

## March 2022

The **Investors Mutual Australian Smaller Companies Fund** provides exposure to an actively managed portfolio of quality shares outside of the top 100 listed on the ASX. 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 <sup>^</sup>	5 Years <sup>^</sup>	10 years <sup>^</sup>	Since inception <sup>^</sup>
Total Return*	+2.9%	-4.6%	+11.1%	+7.5%	+6.8%	+10.3%	+13.4%
Benchmark**	+5.9%	-4.3%	+7.8%	+9.6%	+9.6%	+5.3%	+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 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 Small Ordinaries Index (excluding Property Trusts).

## Fund Performance

- ▶ The Australian Smaller Companies Fund had a disappointing quarter, down -4.6%, slightly behind its ex-100 benchmark which was down -4.3%.
- ▶ It was a tale of two markets for ex-100 companies with the Small Resources sector surging +14% for the quarter as the prices of many commodities soared following the introduction of sanctions on Russian commodity exports following the invasion of Ukraine. On the other hand, the Small Industrials sector was down -10% with all industrial sectors finishing the quarter in negative territory. Worst hit were loss-making technology and med-tech companies sold off heavily as bond rates rose, the ex-100 Healthcare and Technology sectors were down -24% and -18% respectively.
- ▶ The Fund's caution to the unpredictable and volatile Resources sector held back relative performance, however we remain comfortable with the portfolio's positioning given many commodity prices appear unsustainably high. Some of the Fund's holdings sold off over the quarter on stock specific issues. Pro-Pac Packaging fell after a rise in the cost of the underlying raw materials used in its packaging, such as resin, hurt margins. In our view this is a short-term issue and the company's strong competitive position will allow it to pass on increased costs to the end customer over the medium term. Hipages growth slowed due to abnormally high demand for trade services (which reduces tradies' need to pay for lead generation). We retain conviction in the long-term opportunity available to Hipages, which is the clear market leader in its category. On the positive side, the Fund benefited from solid performances from its holdings in companies such as Regis Healthcare, Ridley and Myer.
- ▶ Over the quarter we trimmed our holdings in companies such as Australian Clinical Labs, Home Co and Z Energy. We used the proceeds to top up the Fund's holdings at times of weakness in good quality companies such as Pact, GUD, Codan and Bega Cheese. We also participated in a capital raising for Integral Diagnostics to fund the acquisition of a quality radiology business in South-East Queensland.

## Outlook

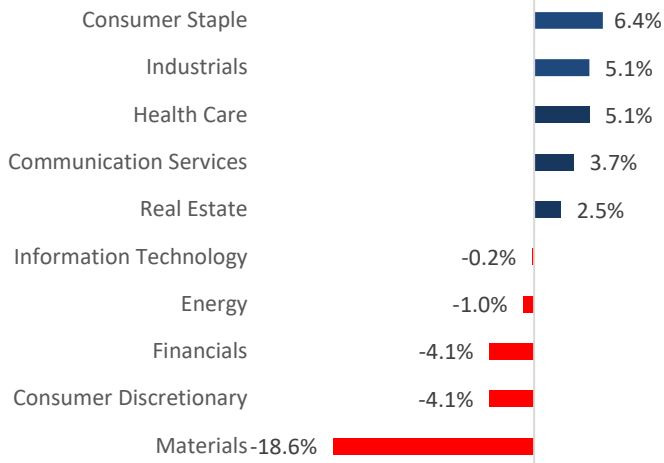
- ▶ We expect volatility to continue for some time with ongoing geopolitical and inflation risks affecting global and local economies.
- ▶ The Fund continues to invest in well-established companies that we believe represent sound value and which are in industry leading positions. Our focus is on companies that we believe can maintain margins in the long term by passing on higher input prices to customers, while continuing to generate good cashflows and dividends in the short to medium term. In our view, these companies should continue to do well over the next 3-to-5 years despite increasing economic uncertainties.

