

# Investors Mutual Australian Smaller Companies Fund



Monthly report February 2021

Fund status: OPEN

- Global sharemarkets endured a fairly volatile month with an uptick in bond yields unnerving some investors
- The Fund's ex-100 benchmark gained +2.1% with a solid 1H21 reporting season tempered by a spike in bond yields
- 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 <sup>^</sup>	Since inception <sup>^</sup>
Total Return*	+2.1%	+1.2%	+13.2%	+4.9%	+7.9%	+13.4%
Benchmark**	+2.1%	+5.2%	+21.8%	+7.2%	+12.1%	+6.5%

<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 Small Ordinaries Index (ex LPT)

## Sharemarket Commentary

A surge in bond yields late in the month caused volatility in global equity markets as investors grew increasingly wary about the potential for higher inflation. Yields on US 10-year bonds experienced one of their largest monthly spikes in modern times, rising 0.5% to a 12-month high of 1.4%. There are growing fears that central banks may have to raise interest rates earlier than expected, driven by the recovery in global economic activity, optimism about the COVID-19 vaccine rollout, the passing of President Biden's US\$1.9 trillion stimulus package, and the significant amount of easy money sloshing through the system.

Despite shedding -3% in the final week of the month, the MSCI World Index still finished the month up +2.4%. Similarly, the US S&P500 Index finished the month +2.7% higher, setting a new record high before inflationary fears sent ripples through the market. The tech-heavy NASDAQ Index finished the month only slightly higher after shedding -7% during a difficult final week of the month.

In Australia, the 10-year bond yield jumped over +0.7% to 1.9%, its highest level in nearly two years. Commodities all ended higher thanks to US\$ weakness and optimism over world growth as COVID-19 is brought under control. The iron ore price rallied a further +10%, while oil gained +18% over the month, returning to pre-pandemic levels, spurred on by the announcement of Saudi production cuts and improving demand. Similarly, the copper price jumped +16% on expectations of increasing demand. However, the gold price finished the month down -6%. The broader Australian sharemarket as measured by the S&P/ASX300 Index finished the month up +1.5%, with the rise in bond yields offsetting a solid reporting season for the first half of financial year 2021.

The Fund's ex-100 benchmark was stronger than the broader market, finishing the month +2.1% higher, with mixed performances across the sectors. The ex-100 Resources sector gained +2.2%, with strength in the Energy sector offsetting weakness among the gold miners, which fell in sympathy with the gold price. The Financial sector enjoyed a strong month, gaining +7%, supported by rising yields as well as positive trading updates from a number of companies. These included Virgin Money UK, which gained +39% as investors became increasingly encouraged by the firm's asset quality combined with the ample provisioning. 'Buy now pay later' provider Zip Co had a very strong month, despite falling -25% late in the month as higher bond yields weighed on its ritzy valuation. The Consumer Staples sector had a solid month, with soft commodity plays including Bega Cheese and Costa finishing higher following positive updates. In contrast, infant formula companies including Bubs and Synlait fell in response to a weak update from A2 Milk, which faces ongoing challenges in its Chinese daigou sales channels.

The *Investors Mutual Australian Smaller Companies Fund* enjoyed a strong month, gaining +2.1% in line with the benchmark's return. Our holdings in good quality companies such as Pact Group, Pro-Pac Packaging and Nine Entertainment were all strong over the month following solid interim results. We trimmed our positions in strongly-performing stocks such as Home Consortium and Integral Diagnostics over the month, using the proceeds to top up our holdings in good quality companies such as Healius.

Following the release of results for the first half of financial year 2021, the sharemarket remains focused on the speed and strength of the economic recovery and the impact on inflation going forward. With many parts of the economy, such as retail sales and house prices, showing continued strength, sharemarkets will continue to monitor inflationary expectations, bond markets and central bank intentions. Any signs of inflation in published data moving forward will have an impact on sharemarkets.

While the worst of the COVID disruptions appears to be abating in many parts of the world, the strength of the recovery and the direction of interest rates remain closely watched. As such, we continue to focus on good quality companies which are well-managed and which we believe can do well over the next 3 - 5 years and which represent sound long-term value.

