-1.6%	+7.1%	+9.1%	+7.7%

[^]% 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/ASX300 Accumulation Index (ASX300). The Fund has dual objectives of delivering (i) income greater than the S&P/ASX300 Index yield +2% and (ii) returns with less standard deviation than S&P/ASX300.

Sharemarket Commentary

Global equity markets enjoyed one of their strongest months on record, surging on optimism about Joe Biden's US Presidential Election victory and a series of breakthroughs in the development of a COVID-19 vaccine. The MSCI World Index returned +11% over the month, driven by strong gains in the US S&P500 Index, which reset fresh record highs following weakness in October, and the Dow Jones Index, which pushed through the 30,000 level for the first time in its history and enjoyed its strongest month since 1987. Across the Atlantic, the mood was even more effervescent, with Europe's Stoxx Index returning +19%, catching up some of its recent relative underperformance compared with US indices.

Despite record numbers of COVID-19 cases across the world, investor optimism was buoyed by signs that President-elect Joe Biden will make a relatively smooth transition into the White House, as well as positive vaccine news from Pfizer and Moderna. This news drove a strong rotation into companies that were deemed to be well-positioned for the reopening of economies and the much hoped for return to normality, while many concept and fad stocks lagged the market. The Energy sector within the S&P500 enjoyed its best month on record, surging by +34%, while airlines, airline manufacturers such as Boeing as well as cruise line and theme park operators such as Disney all had a very strong month.

Domestically, the Reserve Bank of Australia cut the cash rate by a further 0.15% in early November, taking the cash rate down to a new record low of 0.10%, while also announcing a further \$100 billion in bond purchases as part of its quantitative easing programme. Commodities experienced a very strong month off the back of the vaccine breakthrough. Oil was the standout, gaining +27% as investors repositioned for the likelihood of greater oil consumption as economies reopen. Iron ore also firmed by a further +11% to the \$130/tonne level. Thanks to strength in commodity prices, the AUD had a strong month, gaining +5% against the USD as it rallied to the 74-cent level, despite continued concerns about the diplomatic stoush between Australia and China which has led to new trade tariffs and import restrictions by the Chinese.

The strong rally in global equities saw the Australian sharemarket, as measured by the ASX300, produce its best month on record, returning +10.2% in November. The Resources sector gained a further +10%, the driving force being the Energy sector's +30% return in line with the higher oil price. Financials led the way within the Industrials segment of the market, gaining +16%, with the major banks benefiting from an uptick in bond yields and the amount of loans on deferral continuing to decline sharply. Communication Services had a buoyant month, returning +14%, largely supported by Telstra, as its share price jumped +15% following the company's announcement that it will split its business into operating and infrastructure divisions as the company's Board looks to unlock value for shareholders. Telstra also reiterated its full year guidance and upgraded its return on invested capital target for 2022. The Technology sector, which has benefited immensely this year given the mania for "anything tech", came off the boil, with several overhyped names such as Afterpay, Megaport, NextDC and several 'buy now pay later' providers finishing in negative territory. Defensive sectors such as Consumer Staples, Healthcare and Utilities all lagged the market rise as investors rotated into more economically exposed sectors. Particularly hard-hit over the month was Treasury Wine Estates, which fell as the trade dispute between China and Australia escalated with the announcement from China that Australian wine exports would face tariffs of up to 200%.

The *Investors Mutual Equity Income Fund* enjoyed a strong month, returning +10.8%, which was better than the benchmark's return of +10.2%. Encouragingly, many of our holdings benefited from the rotation back into quality companies trading on attractive valuations, such as Telstra, Tabcorp, Aurizon, Brambles and Woodside Petroleum. The market rotation over November allowed us to generate good incremental income by selectively writing call options over some of our holdings including Amcor, Ampol, Crown Resorts and Woodside Petroleum as these stocks rallied strongly. Conversely, we targeted attractive entry prices in Sonic Healthcare and Woolworths through selling put options, as these stocks weakened as investors chased more cyclical sectors.

Continued record low interest rates, government stimulus and the recovery in many parts of the Australian economy, as lockdowns cease and interstate borders open up, has led to a sweet spot for the Australian equity market, with many companies' share prices rallying strongly over the past month. Having said this, the outlook for 2021 remains relatively uncertain given the many imbalances in the economy as things normalise. We continue to focus on companies that, in our view, have a strong franchise, experienced and capable management, and a resilient business that can continue to generate healthy cashflows over the next few years.

