

Investors Mutual Future Leaders 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
- ▶ In an unpredictable year, the Fund's ex-50 benchmark was stronger than the broader market gaining +14.5%
- ▶ 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 [^] | 5 Years [^] | Since inception [^] |
|---------------|---------|----------|--------|----------------------|----------------------|------------------------------|
| Total Return* | -0.3% | +11.4% | -3.7% | +0.9% | +4.9% | +9.8% |
| Benchmark** | +3.1% | +15.7% | +14.5% | +8.1% | +12.3% | +9.2% |

[^] 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 (ex. S&P/ASX50, ex LPT)

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 held up in the face of the enormous economic fallout and closure of many parts of the economy. Most governments around the world also embarked on massive fiscal programmes designed to cushion their economies 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, many benefitting from changes in consumer behaviour during the pandemic – as evidenced by the US Technology sector's rise of +43%, which far exceeded the S&P500's +18% gain over 2020. The IT sector's strength 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 ex US did not fare as well, with the European Stoxx 50 declining by -3% while the FTSE100 ended the year down -12%, weighed down by Brexit uncertainties.

Commodity markets experienced a fairly volatile 2020 given all the economic uncertainties. 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 affected 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 and 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 FTSE100 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 severely affected 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 significant quantitative easing helped the local market recover, with the S&P/ASX300 Accumulation Index ending the year up +1.7%.

The Fund's ex-50 benchmark was stronger than the broader market over the year, gaining +14.5% despite experiencing a sharper correction at the onset of the pandemic. The Technology sector did the heavy lifting up +60% driven by AfterPay - the biggest mover of the year, up an astounding +280% - which benefited from 2020's two major trends: investors' infatuation mania for anything tech-related and the pandemic-induced shift to online shopping. This also saw other 'Buy Now Pay Later' (BNPL) players Sezzle, Openpay and Splitit up +195%, +81% and +96% respectively. The Small Resources sector was also strong gaining +17% on the back of stronger iron ore, metal and gold prices. The Consumer Discretionary sector was also a beneficiary, up +7%, 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. 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 -13% for the year in sympathy with the oil price.

The Fund's ex-50 benchmark continued its strong recovery over the final quarter of calendar year 2020, rallying +15.7% as all sectors finished in positive territory. The rebound in the oil price and continued strong commodity prices helped the Resources sector jump +16% over the quarter. Within the Industrials segment, as the success and rollout of vaccines were announced, companies that benefit from a 'return to normality', including shopping malls, entertainment and travel companies, all rebounded strongly in the final quarter. Thus, the Consumer Discretionary sector jumped +11%, with strong performances from companies like WebJet and SeaLink offsetting the declining share prices of online retailers like Kogan and Temple & Webster, which corrected from their highs. The Communication Services sector gained +18%, led by media companies such as Nine Entertainment, Domain and Southern Cross Media as advertising activity improves. The Financial sector also benefitted from the anticipated economic recovery and strong markets, up +24% and technology stocks like Afterpay and WiseTech continued to capture investors' imagination, driving the sector higher.

Fund information

| | |
|--------------------|------------------------------|
| APIR | IML0003AU |
| Inception | 1 May 2002 |
| Size | \$471 M |
| Application (Ex) | \$1.0136 |
| Redemption (Ex) | \$1.0086 |
| Cash | 5.9% |
| Management fee | 0.993% p.a. |
| Investment horizon | 4-5 years |
| Distributions | Semi-annually |
| Managers | Simon Conn Marc Whittaker |

Level of Franking (%)*

| | |
|------|-------|
| FY15 | 25.7% |
| FY16 | 14.2% |
| FY17 | 27.3% |
| FY18 | 30.7% |
| FY19 | 51.2% |
| FY20 | 85.5% |

*As per IFSA Standard

Performance & Strategy

The **Investors Mutual Future Leaders Fund** recorded a disappointing result for calendar year 2020, recording a total return of -3.7%, well below the benchmark's strong return of +14.5% which was buoyed by the ex-50 Resources and Tech sectors. A number of companies held in the portfolio were significantly impacted as a result of national and state-based COVID-19 lockdowns throughout the year which directly affected profitability and thus these companies' share prices. The Fund's very low weighting to the higher risk Resources and IT sectors also impacted our relative performance. Over the year many of our core holdings in well-managed, good quality industrial companies such as Metcash, Pro-Pac and Nine Entertainment did well.

For the final quarter, the **Investors Mutual Future Leaders Fund** posted a strong gain of +11.4%, although this was behind the benchmark's gain of +15.7%. The Fund benefited from several of its holdings such as Home Co and Southern Cross Media enjoying a strong quarter as well as from takeovers offers for Regis Healthcare and Vital Harvest. Highly cyclical sectors such as Technology and Resources sectors rallied significantly over the final quarter thus holding back our relative performance.

We used strength in the share prices of companies such as Nine Entertainment, Sealink and Centuria to trim positions and lock in some profits over the quarter. We deployed some of this cash to participate in a number of capital raisings over the quarter including Bega Cheese, which raised \$401m to acquire Lion Dairy & Drinks and which will position the company as a leading branded consumer packaged goods business. The Fund also deployed funds to add Hipages to the portfolio. Hipages, which listed on the ASX in November, is 25% owned by News Corp and operates the leading online platform connecting 'tradies' to customers. We also topped up our holdings in high calibre companies, such as Metcash, during the quarter, adding to our positions at attractive valuations in companies which in our assessment should do well over the next 3 to 5 years.

