Future Leaders Fund - Quarterly Report

December 2022

The **Investors Mutual Future Leaders Fund** provides exposure to an actively managed portfolio of quality ASX listed Australian shares outside the Top 50. The Fund aims to provide attractive investment opportunities for investors seeking medium to long term capital growth with income.

	1 month	3 months	1 year	3 years^	5 Years^	10 years^	Since inception^
Total Return*	-2.9%	-1.0%	-20.1%	-1.8%	+0.2%	+6.8%	+8.8%
Benchmark**	-4.3%	+6.9%	-12.0%	+6.0%	+5.6%	+8.7%	+8.5%

*^% 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 a reliable indicator 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 (excluding S&P/ASX50, excluding Property Trusts).*

Fund Performance

- The Future Leaders Fund had a disappointing quarter, recording a -1.0% decline, which was significantly behind the benchmark's return of +6.9%. The main reasons for the disappointing relative performance were poor performances by some key holdings, as well as another strong quarter for resources stocks where we remain cautious given their cyclical nature. For the calendar year, the fund lagged the benchmark, declining -20.1% compared to the benchmark's drop of -12.0%, with the small Resources sector (-8.4%) holding up much better than the small Industrials sector (-24.4%) in a very difficult year for small cap stocks.
- The MSCI World Index rose +7.5% for the quarter, thanks to strong gains in October-November, although global markets dipped again in December as concerns resurfaced about the global economy slowing in 2023 as interest rates continued to rise around the globe.
- The small-mid cap sector's -12.0% calendar year fall was a significant underperformance on the ASX 300's drop of -1.8% for 2022. This reflects investors' preference for the more liquid, larger-cap companies as investors reduced their small cap exposure given elevated uncertainty with high inflation, rising interest rates and a slowing global economy. Impacting the Fund's returns were disappointing performances from some of our key holdings such as Pact, Codan and Mayne Pharma, after giving disappointing trading updates. At current valuations we believe that a significant amount of bad news has now been priced in for many of our small industrial holdings and we remain confident in the Fund's long-term prospects.
- Offsetting the losses were gains by some key holdings. Kelsian was up after it won a new contract in SW Sydney, renewed its adjoining existing contract, and expanded its Australian footprint by acquiring Horizon West to build out its WA operation. Orica rose strongly after announcing a strong FY22 result. Readytech's share price increased after a takeover proposal from Pacific Equity Partners (PEP), although PEP pulled out late in the quarter the stock still finished up on confirmation that current trading remains robust.
- Over the quarter, we took advantage of the volatility to trim our positions in Myer, Ridley and Regis Healthcare, while we increased our weighting in Integral Diagnostics, Bega and ACL on share price weakness.

Outlook

- Given that inflation remains high in most parts of the world, and interest rates remain elevated, we believe sharemarkets will remain volatile given the ongoing uncertainty. While inflation appears to be peaking in some parts of the world, the impact on corporate earnings from higher interest rates and slower economic growth is yet to be fully reflected in many companies' earnings expectations.
- In the small cap sector, where many industrial stocks have already dropped significantly, we believe our Funds are well positioned given the attractive valuations available and our focus on quality.

Stocks in Focus

- **Orica (ORI)**, the world's leading explosives manufacturer, rebounded following a strong FY22 result. Underlying NPAT (Net Profit After Tax) was up over 50%, following a weaker FY21 due to Covid-related and Australian coal export restrictions. With explosives' prices now trading materially above Orica's currently contracted prices we expect the company to benefit greatly in coming years from increased margins as contracts roll-over to higher prices, as well as increased demand as Covid restrictions ease.
- **Aurizon (AZJ),** Australia's largest rail freight operator, had a solid quarter due to continued high coal prices and strong underlying demand. While extremely wet weather means the company may miss its FY23 coal volume guidance, this should not be significant as most of its volume is on a take or pay basis. More significantly, late in the quarter it announced the sale of its East Coast Rail (ECR) business for c$925m, slightly above market expectations. This is a very good result as it vastly improves AZJ's balance sheet and allows it to continue to invest in growing its bulk business and diversifying away from coal. The sale of ECR means the company can increase its dividend levels in the years ahead, putting the stock on a dividend yield of around 7%, with a high component of franking.
- **Bega (BGA),** one of Australia's leading branded dairy and food companies - owner of Vegemite, Pura Milk many others - rallied over the quarter. It confirmed at October's AGM that the price rises it required to recover the significant increase in costs incurred in late FY2022 had been fully phased through the market. While the impact of the cost increases will impact the first half of the FY2023 result these price increases should lead to a much improved second half result. It also flagged the potential for further business efficiencies and cost out programs which will assist future earnings growth.

