Investors Mutual Equity Income Fund

Monthly Report October 2021

Fund status: OPEN

- Global sharemarkets enjoyed a strong month led by the US as robust Q3 earnings were released
- The Australian sharemarket had a lacklustre month despite the benefits of NSW and Victoria emerging from lockdown
- 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^ 1-Jan-2011
Income	+0.0%	+1.6%	+7.3%	+7.2%	+7.7%	+8.4%
Growth	-0.2%	+3.2%	+19.9%	-3.2%	-2.8%	-0.5%
Total Return*	-0.2%	+4.8%	+27.2%	+4.0%	+4.9%	+7.9%
Benchmark**	+0.1%	+0.8%	+28.6%	+12.3%	+11.0%	+8.5%

^% 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). The Fund has dual 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

Global equity markets rebounded strongly in October with the MSCI World index returning +5%. The gains were led by the US, with the S&P500 gaining +7%, capping its strongest month this year and returning the index to record highs following last month's -5% pull back. Despite weaker than expected GDP growth and soft results from both Amazon and Apple, given ongoing supply chain disruptions and tightening in the labour market, US Q3 reporting season proved robust with the majority of companies beating earnings expectations. Across the Atlantic the mood was equally buoyant with Europe's Stoxx50 index returning +5.2%.

Given increasing inflationary trends, bond markets endured a volatile month as investors attempted to predict central bank policy in the wake of accelerating CPI data. Both the US and Australian yield curves experienced significant flattening with short-dated bond yields rising meaningfully on the expectation that central banks will have to act more swiftly than previously expected to stem inflationary pressures. Commodity markets remained volatile. The oil price gained a further +7.5% reaching its highest price in over three years as OPEC resisted calls to increase output. Energy markets in general continued to whipsaw with both the coal and European natural gas prices beholden to severe supply disruptions. Copper, a bellwether for global manufacturing activity, surged a further +10% driven by low inventories in both Europe and China.

The Australian sharemarket, as measured by the ASX300, finished the month flat, a lacklustre return relative to its global peers. Despite both NSW and Victoria emerging from lockdowns the market failed to find any real direction. The Resources sector was soft over the month with stock prices of the likes of BHP, Rio and Fortescue enduring another challenging month in sympathy with the softening iron ore price. Within the industrials segment of the market, sector performance was mixed. Healthcare was buoyed by sector heavyweight CSL, with headwinds in plasma collection beginning to abate as economies reopen. The Consumer Discretionary sector gained +0.6% for the month, albeit with mixed performance. A number of the boutique retailers performed well off the back of physical store re-openings, encouragingly before the Christmas rush. However, the sector was weighed down by hefty falls from Star Entertainment in light of money laundering accusations, Pointsbet following a soft trading update on its lofty US expansion plans and a soft trading update from Domino's Pizza, which had enjoyed a stellar run courtesy of the lockdowns. Conversely, the Consumer Staples sector finished the month lower, largely as a result of Woolworths and the Endeavour Group intimating the challenges of navigating COVID-related disruptions through their supply chains, a major obstacle for many companies as festive season volumes are expected to ramp up.

The ***Investors Mutual Equity Income Fund*** had lacklustre month shedding -0.2% compared to the benchmark's flat return. A few of the Fund's core holdings such as Aurizon, Brambles and Pact Group experienced weakness over the month on what we believe are short-term issues. During the month Aurizon announced the acquisition of One Rail Freight – a move which was viewed negatively by investors. We assess the One Rail acquisition as one which is being done at an attractive valuation and which is transformative for the company. The One Rail acquisition will allow Aurizon to grow its bulk business and gain exposure to commodities other than coal whilst also expanding the company's operations into both South Australia and the Northern Territory. Brambles sold off following the company's Q1 trading update which emphasised the company's increasing investment in the digitisation of their pallet pooling system to optimise operational efficiencies and allow for significant cost savings in the years ahead. Pact fell on the announcement that higher input prices were impacting its contract manufacturing business (which is non-core), while importantly the company also announced that its core packaging and materials handling businesses continue to perform well. The Fund benefited from strong performance in holdings such as Orica, Metcash and Nine Entertainment. In October, the Fund utilised daily market volatility to earn supplementary income by selectively writing options at target entry and exit prices on some of our holdings including APA, Brambles, Incitec Pivot and Orica.

