

Investors Mutual Equity Income Fund

Monthly report October 2020

Fund status: OPEN

- ▶ Global sharemarkets finished the month lower following a sell-off in the final week as further lockdowns were announced
- ▶ The Australian sharemarket finished the month higher, buoyed by strength in the Banking and IT sectors
- ▶ We continue to adopt a cautious approach to the sharemarket while looking to selectively deploy some of the Fund's cash

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^] 1-Jan-2011
Income	+0.0%	+1.8%	+6.3%	+7.3%	+7.7%	+8.5%
Growth	+0.7%	-3.0%	-24.9%	-11.6%	-6.6%	-2.4%
Total Return*	+0.7%	-1.2%	-18.6%	-4.3%	+1.1%	+6.1%
Benchmark**	+1.9%	+1.2%	-7.9%	+4.2%	+6.9%	+6.7%

[^]% 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 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/ASX300.

Sharemarket Commentary

Amidst a significant uptick in volatility in the final week of the month, global equity markets finished the month lower, with the MSCI World Index falling -2.7% for the month, following September's -3% loss. All major bourses finished October in the red, unsettled by rising COVID cases through the US and Europe, the reintroduction of new lockdown measures throughout Europe and uncertainty arising from a contested US election. The US S&P500 fell -2.7% over the month, courtesy of a -6% fall in the final week. The tech-heavy Nasdaq index finished -2.3% lower over the month, with the Tech giants leading the sell-off after reporting earnings that failed to impress, coupled with cautious earnings guidance citing renewed pandemic risks. Across the Atlantic, Europe's Stoxx50 and the UK's FTSE100 index shed -7.3% and -4.8% respectively as European Governments reintroduced strict lockdown measures.

Domestically, the Federal Budget highlighted the significant impact of the pandemic on the nation's finances, with a projected deficit of \$214 billion for 2020-21, augmented by a fiscal stimulus package that was more generous than widely expected. Complementing the fiscal spend, the RBA cut rates by 0.15% in early November, taking the cash rate down to a new record low of 0.10%, whilst announcing a further \$100 billion in asset purchases as part of their QE programme.

Despite the -5% slide in the final week of the month, the Australian sharemarket as measured by the ASX300 held on to finish October with a positive return of +1.9%. M&A activity was a significant driver with the likes of Coca-Cola Amatil, Link Administration and AMP all receiving bids from offshore suitors. The major banks enjoyed a solid rebound in October after their sell-off in September, returning over +7% supported by the prospect of loosening responsible lending laws and a reduction in the amount of loans on repayment deferral. The Consumer Staples sector also had a good month, returning +5% as the supermarket chains continue to do well. The IT sector continued its ascent, returning a further +9% over the month, as the 'fear of missing out' trade continued to buoy the likes of Afterpay and WiseTech. On the negative side of the ledger, the Resources sector shed -1.2% in sympathy with weakness in both the oil and iron ore prices.

The **Investors Mutual Equity Income Fund** had a solid month, gaining +0.7%, although this was below the benchmark's return of +1.9%. Many of our core holdings had a lacklustre month with Telstra, Amcor, Orica, Brambles and Aurizon all under pressure although we remain comfortable with all these holdings as they remain attractively priced. Our lower weighting to the major banks also held back our relative performance, however, we remain comfortable with this positioning given the slowing credit growth and continuing squeeze on bank margins as lower interest rates feed through. The local IT sector continues to be significantly overvalued, in our view, and we continue to find much better value elsewhere.

Volatility continued to provide opportunities over the month as the AGM season progressed, as well as market uncertainty ahead of the US Federal election. To supplement income, the Fund tactically used the market swings to write attractive option premiums around its key investments including Brambles, Coles and National Australia Bank.

We continue to focus on companies that, in our view, have a strong franchise, experienced and capable management and a resilient business that can continue to generate healthy cash flows over the next few years. While the Fund's performance has lagged the sharemarket in recent times, we remain comfortable with the overall quality of the stocks in the portfolio and the Fund's positioning going forward.

Level of Franking (%)*	
FY17	53.4%
FY18	27.5%
FY19	39.6%
FY20	36.2%

*As per IFSA Standard

Monthly Movements	
S&P 500	-2.7%
Euro Stoxx 50	-7.3%
Nikkei	-0.9%
ASX 300	+1.9%
AUD/USD	-2.0%
Gold	-0.3%
Oil	-8.5%
Iron Ore	-1.7%

Fund information	
APIR	IML0005AU
Inception	1 Jan 2011
Size	\$528 M
Application	\$0.7582
Redemption	\$0.7544
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	88%
Call Options	-8.4%
Put Options	3.5%
Cash	16.9%

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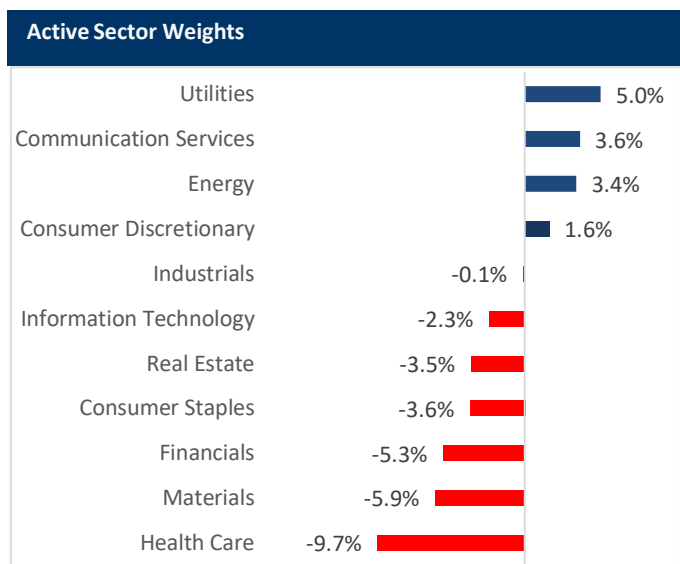
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Characteristics	Fund	Benchmark
Number of stocks	43	300
Portfolio Turnover*	30%	N/A
Volatility (STD DEV) since inception	10.55	13.35
Portfolio Beta (since inception)	0.73	1.00

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

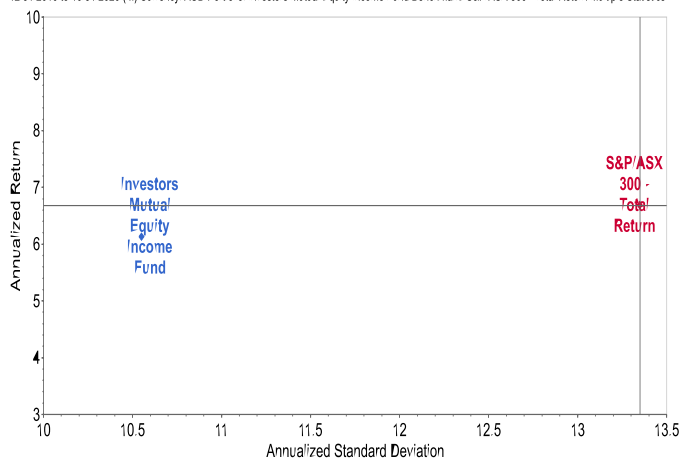


Portfolio top holdings

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

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

Since Inception Risk Return
12/31/2010 to 10/31/2020 (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	+6.1%	+7.9%

^% 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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