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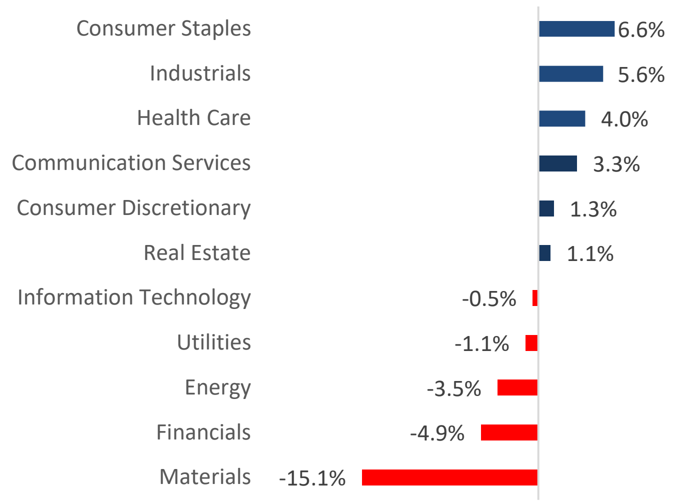
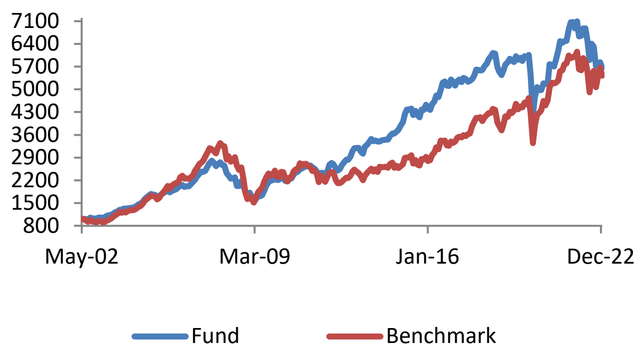
Active Sector Weights



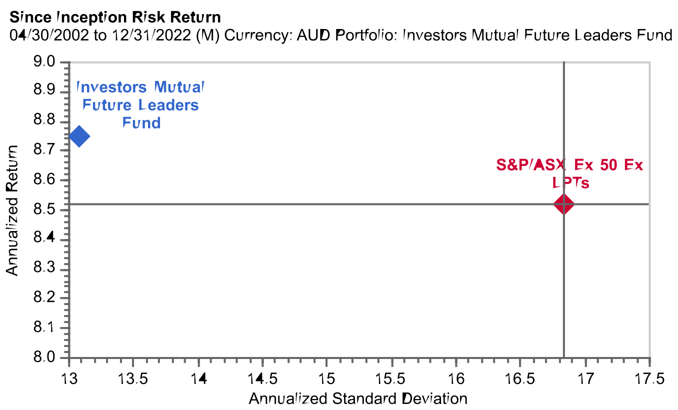
Top 10 Holdings

Top 10 Holdings	ASX code
Aurizon	AZJ
Bega	BGA
Skycity	SKC
Orica	ORI
Ampol	ALD
TPG	TPG
Integral Diagnostics	IDX
SG Fleet	SGF
Kelsian	KLS
Bank of Queensland	BOQ

Growth of $1,000 Invested at Inception



Fund Risk-Return vs Benchmark



Since inception: 1 May 2002: Cumulative performance of the Fund vs its benchmark; Benchmark = S&P/ASX 300 Accumulation Index (ex S&P/ASX50, ex LPT),, Source: IML,Factset

Fund Facts

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ARSN	093 182 828
APIR	IML0003AU
Inception	1 May 2002
Benchmark	S&P/ASX 300 Accumulation Index (excluding S&P/ASX50, excluding Property Trusts)
FUM	$324 M
Investment Horizon	4-5 years
Minimum Initial Investment	A$50,000
Minimum Additional Invt/ Redemption	A$5,000
Distributions	Generally semi-annual
Asset Classes and Allocation Range	Aust Equities (80-100%) Cash (0-20%)
Management Fee: 0.993% p.a. of the net assets of the fund (includes GST)	
Performance Fee: 15.375% of the change in value of the Redemption Price that exceeds the change in the value of the Fund's Benchmark (includes GST)	

Portfolio Characteristics

Portfolio Characteristics	Fund	Benchmark
No. of stocks	62	225
Portfolio turnover[1]	27%	NA
Portfolio Beta (since inception)	0.68	1.00

Franking level (%)[2]

FY22	FY21	FY20	FY19	FY18
20.8%	101.6%	85.5%	51.2%	30.7%

Fund Ratings

Morningstar	Silver
Zenith	Recommended
Lonsec	Recommended **Visit lonsec.com.au/logo-disclosure for important information about this rating*

[1]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
[2] As per FSC standard.

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