

# Investors Mutual Australian Smaller Companies Fund



Quarterly Report December 2021

Fund status: OPEN

- ▶ Global sharemarkets enjoyed a strong year thanks to ongoing stimulatory policies and economies reopening
- ▶ The Fund's ex-100 benchmark had a good year returning +15.5% in CY21, albeit with mixed sector performance
- ▶ 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*	+2.5%	-0.2%	+22.7%	+11.8%	+7.5%	+13.8%
Benchmark**	+0.5%	+1.2%	+15.5%	+15.9%	+10.9%	+6.8%

<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

Global equity markets delivered their third consecutive year of double-digit gains in 2021, with the MSCI World Index returning +21% for the calendar year as the world started to re-emerge from government-imposed lockdowns. Central banks around the world continued with their very accommodative monetary policies keeping interest rates at record lows while also continuing their stimulatory bond buying programs.

The US led global sharemarkets higher in 2021, with the S&P500 recording one of its best years on record with a +29% return, setting fresh record highs throughout the year. The tech heavy NASDAQ index lagged as investors rotated out of riskier names late in the year, as investors started factoring higher interest rates in future. Across the Atlantic the mood was equally buoyant with Europe's Stoxx50 index returning +24%, whilst Japan's Nikkei returned a more modest +7%.

The year was not without its challenges, the emergence of new Covid variants threatened to derail the global economic recovery as governments looked to impose further lockdown measures and stricter travel restrictions. Chinese and Hong Kong stockmarkets had a year to forget, falling -14% and -5% respectively, as investors weighed Beijing's regulatory crackdown on the tech and education sectors. The near implosion of Evergrande, one of China's largest property developers, also weighed on these two markets as investors worried about financial contagion through the Chinese property markets and economy. The rising threat of inflation weighed heavily on investor sentiment. As such bond markets sold off as yields rose in the second half of the year on expectations that central banks may have to tighten their ultra-loose policy stance as inflation around the world continued to increase. December heralded the beginning of central bank tightening with the US Fed signalling its intent to slow its bond purchases, as well as hike interest rates three times in 2022, whilst the Bank of England emerged as the first of the major central banks to hike its official interest rates to combat inflation.

Similar to global peers, the ASX300 enjoyed a strong year, returning +17.5% and reaching fresh record highs in the back half of the year. The Fund's ex100 benchmark was also buoyant posting a return of +15.5% for CY21. The calendar year saw a frenzy of M&A activity as lower interest rates tempted many acquirers to take over companies that looked good long-term value with 'old economy' companies such as, Z Energy, Australian Pharmaceutical Industries (API), Vital Harvest and Senex all receiving takeover offers.

The Fund's ex-100 benchmark finished the final quarter of CY21 on a positive, returning +1.2%. The small Resources sector enjoyed a very strong quarter up +14%, with both base metal and gold plays benefiting from commodity price strength and increasing inflation concerns. Also supporting the sector were strong rises for anything 'EV' related, pushing many lithium and nickel plays higher.

The Industrials segment of the market was held back by poor performance from several sectors. The Financials sector was weak as several of the payments providers fell significantly, in sympathy with Afterpay's struggles, with the likes of Zip Co off close to -40% in the quarter. Additionally, many listed fund managers slid on FUM data releases and also in sympathy with Magellan's travails, which included the loss of key mandates and the CEO's departure. The Consumer Discretionary sector also fell as the threat of new lockdown measures weighed on the physical retail sector, as well as travel related companies. Additionally, embattled wagering platform Pointsbet had a quarter to forget falling over -30% as their foothold in the US market fell short of expectations. The Healthcare sector had a weak quarter as a number of the 'medtech' and biotech plays sold off as investors weighed the prospect of higher interest rates on much of the speculative fare within the space. The Communication Services sector was relatively robust with Radio broadcaster Here, There & Everywhere enjoying a strong run, with the company acquiring regional radio broadcaster Grant Broadcasters and settling a long-standing tax matter on favourable terms. Additionally, Australia's largest online tradie marketplace - HiPages enjoyed a strong quarter as the platform continues to benefit from its network effect, linking tradies with consumers.

## Fund Information

APIR	IML0001AU
Inception	30 Jun 1998
Size	\$144 M
Application (Ex)	\$1.9498
Redemption (Ex)	\$1.9400
Cash	1.4%
Mgmt fee	0.993% p.a.
Investment horizon	4-5 years
Distributions	Semi-annually
Managers	Simon Conn Marc Whittaker

## Level of Franking (%)\*

FY16	14.0%
FY17	25.8%
FY18	31.5%
FY19	44.7%
FY20	71.2%
FY21	21.9%

\*As per FSC Standard

## Performance & Strategy

The **Investors Mutual Australian Smaller Companies Fund** had a very strong year returning +22.7% well ahead of the benchmark's return of +15.5%. The Fund's performance was helped by what we see as a return to more fundamental investing with the prospect of the end of free money looming large. Takeover bids for good quality companies which were trading at very attractive valuations also helped. Our holdings in Home Consortium, Clearview Wealth, Readytech, Australian Clinical Labs, API, Sybio, HiPages and Events Hospitality all enjoyed a strong year.

For the final quarter of the year, the Fund posted a fairly flat -0.2% return, which lagged the benchmark's return of +1.2%. Our caution to the Resources sectors weighed on our relative returns, although we remain comfortable with this positioning given the inherent volatility in the sector. Over the quarter the Fund benefited from its holdings in Australian Clinical Labs, Here, There & Everywhere, API (under takeover), Clearview Wealth, Ridley Corp and Best & Less.

