

Investors Mutual Equity Income Fund

Monthly Report January 2022

Fund status: OPEN

- ▶ Global sharemarkets endured a challenging start to the year as investors weighed the prospect of higher interest rates
- ▶ The Australian sharemarket also had a weak start to the year as investors grew concerned about rising interest rates
- ▶ We continue to use volatility to top up in 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%	+6.5%	+7.1%	+7.6%	+8.4%
Growth	-1.7%	-0.7%	+9.6%	-3.1%	-3.5%	-0.6%
Total Return*	-1.7%	+0.8%	+16.1%	+4.0%	+4.1%	+7.8%
Benchmark**	-6.5%	-4.5%	+9.6%	+10.1%	+8.6%	+7.9%

[^]% 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 tough start to the year with the MSCI World index falling -4.6% as the prospect of higher interest rates eroded investor enthusiasm for riskier assets. The US S&P500 endured its worst month since March 2020 and the worst start to the year since 2009, retreating -5.2%. The richly valued, tech-heavy and oft-times speculatively driven NASDAQ index fell -9.0%, with previous high-flyers such as Netflix and Tesla all falling heavily. In a clear sign of the challenges ahead for the concept-driven, speculative end of town, the poster child of the boom Cathie Wood's Ark Innovation ETF shed close to 30% of its value in January. Across the Atlantic Europe's Stoxx50 was a touch more resilient falling -2.7% given its lower weighting to both tech and 'new economy' stocks, whilst Japan's Nikkei fell heavily, down -6.2%.

The sharemarket declines have come about as investors reacted to signs that central banks around the world are planning to raise interest rates faster and more aggressively to combat surging inflation. Headline US CPI reached 7% in December, the highest rate since the 1980's. Additionally the proportion of companies raising their prices to pass onto consumers is at a 40-year high. The US Federal Reserve signalled its intent to hike interest rates as early as March with several investment houses such as Goldman Sachs and JP Morgan predicting that the Fed Funds rate will increase four times during 2022.

Commodity markets enjoyed a strong month with the iron ore price jumping +24% to a 5-month high on the prospect of further Chinese stimulatory measures to help prop up China's flagging economy as the Government's zero covid policy continues. The oil price jumped +17% as supply and demand imbalances persist following a lack of investment in production through the pandemic, coupled with demand increases as lockdowns and travel restrictions ease.

In line with overseas markets, the Australian market, as measured by the ASX300, endured a challenging January falling -6.5%. All sectors finished in negative territory with the exception of the Resources sector, which finished in positive territory with Energy producers benefitting from higher oil prices, and BHP and RIO having a good month thanks to higher iron prices. Conversely, much of the speculative fare, such as the lithium and rare earths plays sold off heavily. In the Industrials segment of the Australian market, the local Technology sector fell -17% as a dose of reality set in for many of the seemingly exciting 'concept' stocks. The Healthcare sector also had a bad month as it shed -12% with higher bond rates impacting the valuations of many stocks in the sector. The Consumer Discretionary sector shed -9% as many online retailers came under significant pressure while 'new age' wagering companies such as PointsBet and Betmakers were sold down aggressively. The normally defensive REIT sector also had a poor month shedding over -9% as the prospect of higher interest rates weighed on the sector's relative attractiveness as a source of income for investors. The Utilities sector was another exception to the falls seen in the market, finishing in positive territory thanks to AGL and Origin which were both higher. Both companies look set to benefit from the expected increase in electricity prices, with Origin's future earnings prospects also looking brighter thanks to its exposure to LNG through its holding to the APLNG project in Gladstone.

The **Investors Mutual Equity Income Fund** was down -1.7% in January, which although disappointing was much better than the benchmark's fall of -6.5%. Our focus on investing in stocks that we believe offer both value and quality held the portfolio in good stead, due in part to our zero weighting in speculative and concept driven companies which were badly hit. The portfolio benefited from our holdings in good quality companies such as Orica, Aurizon, AusNet (under takeover), Amcor, Incitec Pivot and Origin which all finished the month higher. Detractors over the month included Steadfast and Brambles, which were both caught up in the volatility, however given their position as leaders in their respective industries we remain confident in their medium-term outlook. The Fund benefited from the positive outcome of the AusNet scheme meeting and reinvested some of the M&A proceeds in sound REITs such as Shopping Centres Australasia and Charter Hall Retail which offer 5-6% in sustainable yield. In addition, we used the elevated market volatility in January to generate solid option income around some of our investments including Coles, Origin Energy, Suncorp and Transurban.