## Level of Franking (%)\*

FY16	14.0%
FY17	25.8%
FY18	31.5%
FY19	44.7%
FY20	71.2%

\*As per IFSA Standard

## Monthly Movements

S&P 500	+2.8%
Euro Stoxx 50	+4.6%
Nikkei	+4.8%
ASX Small Ords EX LPT	+2.1%
AUD/USD	+0.9%
Gold	-6.5%
Oil	+18.3%
Iron Ore	+10.1%

## Fund information

APIR	IML0001AU
Inception	30 Jun 1998
Size	\$159 M
Application	\$1.7867
Redemption	\$1.7777
Cash	5.7%
Management fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn Marc Whittaker

# Investors Mutual Australian Smaller Companies Fund

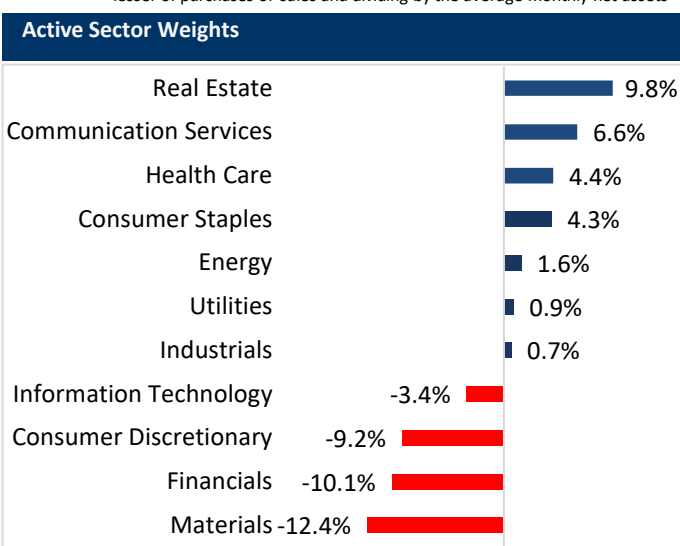


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Characteristics	Fund	Benchmark
Number of stocks	68	180
Portfolio Turnover*	42%	N/A
Annualised Tracking Error	11.00	N/A
Volatility (STD DEV) since inception	13.55	18.23
Portfolio Beta (since inception)	0.59	1.00

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

\*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

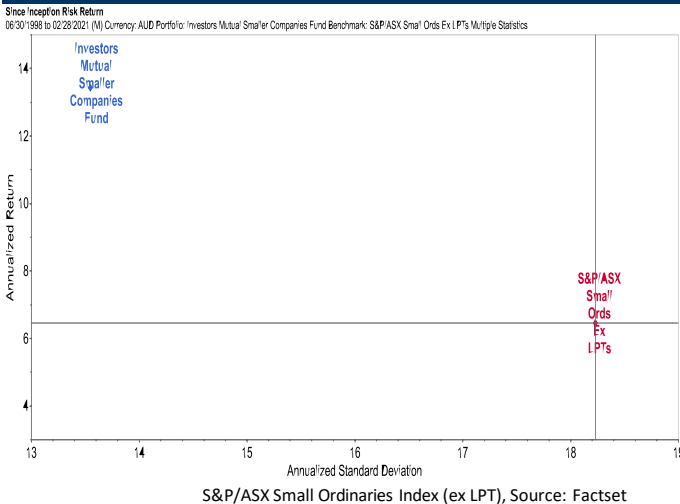


### Portfolio top holdings

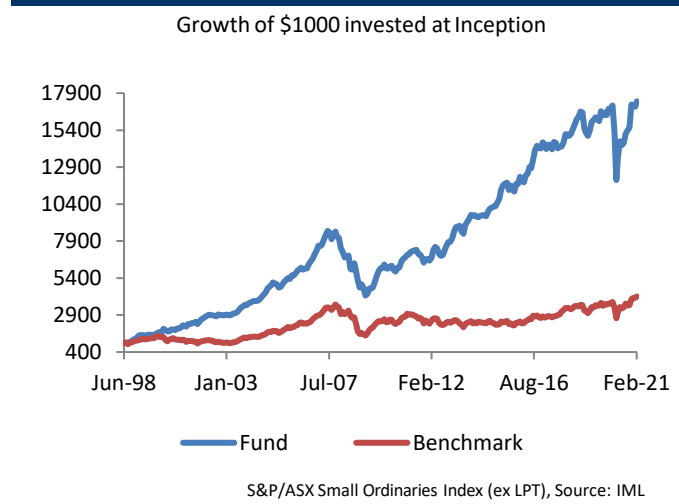
Portfolio top holdings	ASX Code
Pact Group	PGH
Pro-Pac Packaging	PPG
Skycity Entertainment	SKC
Event Hospitality and Entertainment	EVT
SG Fleet	SGF
Bega Cheese	BGA
Australian Pharmaceutical Industries	API
Home Consortium	HMC
Southern Cross Media	SXL
Integral Diagnostics	IDX

Source: IML

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



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



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