## Stocks in Focus

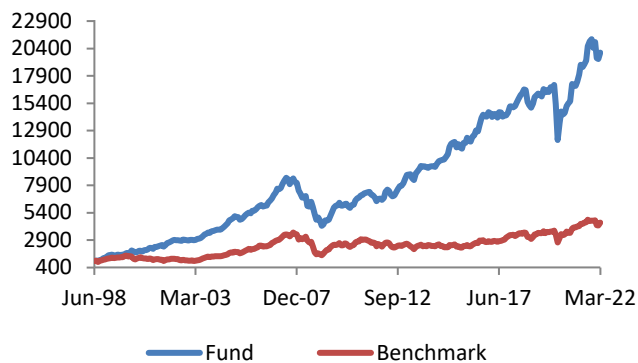
**Ridley (RIC)** is Australia's leading provider of animal nutrition solutions. Following on from a strong 1H22 result, shares continued to perform strongly in March. Ridley is seeing the benefit of adding new products and making incremental growth investments, with volumes growing and margins expanding. This translates to an acceleration of earnings growth, a strong improvement in returns and rapid balance sheet deleveraging. 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 shares increasing +47% in the last twelve months, Ridley still trades on at an attractive valuation of around 13x FY23 earnings per share and is yielding 4.6%.

**Myer (MYR)** shares performed well following a strong first half result and trading update despite the challenges posed by the Omicron outbreak on the East Coast over the key Christmas-New Year period. Like-for-like sales (which excludes stores impacted by lockdowns) increased 18% on the prior corresponding period, driving 55% net profit growth. Online sales grew 48% year-on-year and now represent almost 30% of total sales, making Myer one of the largest online retailers in the country. The company also reinstated its dividend, reflecting a strong net cash balance sheet and growing confidence in the outlook. The result once again showed Myer's ongoing operational improvement under its excellent management team led by CEO John King.

## Active Sector Weights



## Growth of \$1,000 Invested at Inception



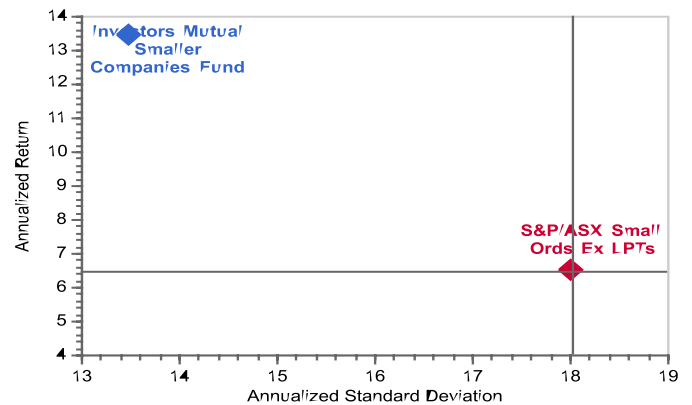
Since inception: 30 June 1998: Cumulative performance of the Fund vs its benchmark; Benchmark = S&P/ASX Small Ordinaries Index (excluding Property Trusts); Source: IML, Factset

## Top 10 Holdings

Company Name	ASX code
A2B	A2B
TPG Telecom	TPG
Pact	PGH
Bega Cheese	BGA
Z Energy	ZEL
SG Fleet	SGF
Ridley	RIC
Clearview Wealth	CVW
Skycity	SKC
Integral Diagnostics	IDX

## Fund Risk-Return vs Benchmark

Since Inception Risk Return  
06/30/1998 to 03/31/2022 (M) Currency: AUD Portfolio: Investors Mutual Smaller



Fund Facts	
ARSN	093 182 471
APIR	IML0001AU
Inception	30 June 1998
Benchmark	S&P/ASX Small Ordinaries Index (excluding Property Trusts)
FUM	\$137 M
Investment Horizon	4-5 years
Minimum Initial Investment	A\$50,000
Minimum Additional Investment/Redemption	A\$5,000
Distributions	Generally semi-annual
Performance Fee	Nil
Management Fee	0.993% p.a. of the net assets of the fund (includes GST)
Asset Classes and Allocation Range	Aust Equities (80-100%) Cash (0-20%)

Portfolio Characteristics	Fund	Benchmark
No. of stocks	70	176
Portfolio turnover <sup>1</sup>	45%	NA
Portfolio Beta (since inception)	0.60	1.00

## Franking level (%)<sup>2</sup>

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

## Fund Ratings

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

<sup>1</sup> 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

<sup>2</sup> As per FSC standard.



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