We believe the sharemarkets will continue to be influenced greatly in coming months by the volatility in interest rate markets caused by uncertainty over whether current inflationary trends are transitionary or becoming embedded, and how central banks will react. As such 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.

Level of Franking (%)*	
FY18	27.5%
FY19	39.6%
FY20	36.2%
FY21	28.8%

Monthly Movements	
S&P 500	+7.0%
EuroStoxx50	+5.2%
Nikkei	-1.9%
ASX 300	+0.1%
AUD/USD	+4.0%
Gold	+1.5%
Oil	+7.5%
Iron Ore	-2.3%

Fund information	
APIR	IML0005AU
Inception	1 Jan 2011
Size	$529 M
Application	$0.9091
Redemption	$0.9045
Mngmnt fee	0.993% p.a.
Investment horizon	4-5 years
Distribution	Quarterly
Managers	Anton Tagliaferro Michael O'Neill Tuan Luu

Security Category	Effective Exposure
Ord Shares	91.7%
Call Options	-14.1%
Put Options	2.7%
Cash	19.6%

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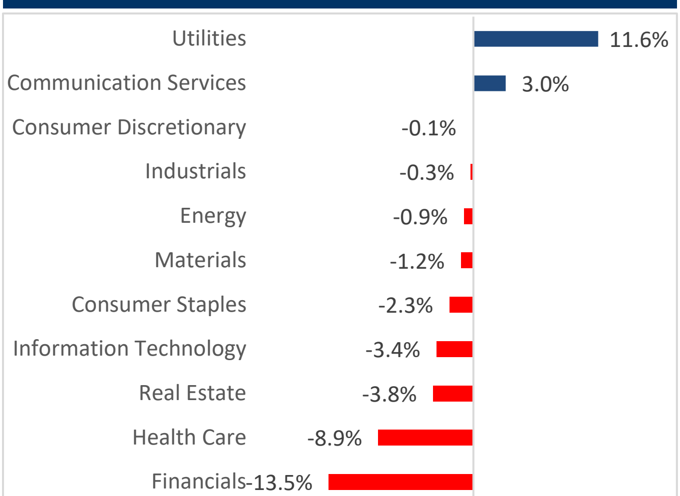
Characteristics	Fund	Benchmark
Number of stocks	40	300
Portfolio Turnover*	24%	N/A
Volatility (STD DEV) since inception	10.68	13.15
Portfolio Beta (since inception)	0.74	1.00

*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

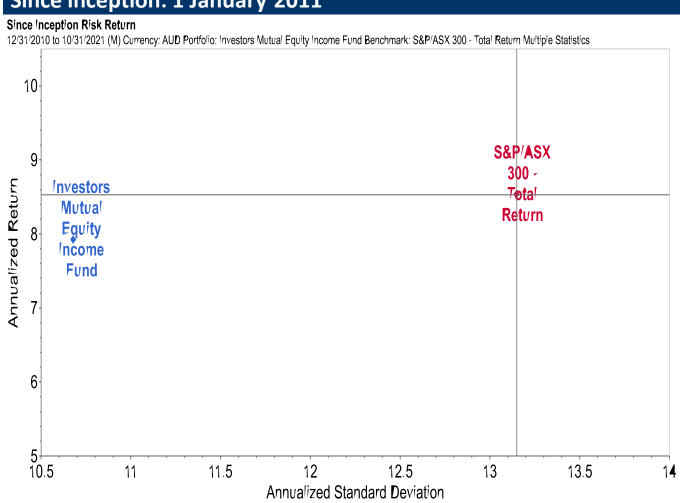
Researcher	Rating
Morningstar	Bronze
Lonsec	Contact IML for the most recent rating
Zenith	Recommended

Active Sector Weights



Portfolio top holdings	ASX Code
Telstra	TLS
AusNet	AST
National Australia Bank	NAB
Spark Infrastructure	SKI
Crown	CWN
Insurance Australia Group	IAG
BHP	BHP
Orica	ORI
Aurizon	AZJ
Amcor	AMC

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.*

iml.com.au 1300 551 132 iml@iml.com.au