

Investors Mutual Equity Income Fund

Monthly Report November 2021

Fund status: OPEN

- ▶ Global sharemarkets finished lower as the emergence of a new Covid variant affected market sentiment
- ▶ The Australian sharemarket had a mixed month to finish -0.5% lower
- ▶ 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%	+1.5%	+6.6%	+7.3%	+7.7%	+8.3%
Growth	-0.1%	+0.2%	+8.1%	-2.9%	-3.2%	-0.5%
Total Return*	-0.1%	+1.7%	+14.7%	+4.4%	+4.5%	+7.8%
Benchmark**	-0.5%	-2.3%	+16.0%	+12.9%	+10.3%	+8.4%

[^]% 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 endured a volatile end to the month, with the MSCI World index finishing November -1.6% lower. Investors were concerned that the emergence of a new Covid variant, Omicron, could derail the global economic recovery as several Governments around the world responded with new travel restrictions. News that the US Federal Reserve could start removing its stimulus programmes earlier than previously expected also weighed on equity markets. Fed Chairman Powell told lawmakers it is time to drop the word 'transitory' as inflation becomes more persistent. The US S&P500 index slid -0.7% for the month, masking the -4% fall in the final week of November, whilst Europe's Stoxx 50 index and Japan's Nikkei fell -4.3% and -3.7% respectively.

Yield curves across the globe continued to flatten, as bond investors positioned for interest rate hikes ahead of expectations in light of inflationary pressures. In the US, the gap between 2yr and 10yr bond yields fell to 0.8%, the lowest level in nearly a year. On the domestic front, September quarter GDP fell -1.9%, representing the third steepest fall on record, courtesy of the Government's enforced lockdowns. Commodity markets felt the brunt of uncertainty surrounding Omicron, particularly the price of oil which fell -16% as concerns intensified as to how Governments would react to the new variant. The price of iron ore slid -7%, whilst copper, often a bell weather for global manufacturing activity, fell -4%.

The Australian sharemarket as measured by the ASX300 index endured a volatile month, finishing -0.5% lower. Sector performance was mixed, with the Energy sector falling -8% in sympathy with the softer oil price. Despite the lower iron and copper prices, the Materials sector rebounded strongly with the iron ore majors staging a relief rally on news that Chinese steel mills are preparing for an easing of production cuts. Within the industrials segment, the Communications Services sector did well, led by Telstra which was well supported by its share buyback and news that its \$1 billion a year Defence contract to deliver critical network services had been renewed. The Consumer Staples sector also enjoyed a solid month, with the major supermarket chains all announcing better than expected like-for-like sales and improving online sales growth. On the negative side of the ledger, the Technology sector was weak as steam came out of many stocks as investors sought more defensive, reliable companies. The Financials sector was the biggest detractor over the month falling -6.9%. The share prices of Westpac and CBA dropped -18% and -11% respectively off the back of both banks earnings being affected by a sharp compression in their net interest margins, as record low interest rates and fierce competition in mortgage pricing took their toll.

The **Investors Mutual Equity Income Fund** had a relatively flat month down -0.1 but ahead of the benchmark's -0.5% fall. The Fund's limited exposure to the Resources sector, in particular the iron ore majors, held back relative returns, however we remain very comfortable with this positioning given the inherent volatility. IAG's share price fell following a downgrade to short-term earnings expectations due to an abnormally high number of weather events. While IAG may experience short-term earnings volatility, in our view the company's long-term fundamentals remain sound. Orica's share price retreated, following a strong rise over the past three months, as investors took profits after the company released its FY21 results. These results showed that that the company is on track to record better profits in the years ahead thanks to a combination of improved efficiencies, better product pricing and a recovery to normal volumes post-covid lockdowns. The Fund's holdings in companies such as Telstra, Steadfast, Nine Entertainment and Crown (which rallied following news of a new \$12.50 takeover offer from Blackstone) all enjoyed a strong month.