Conversely, Pact Group and Pro-Pac endured a weaker quarter on short term cost and Covid-induced disruptions to their operations, although we remain confident in the long-term outlook for both businesses, especially in light of their strong industry position and attractive valuations.

Over the quarter we took advantage of several strong share price performances across the portfolio to take part profits in companies like Australian Clinical Labs, Readytech and Symbio (previously known as MNF) while exiting our holdings in Events Hospitality and Imdex. We used the proceeds to add Codan and GUD Holdings to the portfolio while topping up our holdings in companies like Regis Healthcare and Pact Group, which we believe are all well positioned over the medium to longer term to do well for our investors.

## Stock Stories

Owner of the ARN metro radio network, **Here, There & Everywhere (HT1)**, performed strongly over the quarter after the company acquired regional radio broadcaster Grant Broadcasters for \$307.5m. This acquisition is an excellent fit for HT1 as it creates a truly national radio network that will give the company added reach and the enhanced ability to fulfil national briefs for agencies and larger advertisers. HT1 also benefited from news in the quarter that the company had finally settled a long running dispute with the Australian Taxation Office for less than half the amount originally sought. With buoyant ad market conditions expected to continue into 2022, HT1 remains good value on a PE of 12 times FY22 and a yield of over 4%.

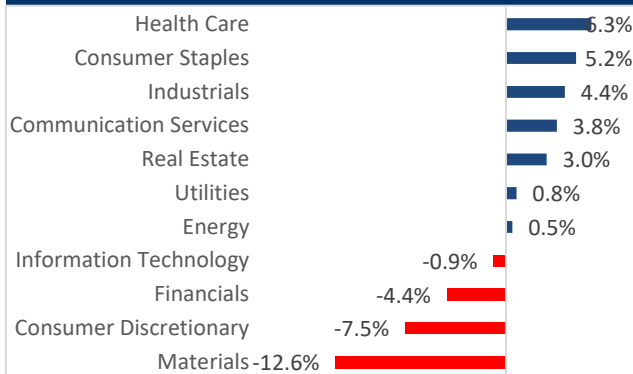
Shares in **Ridley (RIC)** continued to perform strongly through the quarter, driven by a positive trading update issued at the AGM. To November 2021, year to date EBITDA growth in both of Ridley's reporting segments had exceeded the 16% growth seen in the prior corresponding period. In support of continued earnings growth, AGM commentary also highlighted further progress on delivering various business improvement initiatives, with the associated profit growth still to come. Notwithstanding Covid impacts to some of their customers (employee health and supply chain), Ridley's handling of Covid has been very good. While the spread of Omicron seems hard to avoid, safety practices and employee buy-in has resulted in little lost time to date. Despite the robust share price performance over the last twelve months, Ridley continues to look cheap, trading on a one-year forward PE of just 13x with a 3.8% dividend yield.

## Outlook

As we head into 2022, we believe sharemarkets will be primarily influenced by the direction of interest rates as central banks continue to mull over whether current inflationary trends are transitional or becoming embedded. Given that interest rates remain set at zero and with inflation on the rise and economic growth strong, we expect central banks to raise interest rates fairly sharply over the next 18 months to more 'normal' levels. As such, we continue to steer away from the riskier parts of the sharemarket and remain focused on identifying and holding what we assess to be good quality companies, are well managed, which offer sound value, and which can grow their earnings and do well over the next 3-5 years.

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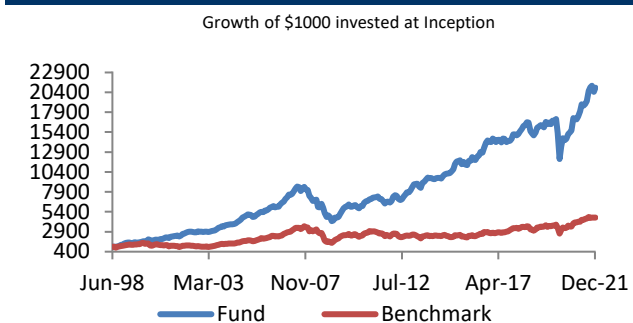
## Sector Weights



## Portfolio Top Holdings

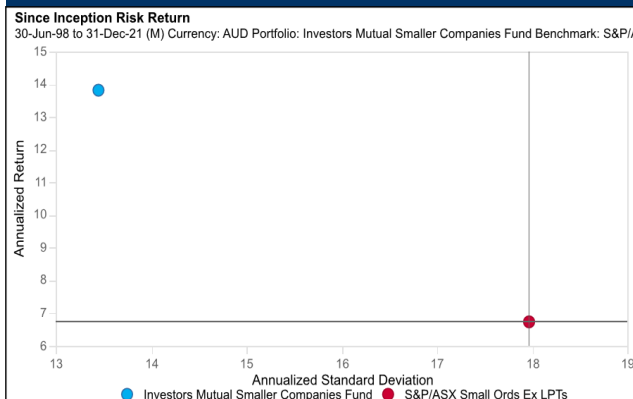
Portfolio Top Holdings	ASX Code
Australian Pharmaceutical Industries	API
A2B	A2B
Bega Cheese	BGA
Z Energy	ZEL
Pact	PGH
Clearview	CVW
Skycity	SKC
SG Fleet	SGF
Ht&E	HT1
Pro-Pac	PPG

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



\* Benchmark = S&P/ASX Small Ordinaries Index ex-LPT Source: IML

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



\*Benchmark = S&P/ASX Small Ordinaries Index ex-LPT Source: Factset

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