

# Investors Mutual Future Leaders Fund



Quarterly Report June 2021

Fund status: OPEN

- ▶ Global sharemarkets enjoyed one of their strongest 12-month periods on record as economies around the world reopened
- ▶ The Fund's ex-50 benchmark produced a positive return for quarter and financial year
- ▶ 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>
Total Return*	+0.8%	+4.8%	+30.3%	+3.0%	+6.4%	+10.2%
Benchmark**	+3.3%	+9.3%	+34.8%	+10.6%	+12.8%	+9.6%

<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 (ex-S&P/ASX50, ex-LPT)

## Sharemarket Commentary

Global sharemarkets enjoyed one of the strongest 12-month periods on record, with the MSCI World Index returning +37%, bouncing back strongly from the COVID-19-fuelled large selloff in the March quarter of 2021. The global benchmark rose in 10 out of the past 12 months and by so doing set new record highs through the year to June. The US led the way for sharemarket gains, with the S&P500 Index returning +40%, while the tech-heavy NASDAQ Index gained +45%, with both indices posting fresh record highs throughout the year. Across the Atlantic the mood was a little less ebullient and slow to kick off with the continent continually beset by lockdown measures as COVID-19 cases continued to flare up. However, Europe's Stoxx50 Index managed to recover to return +28% in the year to June. Similarly, Japan's Nikkei Index returned +31% for the same period.

Global sharemarkets have been riding a wave of optimism over the past 12 months, as both central banks and governments around the world unleashed record levels of spending and unconventional policies to drive the economic recovery. Joe Biden's victory over Donald Trump eased much of the political uncertainty in the US and cleared the path for significant fiscal expansion by way of a US\$2 trillion infrastructure bill, as well as US\$1,400 stimulus cheques to most households. In Australia, the Federal Government introduced the JobKeeper and JobSeeker subsidies, which were extended until March 2021, accompanied by the Reserve Bank of Australia's own asset purchasing program while cutting interest rates to near zero. Additionally, the unexpectedly fast development and subsequent rollout of vaccinations from November onwards allowed some economies to reopen, with the prospect of more to come accelerating a recovery in many cyclical sectors. With monetary and fiscal policy settings maintained at emergency levels while economies recover, inflationary concerns have begun to reappear, reflected in the global core inflation data, which reached quarter of a century high levels over the six months to June.

Commodity prices enjoyed a very strong year with record price appreciation across iron ore and many base metals. The iron ore price rose +110% to push above US\$230/tonne, supported by supply constraints out of South America due to COVID-induced mine closures and record Chinese steel production, a direct beneficiary of China's fiscal stimulus. Base metals and rare earth prices enjoyed one of their strongest years on record as investors chased anything associated with the electrification of the economy. The oil price also recovered strongly, gaining +80% over FY21, buoyed by a combination of OPEC-driven production cuts and economies reemerging from lockdowns. Conversely, the gold price had a lacklustre year, finishing slightly lower and reflecting investors' diminished risk aversion.

Domestically, the Australian sharemarket as measured by the S&P/ASX300 Index enjoyed its best financial year in over three decades, returning +28.5%, allowing the market to set fresh record highs in May. The Fund's ASX300 ex-50 ex-LPT benchmark similarly enjoyed a strong financial year, returning +34.8%.

Sector performance was mixed. The Small Resources sector returned +34%, driven primarily by the copper and rare earth miners, on the electrification of the economy theme. Within the Industrials segment of the Small Ordinaries, Consumer Discretionary led the way and returned +58%, with many companies tied to domestic travel and tourism enjoying stellar rebounds, such as ARB, AP Eagers, Corporate Travel, SeaLink Travel, SkyCity Entertainment, and Webjet. The Financials were also strong. Virgin Money UK rebounded strongly, returning +141% for financial year 2021 after posting stronger than expected profits and benefitting from ongoing improvement in the UK economy, notwithstanding the firm's significant discount to book value. Many of the listed fund managers and platforms also enjoyed a strong rebound as financial markets stabilised through the year. The local IT sector proved comparatively lacklustre over FY21, returning +15% following a significant correction in the March quarter as investors became more discerning in assessing valuations in the sector as bond yields pushed higher. Healthcare was similarly soft, returning +10%, with several 'med-tech' names coming off the boil in a similar vein to much of the speculative froth in the IT sector.

The S&P/ASX Small Ordinaries Index returned +8.5% in the June quarter. The Resources sector returned +14%. A solid rebound in the oil price benefitted the energy producers. Within the industrials, the local Technology sector returned +10%, following a significant correction in the wake of the re-emergence of inflationary concerns and the resultant spike in bond yields earlier in 2021. Similarly, Financials enjoyed a strong quarter, up +14%, the listed fund managers the direct beneficiary of more audacious financial conditions. The Real Estate sector was similarly buoyant, returning +10%. On the negative side of the ledger, Consumer Staples shed -3%. This was primarily the result of Costa Group's -29% fall after the company disclosed guidance for financial year 2021 which fell well short of investor expectations, largely the result of weakness in the firm's domestic citrus division and a stronger \$A affecting export volumes.

## Fund Information

APIR	IML0003AU
Inception	1 May 2002
Size	\$489 M
Application (Ex)	\$1.1341
Redemption (Ex)	\$1.1285
Cash	3.8%
Management fee	0.993% p.a.
Investment horizon	4-5 years
Distributions	Semi-annually
Managers	Simon Conn Marc Whittaker

## Level of Franking (%)\*

FY16	14.2%
FY17	27.3%
FY18	30.7%
FY19	51.2%
FY20	85.5%
FY21	101.6%

\*As per FSC Standard

## Performance & Strategy

The **Investors Mutual Future Leaders Fund** posted a positive return of +30.3% over the financial year, although this was behind the Fund's ASX300 ex-LPT ex-50 benchmark's return of +34.8%. The market was very volatile over the past year, and the rallies in the more speculative or cyclical sectors such as Technology and Resources held back our market-relative performance. Our portfolio's positioning in more defensive companies weighed on the Future Leaders Fund's market-relative return, although we remain very comfortable with the Fund's positioning.

