

Investors Mutual Australian Smaller Companies 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 ex100 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*	-6.9%	-8.0%	+15.0%	+8.3%	+6.2%	+13.4%
Benchmark**	-9.3%	-9.1%	+4.6%	+10.1%	+9.3%	+6.3%

[^]% 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 is the S&P/ASX Small Ordinaries Index (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 ex100 benchmark endured a challenging month falling -9.3%. All sectors finished in negative territory, the Energy sector proved most resilient thanks to higher oil prices. Within the small Resources segment, the Materials sector fell -7.0% 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 ex100 market, the local Information Technology sector fell -11% as a dose of reality set in on many of the seemingly exciting 'concept' stocks as investors re-assessed the valuations attached to many of these companies. The Healthcare sector also had a challenging month shedding -18% with higher bond rates impacting the valuations of many stocks in the sector, including the story driven 'medtechs.' The Consumer Discretionary sector shed -10% 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 -12% with both the listed fund managers and platform providers coming under significant pressure given their exposure to financial markets.

The *Investors Mutual Australian Smaller Companies Fund* shed -6.9% in January which, while disappointing, was far better than the benchmark's fall of -9.3%. 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 Tassal and TPG Telecom. 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 Steadfast (now top 100) and took part-profits in stocks such Australian Clinical Labs (early in the month) given its strong run. We used the proceeds to top up opportunistically in good quality companies which fell to attractive levels over the month including Pact Group, Codan and TPG Telecom 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	25.8%
FY18	31.5%
FY19	44.7%
FY20	71.2%
FY21	21.9%

*As per IFSA Standard

Monthly Movements

S&P 500	-5.2%
Euro Stoxx 50	-2.7%
Nikkei	-6.2%
ASX Small Ords EXLPT	-9.3%
AUD/USD	-3.1%
Gold	-0.6%
Oil	+17.3%
Iron Ore	+23.7%

Fund information

APIR	IML0001AU
Inception	30 Jun 1998
Size	\$135 M
Application	\$1.8149
Redemption	\$1.8059
Cash	3.7%
Management fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Managers	Simon Conn Lucas Goode

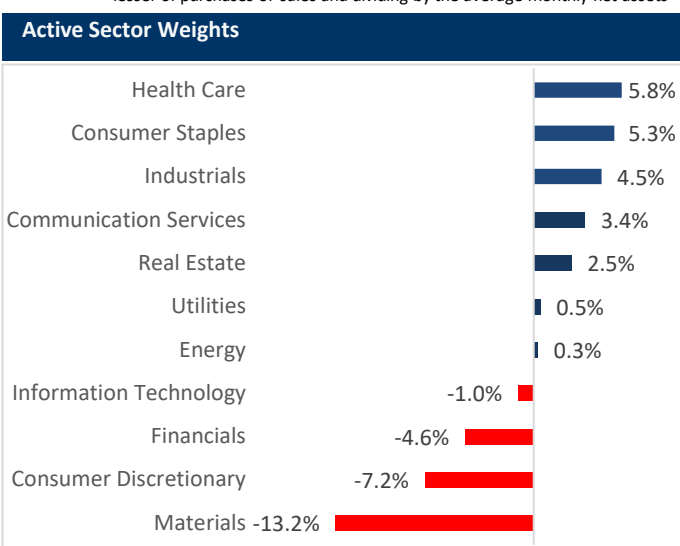
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Characteristics	Fund	Benchmark
Number of stocks	68	176
Portfolio Turnover*	46%	N/A
Annualised Tracking Error	10.90	N/A
Volatility (STD DEV) since inception	13.52	18.05
Portfolio Beta (since inception)	0.60	1.00

*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



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

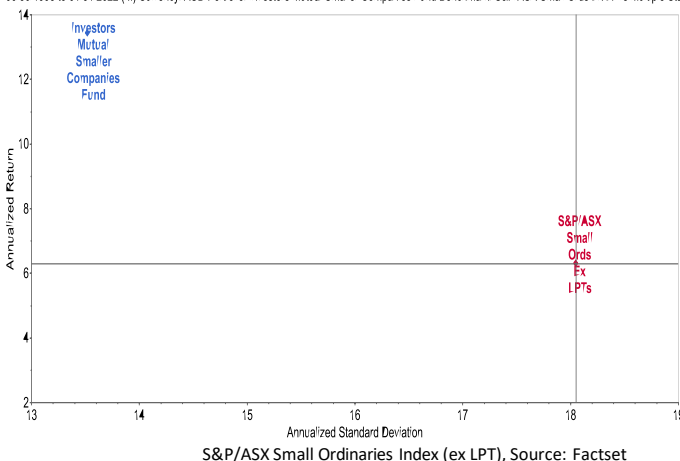
Portfolio top holdings

Portfolio top holdings	ASX Code
Australian Pharmaceutical Industries	API
Z Energy	ZEL
A2B Australia	A2B
Pact Group	PGH
TPG Telecom	TPG
Clearview Wealth	CVW
SG Fleet	SGF
Bega Cheese	BGA
Pro-Pac	PPG
Skycity Entertainment	SKC

Source: IML

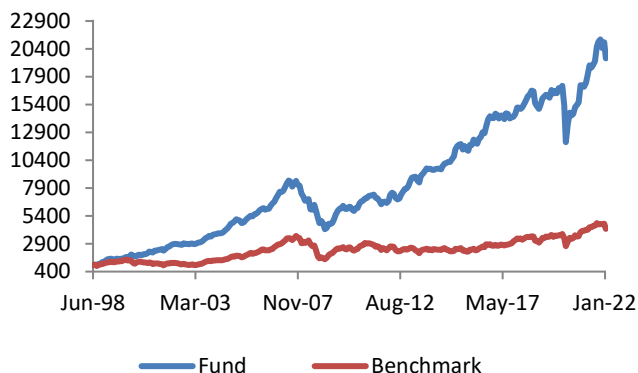
Since Incept. Risk Return - Fund vs Benchmark*

Since Inception Risk Return
06/30/1998 to 01/31/2022 (M) Currency: AUD Portfolio: Investors Mutual Smaller Companies Fund Benchmark: S&P/ASX Small Ords Ex LPTs Multiple Stat



Since Inception Cumulative Perf. Fund vs Benchmark*

Growth of \$1000 invested at Inception



S&P/ASX Small Ordinaries Index (ex LPT), Source: IML



iml.com.au 1300 551 132 iml@iml.com.au

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