

# Investors Mutual Equity Income Fund

Monthly report February 2021

Fund status: OPEN

- ▶ Global sharemarkets endured a fairly volatile month with an uptick in bond yields unnerving some investors
- ▶ The Australian sharemarket finished modestly higher, buoyed by the Resources sector
- ▶ 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> 1-Jan-2011
Income	+0.0%	+1.7%	+7.4%	+7.5%	+7.9%	+8.5%
Growth	+1.3%	-0.7%	-10.8%	-8.4%	-4.1%	-1.4%
Total Return*	+1.3%	+1.0%	-3.4%	-0.9%	+3.8%	+7.1%
Benchmark**	+1.5%	+3.2%	+7.1%	+7.5%	+10.8%	+7.8%

<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/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

A surge in bond yields late in the month caused volatility in global equity markets as investors grew increasingly wary about the potential for higher inflation. Yields on US 10-year bonds experienced one of their largest monthly spikes in modern times, rising 0.5% to a 12-month high of 1.4%. There are growing fears that central banks may have to raise interest rates earlier than expected, driven by the recovery in global economic activity, optimism about the COVID-19 vaccine rollout, the passing of President Biden's US\$1.9 trillion stimulus package, and the significant amount of easy money sloshing through the system. Despite shedding -3% in the final week of the month, the MSCI World Index still finished the month up +2.4%. Similarly, the US S&P500 Index finished the month +2.7% higher, setting a new record high before inflationary fears sent ripples through the market. The tech-heavy NASDAQ Index finished the month only slightly higher after shedding -7% during a difficult final week of the month.

In Australia, the 10-year bond yield jumped over +0.7% to 1.9%, its highest level in nearly two years. The result saw the Reserve Bank of Australia ratchet up its quantitative easing programme late in the month by targeting longer-dated bonds in a bold move as the RBA looked to flatten the yield curve. Commodities all ended higher thanks to US\$ weakness and optimism over world growth as COVID-19 is brought under control. The iron ore price rallied a further +10%, while oil gained +18% over the month, returning to pre-pandemic levels, spurred on by the announcement of Saudi production cuts and improving demand. Similarly, the copper price jumped +16% on expectations of increasing demand.

The Australian sharemarket as measured by the S&P/ASX300 Index finished the month up +1.5%, with the rise in bond yields offsetting a solid reporting season for the first half of financial year 2021. Only two sectors finished the month in positive territory. The Resources sector gained +7% in lockstep with higher commodity prices. The Financials sector was up +5% as trading updates from Westpac, ANZ and NAB were well-received, predominantly on improving bad debt charges. On the negative side of the ledger, the IT sector finished -8% lower, as higher bond yields weighed on the ritzy valuations of many tech favourites such as Afterpay, Appen and Altium, which all sold off heavily. The Consumer Staples sector finished the month -5% lower, with supermarket stocks coming under pressure as their results started to reflect a slowdown from peak-COVID sales. Additionally, soft commodity plays such as A2 Milk, Bubs, and Synlait sold off heavily on weaker sales numbers through their Chinese daigou channels. Reporting season was generally positive, with many companies bouncing back following the challenges of COVID. We were encouraged by many companies that used the pandemic as an opportunity to lower their cost bases and report higher margins.

The *Investors Mutual Equity Income Fund* enjoyed a solid month, gaining +1.3%, broadly in line with the benchmark's return. The Fund's caution to the Resources sector weighed on relative returns, however we remain very comfortable with this positioning given the elevated levels of commodity prices, particularly the iron ore price. Disappointingly, Orica endured a tough month after reporting a soft trading update affected by COVID-induced mine closures, slower coal exports to China and translation costs resulting from the strong \$A. In our opinion these are short-term impositions and volumes will rebound, and as such we took the opportunity to add to our holdings on share price weakness. Encouragingly, our holdings in good quality companies such as Virgin Money UK, Pact Group and IAG all enjoyed a strong month, buoyed by robust company updates. While the Australian market had a good reporting season, equity volatility jumped again in the last week of February with spiking bond yields and inflationary concerns. This allowed us to harness the daily market swings to earn good option premiums on our core holdings including Amcor, Alumina, Incitec Pivot and Suncorp. We also participated successfully in Bank of Queensland's capital raising to fund the acquisition of Members Equity Bank, which should deliver good cost synergies and regional diversification benefits.

