

# Investors Mutual Equity Income Fund

Quarterly report December 2020

Fund status: OPEN

- ▶ Global sharemarkets had a volatile year with losses from the COVID correction erased by the ensuing strong rally
- ▶ The Australian sharemarket had an unpredictable year gaining a muted +1.7%
- ▶ 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 <sup>^</sup>	5 Years <sup>^</sup>	Since inception <sup>^</sup>
Income	+1.7%	+1.8%	+6.9%	+7.5%	+7.8%	+8.7%
Growth	-2.3%	+9.1%	-17.0%	-9.2%	-5.3%	-1.6%
Total Return*	-0.6%	+10.9%	-10.1%	-1.7%	+2.5%	+7.1%
Benchmark**	+1.3%	+13.8%	+1.7%	+6.9%	+8.8%	+7.7%

<sup>^</sup>% 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 year 2020 was one of the most unpredictable on record for global sharemarkets. The MSCI World Index gained +14% for the year, as it rallied sharply post the correction which occurred across most markets in March as COVID-19 was declared a global pandemic and governments around the world imposed travel bans and shutdowns across many sectors of their economies. To counter the fallout from the pandemic, most central banks around the world cut rates to record lows while also embarking on huge quantitative easing and other measures to ensure their banking systems hold up in the face of the huge economic fallout and closure of many parts of the economy. Most governments around the world also embarked on massive fiscal programmes designed to cushion the economy from the impact of the shutdowns.

Sharemarkets around the world finished the year strongly thanks to central bank and government actions as well as optimism for an improved economic outlook in 2021. Technology companies led the rally across most markets as many benefitted from a change in consumer behaviour during the pandemic – as evidenced by the US Technology sector's rise of +43%, which far exceeded the +18% gain of the S&P500 over 2020. The strength in the IT sector also saw the Nasdaq break all records and finish the year up +45% as speculative activity took hold of certain segments of the market. Sharemarkets outside the US did not fare as well with the European Stoxx 50 declining by -3%, while the FTSE 100 ended the year down -12% weighed down by Brexit uncertainties.

Commodity markets experienced a fairly volatile 2020 given all the economic uncertainty. The oil price – which at one point saw the WTI price trade in negative territory on panic selling – finished the year down -22% recovering from its lows as lockdowns and travel bans impacted demand throughout the year. Iron ore had a very strong year up +70% as it benefitted from COVID-related supply issues which affected many Brazilian mines with demand from China remaining strong. Base metals fell heavily earlier in the year but recovered strongly over 2020 thanks to a combination of COVID-induced supply disruptions, a weaker US dollar, and continued strong demand from China. The gold price also had a strong year on safe haven buying.

Global sharemarkets finished 2020 with a strong final quarter as the MSCI World Index added +13%, buoyed by the US Presidential election results, the rollout of COVID-19 vaccines as well as a resolution to the UK's trade deal with the EU. The US sharemarket led the rally up +12% for the quarter to close 2020 at record highs. The Stoxx 50 and the FTSE 100 were both up around +11% for the quarter as the Brexit agreement saw some certainty return for the European and UK economies.

Like other sharemarkets around the world, the Australian sharemarket had a highly volatile year. After falling heavily during March as COVID-19 enforced lockdowns and travel bans impacted various parts of the economy, huge Government programmes and stimulus as well as RBA measures through the lowering of interest rates to a record low 0.1% and the use of significant quantitative easing helped the local sharemarket recover with the ASX 300 Accumulation Index ending the year up of +1.7%.

The best performing sector over 2020 was the Technology sector which gained +52% for the year buoyed by the soaring Nasdaq as many companies benefitted from increased uptake of online offerings during the pandemic. The Consumer Discretionary sector was also a beneficiary, up +12%, as many retailers enjoyed increased sales driven by the huge government income support payments, super withdrawals, as well as people being unable to travel overseas. The Resources sector ended the year up +9%, thanks to stronger iron ore, metal and gold prices. Companies involved in leisure, entertainment and travel activities experienced significant declines over the year as various restrictions and lockdowns were imposed, directly impacting profits. The Energy sector was also hard hit by the lockdowns and travel restrictions posting a loss of -27% for the year in sympathy with the oil price.

In line with its global peers, the ASX300 had a very strong final quarter for the calendar year returning +13.8%, with most sectors experiencing strong gains. The exceptions were the Utilities sector which fell -5%, primarily due to AGL's -12% decline as the company announced a weak outlook for 2021, and the Healthcare sector which was down -1% as investors favoured more pro cyclical sectors.

The Technology and Financial sectors led the last quarter rally as both rose over +20%. Financials were led higher by the major banks as the amount of loans on deferral continued to decline as house prices remained strong. Technology stocks like Afterpay and WiseTech continued to capture investors' imagination, driving the sector higher. The rebound in the oil price and a continued strong iron ore price helped the Resources sector jump +19% over the quarter.