The Fund earned good dividend income from many of its holdings over the month, including Amcor, AusNet, National Australia Bank and Spark Infrastructure (which paid out a fully-franked 12c special distribution as part of its completed acquisition). We used the elevated market volatility to earn supplementary income by writing options around some of our investments such as Alumina, Ampol, Tabcorp and TPG Telecom.

In the short-term, investors continue to cast a wary eye over the possibility of new restrictions being imposed by Governments as the new Covid variant continues to grab the media's attention. However, as we head toward 2022, we believe sharemarkets will be primarily influenced by the direction of interest rates as central banks continue to mull over whether current inflationary trends are transitional or becoming embedded. As such, we continue to steer away from the riskier parts of the sharemarket and remain focused on identifying and holding what we assess to be good quality companies, that we believe are well managed, which offer sound value, and which 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	-0.7%
EuroStoxx50	-4.3%
Nikkei	-3.7%
ASX 300	-0.5%
AUD/USD	-5.6%
Gold	+2.0%
Oil	-16.4%
Iron Ore	-7.0%

Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$525 M
Application	\$0.9085
Redemption	\$0.9039
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	91.6%
Call Options	-10.9%
Put Options	1.3%
Cash	18.0%

Investors Mutual Equity Income Fund

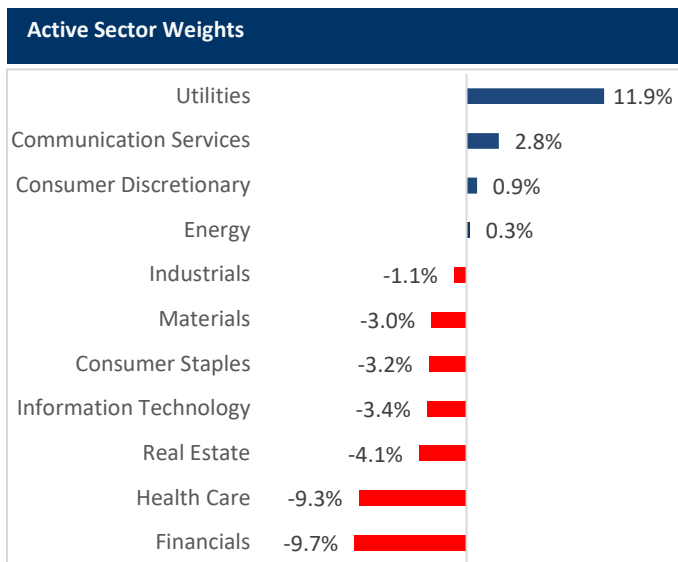
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Characteristics	Fund	Benchmark
Number of stocks	40	300
Portfolio Turnover*	24%	N/A
Volatility (STD DEV) since inception	10.64	13.10
Portfolio Beta (since inception)	0.74	1.00

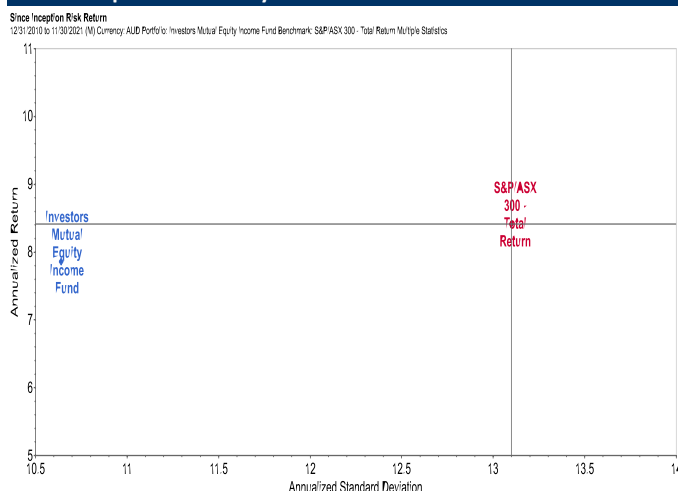
*Annual portfolio turnover over the last 12 months is computed by taking the lesser of purchases or sales and dividing by the average monthly net assets

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



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

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



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	+7.1%	+8.9%

^% 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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