

Investors Mutual Future Leaders Fund



Monthly Report January 2022

Fund status: OPEN

- ▶ Global sharemarkets endured a challenging start to 2022 as investors weighed the prospect of higher interest rates
- ▶ The Fund's ex50 benchmark also had a weak start to the year with a broad-based sell off
- ▶ 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*	-6.5%	-6.3%	+16.1%	+5.9%	+4.8%	+10.1%
Benchmark**	-8.8%	-6.3%	+8.3%	+12.7%	+10.8%	+9.1%

[^]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

Global equity markets endured a tough start to the year with the MSCI World index falling -4.6% as the prospect of higher interest rates eroded investor enthusiasm for riskier assets. The US S&P500 endured its worst month since March 2020 and the worst start to the year since 2009, retreating -5.2%. The richly valued, tech-heavy and oft-times speculatively driven NASDAQ index fell -9.0%, with previous high-flyers such as Netflix and Tesla all falling heavily. In a clear sign of the challenges ahead for the concept-driven, speculative end of town, the poster child of the boom Cathie Wood's Ark Innovation ETF shed close to 30% of its value in January. Across the Atlantic Europe's Stoxx50 was a touch more resilient falling -2.7% given its lower weighting to both tech and 'new economy' stocks, whilst Japan's Nikkei fell heavily, down -6.2%.

The sharemarket declines have come about as investors reacted to signs that central banks around the world are planning to raise interest rates faster and more aggressively to combat surging inflation. Headline US CPI reached 7% in December, the highest rate since the 1980's. Additionally the proportion of companies raising their prices to pass onto consumers is at a 40-year high. The US Federal Reserve signalled its intent to hike interest rates as early as March with several investment houses such as Goldman Sachs and JP Morgan predicting that the Fed Funds rate will increase four times during 2022.

Commodity markets enjoyed a strong month with the iron ore price jumping +24% to a 5-month high on the prospect of further Chinese stimulatory measures to help prop up China's flagging economy as the Government's zero covid policy continues. The oil price jumped +17% as supply and demand imbalances persist following a lack of investment in production through the pandemic, coupled with demand increases as lockdowns and travel restrictions ease.

The Fund's ex50 benchmark endured a challenging month falling -8.8%. All sectors finished in negative territory, with the exception of the Utilities sector which, finished in positive territory thanks to AGL which was higher as it looks set to benefit from the expected increase in electricity prices. Within the ex50 Resources segment the Energy sector proved most resilient thanks to higher oil prices, while the Materials sector fell -6.5% courtesy of much of the speculative fare, such as the lithium and rare earths plays all selling off heavily. In the Industrials side of the Australian ex50 market, the local Information Technology sector fell -15% as a dose of reality set in on many of the seemingly exciting 'concept' stocks as investors reassessed the valuations attached to many of these companies. The Healthcare sector also had a challenging month shedding -17% with higher bond rates impacting the valuations of many stocks in the sector, including the story driven 'medtechs.' The Consumer Discretionary sector shed -9% as many online retailers came under significant pressure, and 'new age' wagering companies such as PointsBet and Betmakers were also sold down aggressively. Finally, the Financials sector had a month to forget falling -10% with both the listed fund managers and platform providers coming under significant pressure given their exposure to financial markets.

The **Investors Mutual Future Leaders Fund** shed -6.5% in January which, while disappointing, was far better than the benchmark's fall of -8.8%. Our focus of only investing in stocks that we believe offer both value and quality held the portfolio in good stead, due in part to our zero weighting in the speculative and concept driven segment of the market which was badly hit. The portfolio benefited from its holdings in good quality companies such as Crown Resorts (under takeover), Orica, AusNet (under takeover), Virgin Money and Tassal. Detractors over the month included Australian Clinical Labs which was affected late in the month by the expectation that covid testing volumes had peaked, although the company remains well positioned within the growing pathology sector and we are comfortable holding the stock at current levels. Over the month we exited our position in Santos (now top 50) and took part-profits in stocks such as Steadfast and Australian Clinical Labs (early in the month) given their strong runs. We used the proceeds to top up opportunistically in good quality companies which fell to attractive levels over the month including Pact Group, Codan, Orica, TPG Telecom and Bank of Queensland, all of which we believe offer very strong long-term value.

Central banks around the world seem poised to raise interest rates in reaction to CPI numbers which have reached levels the world has not seen in almost 40 years. Whilst headline inflation levels will eventually normalise, it is now becoming increasingly evident to many investors that the prospect of ultra-low interest rates could soon be a thing of the past. We believe that in this environment, the worst impacted will be many high-flying, concept and often purely speculative parts of the sharemarket – many of which were buoyed in the last few years by speculators using this cheap money.

We have always steered away from the riskier parts of the sharemarket and have remained focused on identifying and holding only what we assess to be good quality, well-managed companies in leading industry positions. While interest rates will increase from their current historic lows, economic growth remains firm, and in this environment companies which generate good cashflows and dividends and that can maintain margins by passing on higher input prices to customers, should continue to do well over the next 3-5 years.