As the success and roll out of COVID vaccines were announced, companies that will benefit from a 'return to normality', including shopping malls, entertainment and travel companies, all rebounded strongly. Thus, the REIT sector rose +14% as companies like mall operator Unibail-Rodamco-Westfield and Shopping Centres Australasia rebounded. The Communication Services sector also gained +13%, led by media companies such as Nine Entertainment and Southern Cross Media as advertising activity improves. Telstra also had a good quarter as investors reacted to the announcement of its biggest restructure since privatisation in 1997, which will involve dividing the company into three units; fixed line assets, mobile infrastructure and retail business.

## Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$560 M
Application (Ex)	\$0.8208
Redemption (Ex)	\$0.8168
Management fee	0.993% p.a.
Investment horizon	4-5 years
Distributions	Quarterly
Manager	Anton Tagliaferro Michael O'Neill Tuan Luu

## Level of Franking (%)\*

FY16	37.1%
FY17	53.4%
FY18	27.5%
FY19	39.6%
FY20	36.2%

\*As per IFSA Standard

## Security Category Effective Exposure

Ordinary Shares	85.0%
Call Options	-7.7%
Put Options	1.3%
Cash	21.4%

## Performance & Strategy

The **Investors Mutual Equity Income Fund** had a disappointing calendar year 2020, recording a return of -10.1%, compared with the benchmark's return of +1.7%. While many of our core holdings in well-managed, good quality industrial companies such as Metcash, AusNet and Coles all contributed positively over the year, our low weightings to the Resources, Banking and IT sectors, which all finished the year strongly, impacted the Fund's relative performance. The Fund paid a distribution of 1.4 cents per unit for the December quarter.

For the final quarter, the Fund posted a solid gain of +10.9%, although this was behind the benchmark's strong return of +13.8%. Our caution to the highly cyclical sectors, such as Technology and Resources, held back our relative performance as these sectors rallied significantly over the final quarter. Our positioning to good quality companies such as Tabcorp and Telstra contributed positively to returns.

We took advantage of the market rotation back to cyclical/value stocks to earn good incremental income by writing call options over some of our holdings including Alumina, Amcor and Woodside Petroleum. Conversely, we targeted attractive entry prices in sound researched companies such as Sonic Healthcare, Tabcorp and Woolworths with written put options.

**Telstra (TLS)** had a strong quarter as investors responded positively to the company's announcement at its November investor day that it will split its business into three separate businesses: infrastructure divisions named 'InfraCo Towers' and 'InfraCo Fixed', and an operating division 'ServeCo'. In our view this will help realise the value of Telstra's extensive portfolio of infrastructure assets which have been underappreciated and undervalued in the past. The restructure is expected to be completed by the end of 2021. Telstra also reiterated its full year guidance and upgraded its return on invested capital target for 2022.

**Insurance Australia Group's (IAG)** share price was weak this quarter, following a surprise loss in its first business interruption insurance test case in November, which has since been appealed. Following the judgement, IAG announced an \$865m post tax top-up provision and a \$750m capital raising. Although business interruption test cases will take time to resolve, we believe that IAG has been considerably more conservative than its peers and has over-provisioned in response to the November court decision.

**Metcash (MTS)** reported strong results in December for the 6 months ended October 2020 for its food, hardware and liquor businesses. The ongoing strength reflects a move to shop local, dine at home and DIY home improvement. The standout for us was the hardware division where the company posted very strong result and encouraging commentary on its recent acquisition of Total Tools, a business focussed on high quality tools for professionals. We added to our position in Metcash significantly over 2020, as the company's prospects remain positive for the next few years.

**Virgin Money UK (VUK)** performed strongly, with the share price up +87% in the December quarter, having sold off heavily earlier in the year on concerns about a hard Brexit and weak UK economy. We used the strength in the share price to trim our position, although it remains a core holding across our funds, trading at a substantial discount to book value, in stark contrast to the Australian major banks.

## Outlook

While sharemarkets around the world recovered strongly as the year progressed thanks to central bank and government actions as well as optimism for an improved economic outlook in 2021, many companies' profitability and dividends continue to be impacted by the economic turmoil during 2020. In light of the mixed economic outlook going forward, we continue to focus on good quality companies that we believe represent good value and which we believe can do well over the next 3 to 5 years.

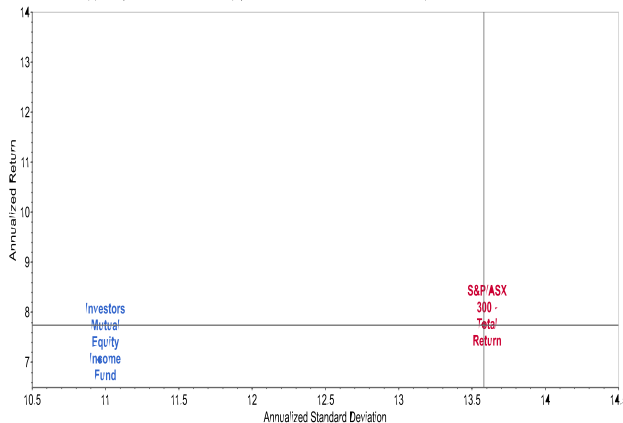
Researcher	Rating
Lonsec	Contact IML for the most recent rating
Zenith	Recommended
Morningstar	Silver

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

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

Since Inception Risk Return

12/31/2010 to 12/31/2020 (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	+6.6%	+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.