Our positions in good quality companies such as HomeCo, SG Fleet, Nine Entertainment, Virgin Money UK, Pact Group, Imdex, Tabcorp, and Vitalharvest all served the portfolio well following strong share price appreciation.

The Fund paid a distribution of 0.6867 cents per unit for the June half, taking the total distribution for the financial year to 1.6867 cents per unit representing a full-year distribution yield of 1.91%.

Over the final quarter of FY20, the Fund returned a solid +4.8%, although this was below the benchmark's strong return of +9.3%. Over the June quarter, the Fund benefited from its holdings in good quality industrials such as HomeCo, SG Fleet, Hipages, United Malt, TPG Telecom, Brickworks and Steadfast, while Bega Cheese, McPhersons, and API lagged.

Over the quarter we trimmed our exposures to stocks such as Centuria, Healius, Event Hospitality & Entertainment, HomeCo, and Orora, following strong share price appreciation. We used the funds generated from these sales to top up in good quality companies such as TPG Telecom, API, and Infomedia, which in our opinion all represent compelling valuations, especially given their medium to long-term prospects, which the market is yet to appreciate.

## Stock Stories

**Hipages** (HPG) is the largest online marketplace for trade services in Australia. The company is benefitting from soaring demand for tradies as well as the increasing digitisation of trade businesses, which is driving increasing usage of the platform. Similarly to other more mature online verticals such as cars and real estate, HPG benefits from strong network effects, whereby more jobs attract more tradies, which in turn attracts more jobs. We expect the launch of the company's Tradiecore field service software product to further increase engagement on the platform and drive continued above 20% revenue growth into financial year 2022.

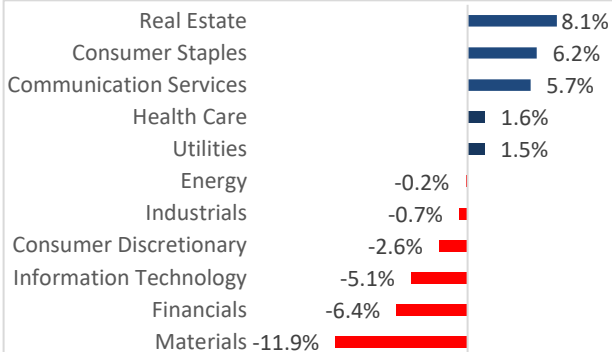
Vehicle fleet manager **SG Fleet** (SGF) was a strong performer during the quarter, up +17% as the company undertook a transformational acquisition of a leading competitor, LeasePlan, for \$387m. The deal, funded by a combination of debt, scrip, and equity, was partly funded by a rights issue in which IML participated. The deal improves the quality of SG Fleet's business significantly. It makes SG Fleet the leading fleet and novated leasing provider in Australia with over 250,000 vehicles and increased scale benefits around funding and procurement costs and funding mix. Management has also indicated the opportunity to take out at least \$20m in cost synergies over the next two to three years, and the deal is estimated to be +20% earnings accretive in the third year after completion.

## Outlook

Sharemarkets around the world, including Australia's, remain well-supported as economic growth continues to rebound from COVID-19 lows and central banks continue to hold interest rates at low levels, despite increasing signs of rising inflationary expectations.

The Australian sharemarket is now trading at close to 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 firmly believe can do well over the next 3-5 years.

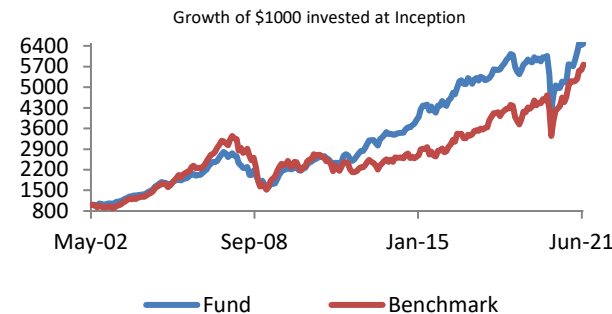
## Sector Active Weights



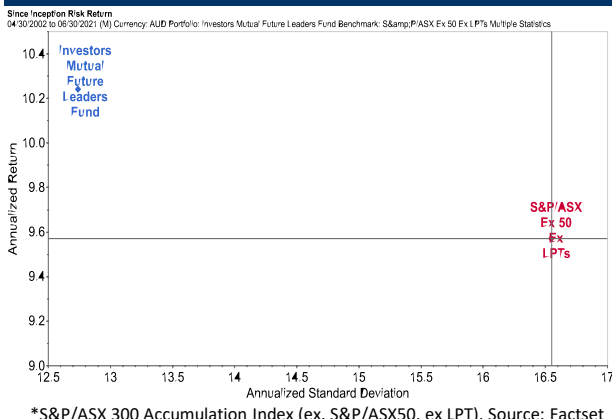
## Portfolio Top Holdings

Portfolio Top Holdings	ASX Code
Crown Resorts	CWN
Pact Group	PGH
Tabcorp	TAH
SG Fleet	SGF
AusNet	AST
Australian Pharmaceutical Industries	API
SkyCity Entertainment	SKC
Nine Entertainment	NEC
Event Hospitality & Entertainment	EVT
Metcash	MTS

## Since Incept. Cumulative Perf. Fund vs Benchmark\*



## Since Incept. Risk Return Fund vs Benchmark\*



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