Following the release of results for the first half of financial year 2021, the sharemarket remains focused on the speed and strength of the economic recovery and the impact on inflation going forward. With many parts of the economy, such as retail sales and house prices, showing continued strength, sharemarkets will continue to monitor inflationary expectations, bond markets and central bank intentions. Any signs of inflation in published data moving forward will have an impact on sharemarkets. While the worst of the COVID disruptions appear to be abating in many parts of the world, the strength of the recovery and the direction of interest rates remain closely watched. As such, we continue to focus on good quality companies which are well-managed and which we believe can do well over the next 3 - 5 years and which represent sound long-term value.

## Level of Franking (%)\*

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

\*As per IFSA Standard

## Monthly Movements

S&P 500	+2.8%
Euro Stoxx50	+4.6%
Nikkei	+4.8%
ASX300	+1.5%
AUD/USD	+0.9%
Gold	-6.5%
Oil	+18.3%
Iron Ore	+10.1%

## Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$541.6 M
Application	\$0.8343
Redemption	\$0.8301
Mngmnt fee	0.993% p.a.
Investment horizon	4-5 years
Distribution	Quarterly
Manager	Anton Tagliaferro Michael O'Neill Tuan Luu

## Security Category Effective Exposure

Ord Shares	91.1%
Call Options	-7.4%
Put Options	2.7%
Cash	13.6%

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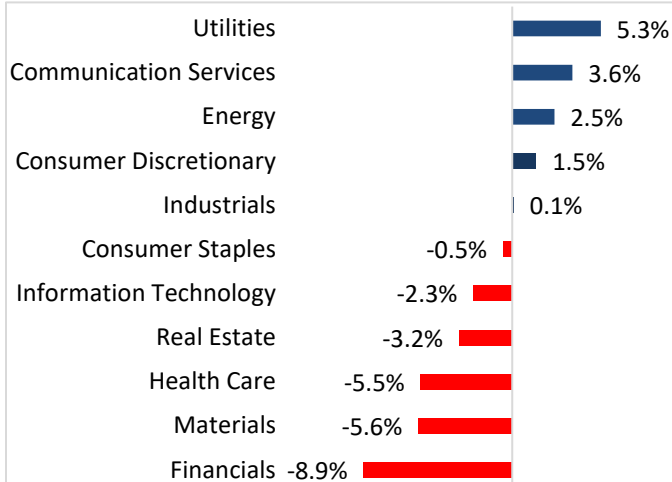


Characteristics	Fund	Benchmark
Number of stocks	41	300
Portfolio Turnover*	28%	N/A
Volatility (STD DEV) since inception	10.87	13.47
Portfolio Beta (since inception)	0.75	1.00

\*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	Silver
Lonsec	Contact IML for the most recent rating
Zenith	Recommended

## Active Sector Weights

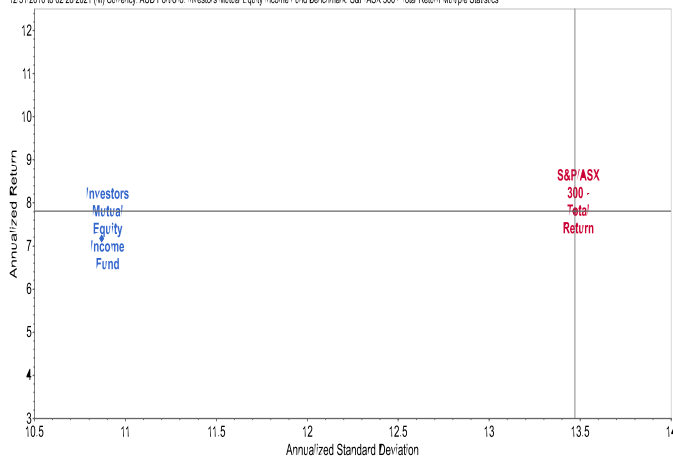


## Portfolio top holdings

Portfolio top holdings	ASX Code
Telstra	TLS
National Australia Bank	NAB
Ancor	AMC
Suncorp	SUN
Crown Resorts	CWN
Insurance Australia Group	IAG
AusNet	AST
Aurizon	AZJ
Tabcorp	TAH
Orica	ORI

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

Since Inception Risk Return  
12/31/2010 to 02/28/2021 (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	+6.7%	+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.



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