Equity Income Fund - Quarterly Report

IML

December 2022

The **Investors Mutual Equity Income Fund** provides exposure to a diversified portfolio of quality Australian shares for investors seeking a regular and relatively high-income stream and lower levels of volatility compared to the ASX300, along with some capital growth over time.

	1 month	3 months	1 year	3 years^	5 Years^	10 years^	Since inception^
Income	+1.6%	+1.8%	+6.8%	+6.9%	+7.2%	+7.9%	+8.3%
Growth	-2.4%	+7.0%	+1.0%	-2.2%	-3.3%	-0.5%	-0.3%
Total Return*	-0.8%	+8.8%	+7.8%	+4.7%	+3.9%	+7.4%	+8.0%
Benchmark**	-3.3%	+9.1%	-1.8%	+5.5%	+7.1%	+8.6%	+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 a reliable indicator 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)*

Fund Performance

- The **Equity Income Fund** was up strongly over the quarter, rising +8.8%, slightly behind the benchmark's +9.1%. Importantly, the Fund also reported a very strong result for the calendar year of +7.8%, which compares very favourably to the benchmark's drop of -1.8%
- The MSCI World Index was up +7.5% for the quarter, thanks to strong gains in October-November, although global markets dipped again in December as concerns resurfaced about the global economy slowing in 2023 as interest rates continue rising around the globe.
- For the ASX 300, the Utilities sector was the strongest performer, up +28%, due mainly to a $9 a share bid for Origin Energy by Brookfield Asset Management. The Materials sector also rose strongly to finish the quarter up +14.7% as BHP, Rio and Fortescue all had very strong quarters, rising on a stronger iron ore price in hopes that demand for the commodity will increase rapidly as China reopens its economy, reversing its draconian Covid lockdown policies.
- The Fund benefited from very strong quarters by several key stocks. Origin Energy's share price jumped after the bid by Brookfield. Orica and Virgin Money also rose significantly over the quarter, after they both announced strong FY22 results. Steadfast and Suncorp also performed well as investors factored in rising insurance premiums.
- SkyCity had a tough quarter after Austrac announced proceedings against it in relation to AML breaches at its Adelaide casino, while Medibank fell heavily after a well-publicised cyber-attack and Pact dropped after a disappointing trading update.
- We used the market swings to earn supplementary income by selectively writing options at target entry and exit prices on some of our holdings including Amcor, Orica and Woodside Energy.

Outlook

- Given that inflation remains high in most parts of the world, and interest rates are still on the rise, we believe sharemarkets will remain volatile given the ongoing uncertainty. While inflation appears to be peaking in some parts of the world, the impact on corporate earnings from higher interest rates and slower economic growth is yet to be fully reflected in many companies' earnings expectations.
- We are closely watching some high-quality companies that have looked expensive to us for some time and if tougher economic times lead to their share prices weakening, we are looking to buy these targeted companies at what we believe will be attractive valuations.

Stocks in Focus

- **Orica (ORI)**, the world's leading explosives manufacturer, rebounded following a strong FY22 result. Underlying NPAT (Net Profit After Tax) was up over 50%, following a weaker FY21 due to Covid-related restrictions. With explosives prices now trading materially above Orica's contracted prices the company should benefit greatly in coming years from increased margins as contracts roll-over to higher prices, as well as increased demand as Covid restrictions ease.
- **Aurizon (AZJ),** Australia's largest rail freight operator, had a solid quarter due to continued high coal prices and strong underlying demand. While extremely wet weather means the company may miss its FY23 coal volume guidance, this should not be significant as most of its volume is on a take or pay basis. More significantly, late in the quarter it announced the sale of its East Coast Rail (ECR) business for c$925m, slightly above market expectations. This is a very good result as it vastly improves AZJ's balance sheet and allows it to continue to invest in growing its bulk business and diversifying away from coal. The sale of ECR means the company can increase its dividend levels in the years ahead, putting the stock on a dividend yield of around 7%, with a high component of franking.
- **Metcash (MTS)** is Australia's largest wholesaler to independently owned hardware, food and liquor businesses. In December the company announced a very solid first half result, beating expectations in hardware and liquor and the food division broadly in line. Cash flow was a little weaker than expected, due to higher inventories as sales grew strongly over the half, although we believe this will return to normal levels in future. Metcash remains a well-managed, defensive company trading at relatively inexpensive multiples, with an attractive dividend yield.