Level of Franking (%)*	
FY17	53.4%
FY18	27.5%
FY19	39.6%
FY20	36.2%

*As per IFSA Standard

Monthly Movements	
S&P 500	+10.9%
Euro Stoxx50	+19.3%
Nikkei	+15.1%
ASX300	+10.2%
AUD/USD	+4.9%
Gold	-6.3%
Oil	+27.0%
Iron Ore	+10.6%

Fund information	
APIR	IML0005AU
Inception	1 Jan 2011
Size	\$571 M
Application	\$0.8403
Redemption	\$0.8361
Mngmnt fee	0.993% p.a.
Investment horizon	4-5 years
Distribution	Quarterly
Manager	Anton Tagliaferro Michael O'Neill Tuan Luu

Security Category	Effective Exposure
Ord Shares	91.2%
Call Options	-17.2%
Put Options	2.2%
Cash	23.8%

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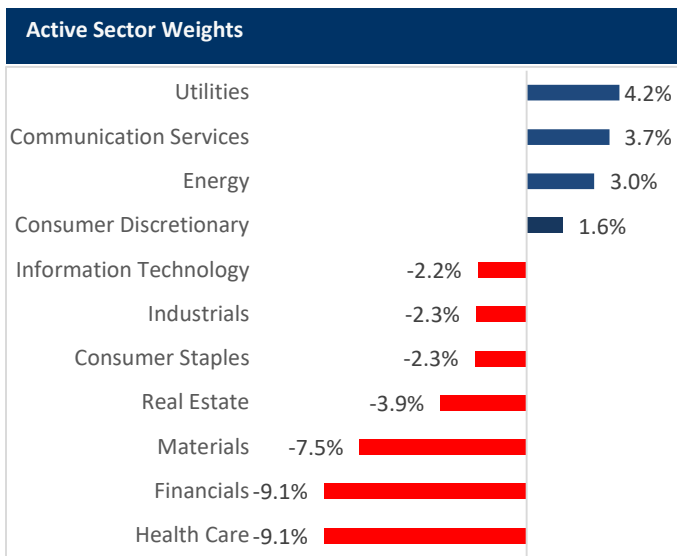
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Characteristics	Fund	Benchmark
Number of stocks	43	302
Portfolio Turnover*	31%	N/A
Volatility (STD DEV) since inception	11.00	13.64
Portfolio Beta (since inception)	0.75	1.00

*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

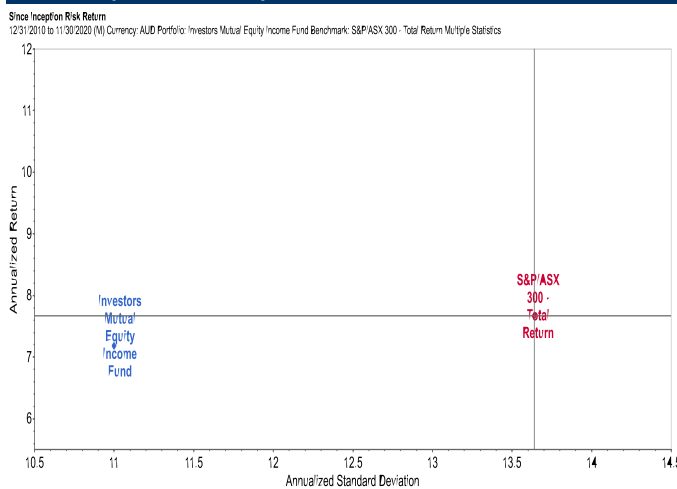
Researcher	Rating
Morningstar	Silver
Lonsec	Contact IML for the most recent rating
Zenith	Recommended



Portfolio top holdings

Portfolio top holdings	ASX Code
Telstra	TLS
National Australia Bank	NAB
Suncorp	SUN
Crown Resorts	CWN
Insurance Australia Group	IAG
Tabcorp	TAH
Aurizon	AZJ
Virgin Money UK	VUK
Spark Infrastructure	SKI
AusNet	AST

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	+6.7%	+8.5%

^% 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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