Level of Franking (%)*	
FY17	27.3%
FY18	30.7%
FY19	51.2%
FY20	85.5%
FY21	101.6%

*As per IFSA Standard

Monthly Movements	
S&P 500	-5.2%
EuroStoxx50	-2.7%
Nikkei	-6.2%
ASX Small-Mid Index	-8.8%
AUD/USD	-3.1%
Gold	-0.6%
Oil	+17.3%
Iron Ore	+23.7%

Fund information	
APIR	IML0003AU
Inception	1 May 2002
Size	\$458 M
Application	\$1.1319
Redemption	\$1.1263
Cash	2.1%
Mngmnt fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Managers	Simon Conn Marc Whittaker

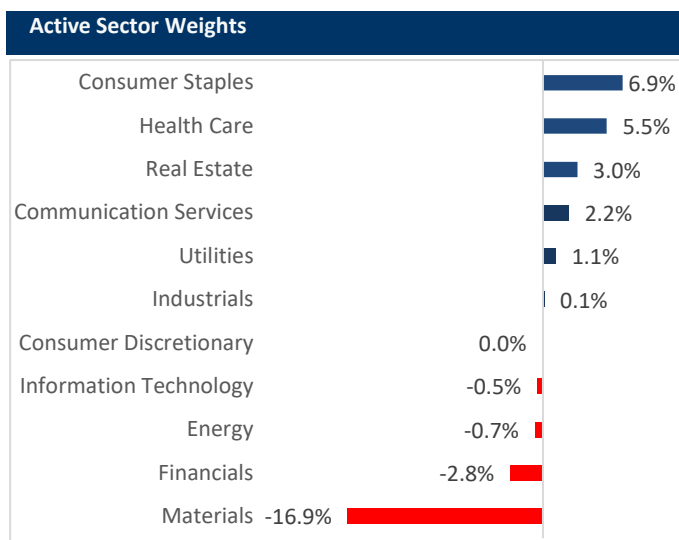
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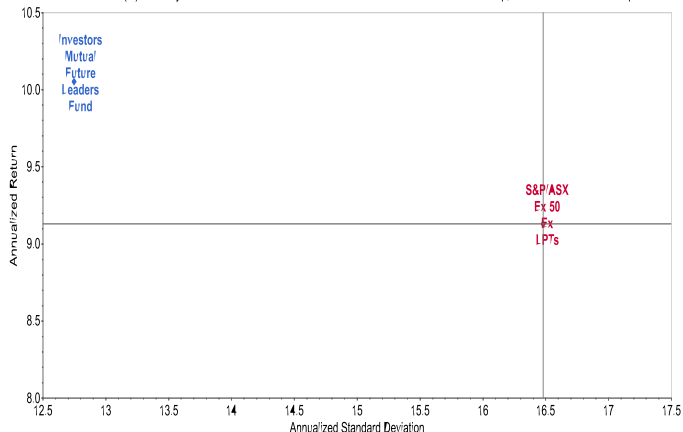
Characteristics	Fund	Benchmark
Number of stocks	75	222
Portfolio Turnover*	42%	N/A
Annualised Tracking Error	8.35	N/A
Volatility (STD DEV) since inception	12.75	16.48
Portfolio Beta (since inception)	0.67	1.00

*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



Since Incept. Risk Return - Fund vs Benchmark*

Since Inception Risk Return
04/30/2002 to 01/31/2022 (M) Currency: AUD Portfolio: Investors Mutual Future Leaders Fund Benchmark: S&P/ASX Ex 50 Ex LPTs Multiple Statistics



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

Researcher	Rating
Morningstar	Silver
Lonsec	Contact IML for the most recent rating
Zenith	Recommended

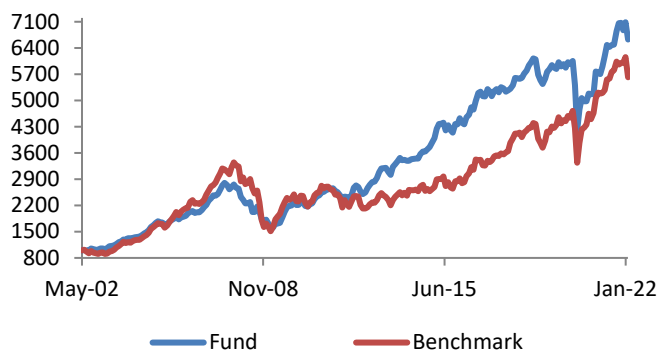
Portfolio top holdings

Portfolio top holdings	ASX Code
Crown Resorts	CWN
Australian Pharmaceutical Industries	API
AusNet	AST
TPG Telecom	TPG
Pact Group	PGH
SG Fleet	SGF
Bega Cheese	BGA
Nine Entertainment	NEC
Bank of Queensland	BOQ
Infomedia	IFM

Source: IML

Since Incept. Cumulative Perf. Fund vs Benchmark*

Growth of \$1000 invested at Inception



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



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