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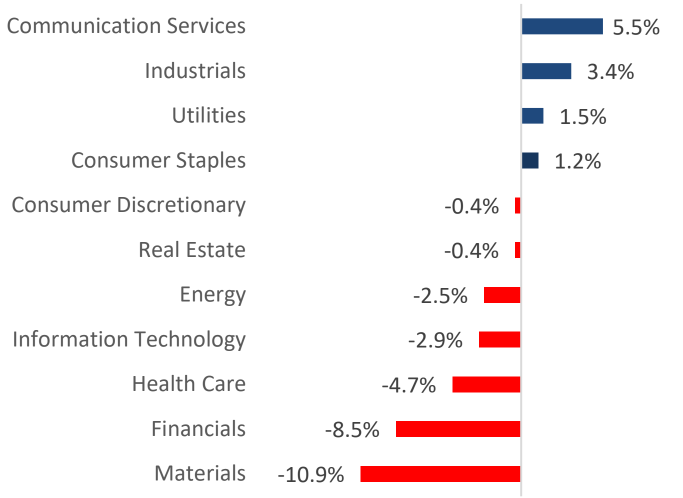
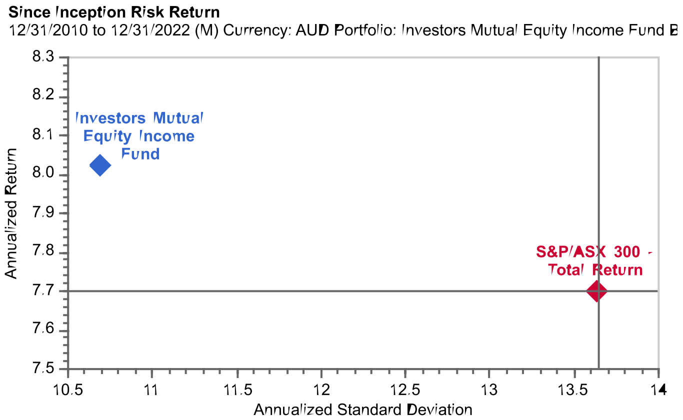
Active Sector Weights



Top 10 Holdings

Top 10 Holdings	ASX code
Telstra	TLS
National Australia Bank	NAB
Brambles	BXB
Orica	ORI
Westpac	WBC
Aurizon	AZJ
Insurance Australia Group	IAG
Coles	COL
CSL	CSL
Origin Energy	ORG

Fund Risk-Return vs Benchmark



Since inception: 1 January 2011: Cumulative performance of the Fund vs its benchmark; Benchmark = S&P/ASX 300 Accumulation Index, Source: IML, Factset

Security Category

Security Category	Effective exposure
Ordinary Shares	86.4%
Call Options	-6.8%
Put Options	1.7%
Cash	18.7%

Portfolio Characteristics

Portfolio Characteristics	Fund	Benchmark
No. of stocks	41	300
Portfolio turnover[1]	23%	NA
Portfolio Beta (since inception)	0.71	1.00

Fund Facts

ARSN	107 095 438
APIR	IML0005AU
Inception	1 January 2011
Benchmark	S&P/ASX 300 Accumulation Index
FUM	$516 M
Investment Horizon	4-5 years
Minimum Initial Investment	A$50,000
Minimum Additional Investment/ Redemption	A$5,000
Distributions	Quarterly
Performance Fee	Nil
Management Fee	0.993% p.a. of the net assets of the fund (includes GST)
Asset Classes and Allocation Range	Aust Equities (50-100%) Cash (0-50%)

Franking level (%)[2]

FY22	FY21	FY20	FY19	FY18
45.9%	28.8%	36.2%	39.6%	27.5%

Fund Ratings

Morningstar	Bronze
Zenith	Recommended
Lonsec	Recommended **Visit lonsec.com.au/logo-disclosure for important information about this rating*

[1] 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
[2] As per FSC standard.

Long-term investors in the Value and Income Fund which was restructured and renamed the Equity Income Fund on 1 January 2011 please see page 3.

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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	+7.3%	+8.4%

^% Performance per annum. Fund returns are calculated net of management fees and assuming all distributions are re-invested. Past performance is not a reliable indicator 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.