Stock stories

Virgin Money UK (VUK) performed strongly, with the share price jumping +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 funds, trading at a substantial discount to book value, in stark contrast to the Australian major banks.

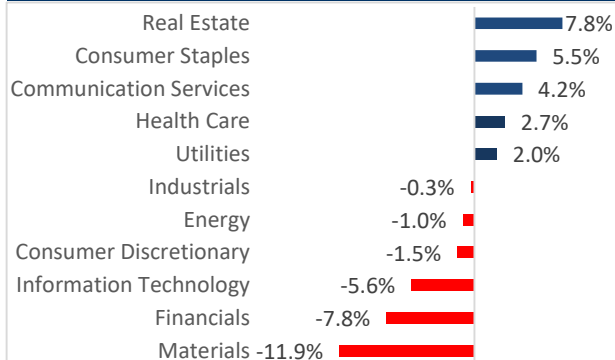
Event Hospitality and Entertainment (EVT) experienced a volatile December quarter, rising alongside the travel stocks as part of the "reopening trade" before falling in December when the company announced that the sale of its German cinema operations had fallen through. The outlook for Event should steadily improve in 2021 given expectations for a boom in domestic tourism and a strong film slate given many blockbusters originally planned for 2020 have been pushed back. Event's valuation is underpinned by its \$2bn property portfolio, with material development upside at its two sites on George Street in Sydney. At its current share price investors are effectively paying nothing for the earnings from the entertainment and hospitality businesses, giving us confidence in retaining Event as a core holding despite near term earnings headwinds.

Southern Cross Media (SXL) shares rebounded in the December quarter along with the rest of the media sector as advertising conditions improved with the easing of restrictions on movement. Radio advertising was flat year-on-year on December indications suggest that these green shoots should continue into early 2021. We also see the potential for revenue upside if SXL's new Sydney breakfast team of Erin Molan, Dave Hughes and Ed Kavalee finds ratings traction. SXL is generating positive cashflow and has a strong balance sheet after raising equity in March.

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. 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.

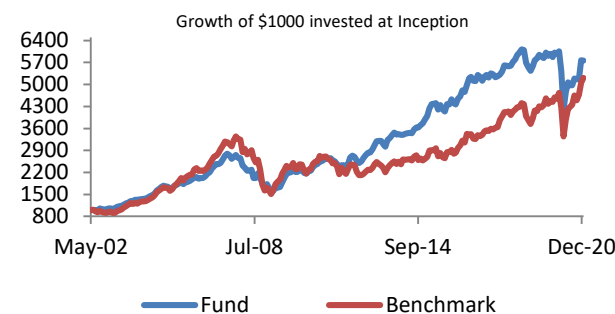
Sector Active Weights



Portfolio top holdings

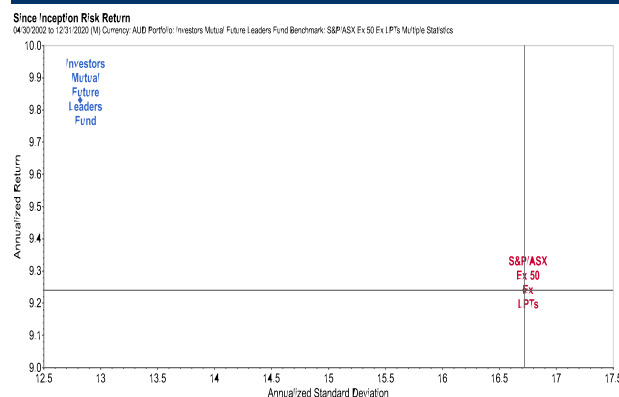
| Portfolio top holdings | ASX Code |
|--------------------------------------|----------|
| Pact Group | PGH |
| Crown Resorts | CWN |
| Australian Pharmaceutical Industries | API |
| Tabcorp | TAH |
| Home Consortium | HMC |
| SG Fleet | SGF |
| Integral Diagnostics | IDX |
| Event Hospitality and Entertainment | EVT |
| Southern Cross Media | SXL |
| Skycity Entertainment | SKC |

Since Incept. Cumulative Perf. Fund vs Benchmark*



*S&P/ASX 300 Accumulation Index (ex. S&P/ASX50, ex LPT), Source: IML

Since Incept. Risk Return Fund vs Benchmark*



*S&P/ASX 300 Accumulation Index (ex. S&P/ASX50, ex LPT), Source: Factset

🏠 iml.com.au 📞 1300 551 132 📧 iml@iml.com.au

Disclaimer: While the information contained in this report has been prepared with all reasonable care, Investors Mutual Limited accepts no responsibility or liability for any errors or omissions or misstatements however caused. This is general securities information only and is not intended to constitute a securities recommendation. This information does not account for your investment objectives, particular needs or financial situation. Past performance is not indicative of future performance. Investors Mutual Limited (AFSL 229988) is the issuer of the Investors Mutual Future Leaders Fund. Applications can only be made by reference to the current Product Disclosure Statement, or through IDPS products that include these Funds. The Product Disclosure Statement can be obtained by contacting Investors Mutual or at <http://www.iml.com.au/how-to-invest/pds-and-forms>. Potential investors should consider the Product Disclosure Statement before deciding whether to invest, or continue to invest in the Fund.