Central banks around the world seem poised to raise interest rates in reaction to CPI numbers which have reached levels the world has not seen in almost 40 years. Whilst headline inflation levels will eventually normalise, it is now becoming increasingly evident to many investors that the prospect of ultra-low interest rates could soon be a thing of the past. We believe that in this environment, the worst impacted will be many high-flying, concept and often purely speculative parts of the sharemarket – many of which were buoyed in the last few years by speculators using this cheap money.

We have always steered away from the riskier parts of the sharemarket and have remained focused on identifying and holding only what we assess to be good quality, well-managed companies in leading industry positions. While interest rates will increase from their current historic lows, economic growth remains firm, and in this environment companies which generate good cashflows and dividends and that can maintain margins by passing on higher input prices to customers, should continue to 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	-5.2%
EuroStoxx50	-2.7%
Nikkei	-6.2%
ASX 300	-6.5%
AUD/USD	-3.1%
Gold	-0.6%
Oil	+17.3%
Iron Ore	+23.7%

Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$514 M
Application	\$0.9026
Redemption	\$0.8980
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	89.4%
Call Options	-8.1%
Put Options	3.0%
Cash	15.7%

Investors Mutual Equity Income Fund

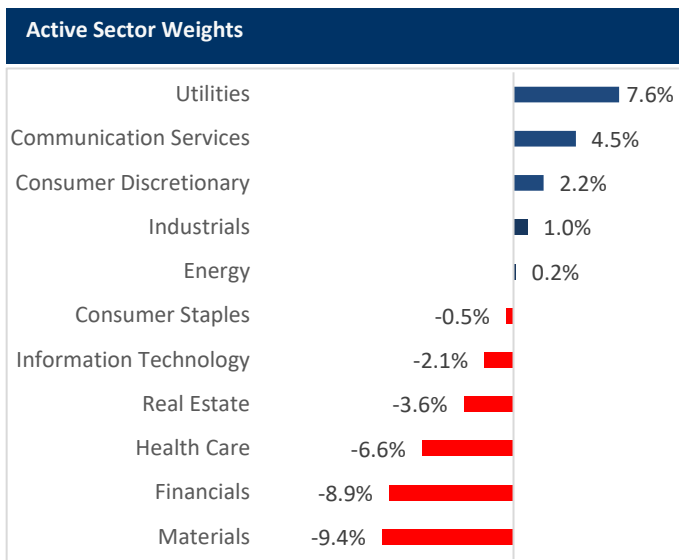
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Characteristics	Fund	Benchmark
Number of stocks	39	300
Portfolio Turnover*	24%	N/A
Volatility (STD DEV) since inception	10.60	13.19
Portfolio Beta (since inception)	0.73	1.00

*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

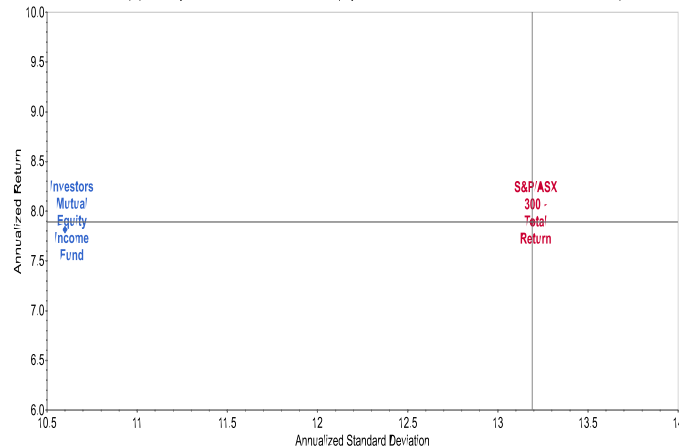


Portfolio top holdings

Portfolio top holdings	ASX Code
Telstra	TLS
National Australia Bank	NAB
AusNet	AST
Crown Resorts	CWN
Brambles	BXB
Orica	ORI
Aurizon	AZJ
Westpac	WBC
Insurance Australia Group	IAG
Origin Energy	ORG

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

Since Inception Risk Return
12/31/2010 to 01/31/2022 (M) Currency: AUD Portfolio: Investors Mutual Equity Income Fund Benchmark: S&P/ASX 300 - Total Return Multiple Statistics



*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	+7.1%	+8.6%

^% 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

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