

# Investors Mutual Equity Income Fund

Monthly Report July 2021

Fund status: OPEN

- ▶ Global sharemarkets were mixed over the month with strong US Q2 earnings offsetting Chinese regulatory clampdowns
- ▶ The Australian sharemarket endured a bifurcated month - industrials were lacklustre, whilst resources were strong
- ▶ 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%	+1.2%	+7.2%	+7.1%	+7.4%	+8.4%
Growth	-0.6%	+0.4%	+12.7%	-6.2%	-4.5%	-0.8%
Total Return*	-0.6%	+1.6%	+19.9%	+0.9%	+2.9%	+7.6%
Benchmark**	+1.1%	+5.8%	+29.1%	+9.7%	+10.1%	+8.7%

<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 (ASX300). The Fund has dual 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/ASX 300.

## Sharemarket Commentary

Global sharemarkets continued to be well supported in July with the MSCI World index returning +0.7%. US sharemarkets again traded at record highs thanks to the release of strong Q2 earnings, continued low interest rates and increased corporate deal making. US consumer data also highlighted that many cashed-up Americans spent with abandon in the June quarter as vaccination rates increased and lockdown restrictions eased. The US S&P500 index returned +2.4% for the month. Across the Atlantic the Stoxx50 index rose +0.8%, bolstered by strong EU economic data releases and as COVID-19 restrictions continue to ease.

It was a different story across the Emerging Markets landscape which slipped -6% for the month. The delta variant continues to impact countries with low vaccination rates, as government-enforced lockdowns and travel restrictions cast a pall of uncertainty over future growth. Additionally, China's regulatory clampdown weighed on its local bourse, with the MSCI China index shedding -14%, the largest monthly decline in nearly a decade. Fears of regulatory tightening intensified with investors fretting over the Chinese Government's ability to burden companies with new rules and regulations.

Despite the strong US economic recovery, US 10-year bond prices continued to rally with the yield falling -0.25% to 1.2%, having reached 1.75% back in April, as investors become wary of increased inflationary pressures. Similarly, the Australian 10-year bond yield fell -0.35% to 1.2%. In commodity markets, the iron ore price slid -9% after China recommitted to reducing emissions by cutting steel production. The oil price edged +2% higher despite OPEC's talks deteriorating early in the month. Copper continued its ascent +4% higher on the electrification of the economy thematic, whilst the gold price rose +4% amidst safe haven buying.

The Australian sharemarket, as measured by the ASX300, returned +1.1% in July. This was primarily driven by the Resources sector which jumped +6.5% as stocks like BHP, Rio Tinto and Fortescue all rallied strongly as many investors continued to seek cyclical exposure, despite the heavy pullback in the iron ore price. The Resource rally was held back by the Energy sector falling -2.4% over the month, despite a firm oil price and Santos' proposed merger deal with Oil Search. The Industrial segment of the market also fell as the Financials, Communication Services and the IT sector all recorded negative returns. On the positive side of the ledger, the Consumer Staples sector returned +1.5%, supported by robust share price performance from Metcash, Coles and Woolworths as the Government-imposed lockdowns drove consumers out of the restaurants and back to the joys of home cooking. The Real Estate and Utilities sectors returned +0.9% and +1.6% respectively, as long duration cash flow generative assets continue to benefit from the pullback in longer dated yields. Additionally, the Spark Infrastructure share price gained +24% after a proposal to acquire the company was received from PE firm KKR and the Ontario Teachers' Pension Plan.

The **Investors Mutual Equity Income Fund** had a disappointing month returning -0.6% and behind its benchmark's return of +1.1%. Our caution to the ever-volatile Resources sector held back the Fund's relative performance although we remain comfortable with this positioning given the record prices across both iron ore and most base metals. The Fund's performance was held back by disappointing performances from core stocks such as Orica and IAG although we remain confident on these companies' medium-term outlook as they recover from COVID-induced issues. Our holding in Crown also detracted from the Fund's performance as the share price came under pressure as the Victorian Royal Commission continued into the suitability of the company to hold its Melbourne licence and Star Entertainment Group backed out of merger talks. We continue to monitor the situation closely although remain hopeful that the significant changes implemented at Board and senior management level as well as the company's strong property holdings will enable the company to recover. Our holdings in good quality industrial companies such as Amcor, Spark Infrastructure and AusNet all performed well over the month. In July, we used the daily market volatility to write good option income around some of our key holdings including Alumina, Aurizon, Nine Entertainment and Tabcorp.

Investors will now look to the August reporting season to gain a detailed insight into how most companies are faring in the current COVID situation. The Australian sharemarket continues to trade at record levels with seemingly very little on the horizon to halt its ongoing rise. Having said this, we continue to steer away from some of the riskier parts of the sharemarket and remain focused on good quality companies which are well-managed, where valuations remain justifiable, and which we believe can do well over the next 3-5 years.

## Level of Franking (%)\*

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

\*As per IFSA Standard

## Monthly Movements

S&P 500	+2.4%
EuroStoxx50	+0.8%
Nikkei	-5.2%
ASX 300	+1.1%
AUD/USD	-2.1%
Gold	+3.6%
Oil	+1.6%
Iron Ore	-8.6%

## Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$529 M
Application	\$0.8805
Redemption	\$0.8761
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	86.6%
Call Options	-11.7%
Put Options	2.2%
Cash	22.9%

# Investors Mutual Equity Income Fund

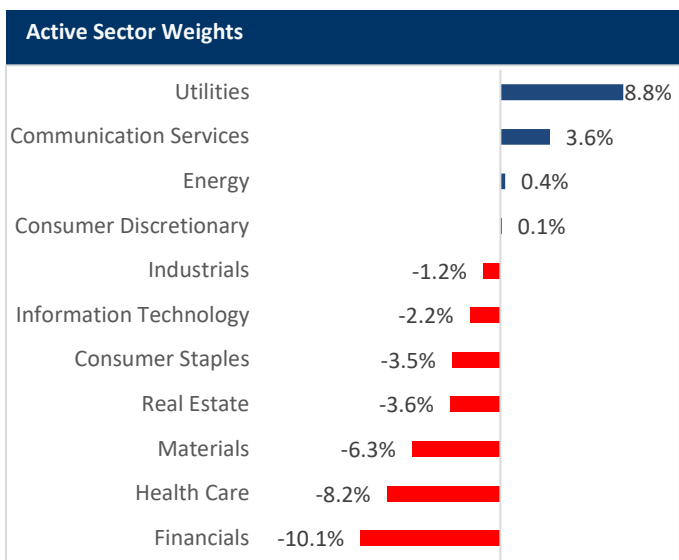


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Characteristics	Fund	Benchmark
Number of stocks	27	300
Portfolio Turnover*	16%	N/A
Volatility (STD DEV) since inception	10.77	13.26
Portfolio Beta (since inception)	0.75	1.00

\*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



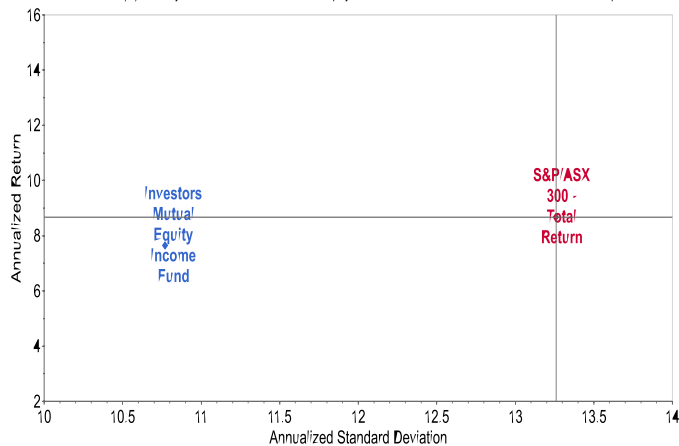
### Portfolio top holdings

Portfolio top holdings	ASX Code
Telstra	TLS
National Australia Bank	NAB
Spark Infrastructure	SKI
Insurance Australia Group	IAG
AusNet	AST
Crown Resorts	CWN
Amcor	AMC
Aurizon	AZJ
Orica	ORI
Tabcorp	TAH

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

### Since Inception Risk Return

12/31 2010 to 07/31/2021 (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	+7.0%	+9.1%

^% 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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