Australian Smaller Companies Fund - Quarterly Report

IML

September 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^	5 Years^	10 years^	Since inception^
Total Return*	-8.0%	-0.1%	-19.6%	+0.6%	+3.4%	+8.3%	+12.4%
Benchmark**	-11.1%	+0.7%	-23.2%	-0.7%	+3.9%	+4.0%	+5.4%

*^% 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 **Small Cap Fund** had a disappointing quarter, recording a -0.1% decline which was behind the benchmark's return of +0.7%. The benchmark's return was influenced greatly over the quarter by strong gains in electric vehicle metal related stocks (such as lithium explorers) and gains by several favoured local technology stocks, many of which are still loss-making. We remain cautious on these companies due to their high valuations, particularly for loss-making companies in a market where funding has become much more difficult.
- Global markets had a very volatile quarter, up significantly for July and most of August before dropping sharply in September as bond markets sold off and it became clear that the US Federal Reserve, and other central banks, would continue to follow through with their commitment to raise interest rates in order to bring inflation under control.
- Over the quarter the Fund benefited from strong performances from New Hope Corporation, which was up strongly on the back of a solid operational performance and a very high thermal coal price. Ridley Corp and Myer also rose significantly, reporting better than expected profits during reporting season while Mayne Pharma rallied after selling its Contract Development and Manufacturing division, Metrics Contract Services, for USD475m leaving the company in a strong net cash position.
- Infomedia fell over the quarter after the multiple backed takeover approaches it had received did not eventuate in a transaction. We remain comfortable with our position in Infomedia, which has a net cash balance sheet and a high level of recurring revenue. TPG also had a disappointing quarter after it reported slightly lower than expected new mobile subscribers and a lower than expected first half result.
- Over the quarter, we trimmed our positions in Mayne Pharma and Ridley after their share prices appreciated significantly, and we exited our position in Tassal as Cooke's revised takeover bid of $5.23 a share was accepted. We also took advantage of lower share prices to add to our positions in Codan, GUD and Kelsian.

Outlook

- We expect markets to remain volatile in the near future as investors continue to assess the risk of rising interest rates and high inflation. We are seeing big swings on relatively innocuous news, highlighting investors heightened level of uncertainty.
- While company profits, in general, currently remain strong, rising interest rates will eventually lead to reduced consumer spending and lower demand, which will impact both business earnings and company valuations. We remain focused on investing in companies with predictable recurring revenues and strong market positions, which are likely to perform better in these times, while taking advantage of opportunities to invest in quality companies as they present themselves.

Stocks in Focus

- **TPG** is Australia's third largest telecommunication provider. Its shares fell sharply over the quarter due to a weaker than expected first half result. The soft result took the market by surprise after an upbeat investor day in June, with mobile trends notably weaker than peers Telstra and Optus in the June quarter. We remain attracted to TPG given the defensive and recurring nature of its earnings. Going forward, earnings should benefit from increasing immigration and tourism which will help grow the number of mobile subscribers as well as the proposed regional network sharing agreement with Telstra, and the migration of some NBN broadband customers to TPG's fixed wireless network.
- **Kelsian** is Australia's largest land and marine transport and tourism provider. It fell over the quarter, despite reporting a solid FY22 result, with the core Australian operations performing in line with expectations and a partial recovery in its Covid-impacted Marine & Tourism division. The drop was due to concerns that the company may need to raise funds if its overseas acquisition plans are successful. We took advantage of this weakness to increase our position in Kelsian after it became clear that it was not going to raise equity. We remain attracted to Kelsian in a higher inflation environment as its main business comes from public bus transport which delivers stable, predictable cashflow, protected from cost pressures due to its government-backed contracts that deliver full recovery of cost increases. It is also reasonably priced on 13.5 times FY23 profit.

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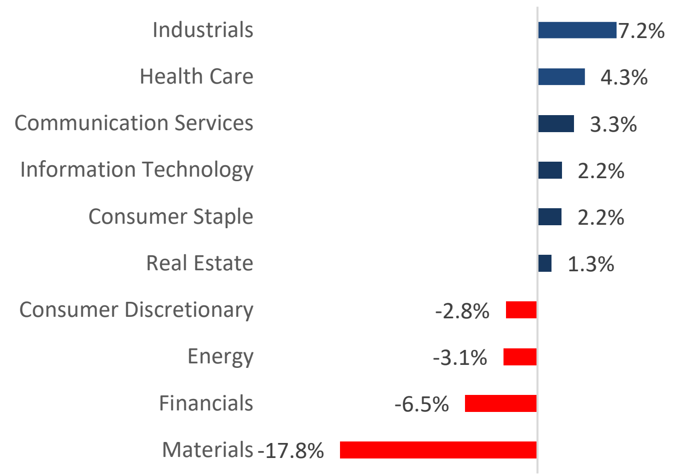
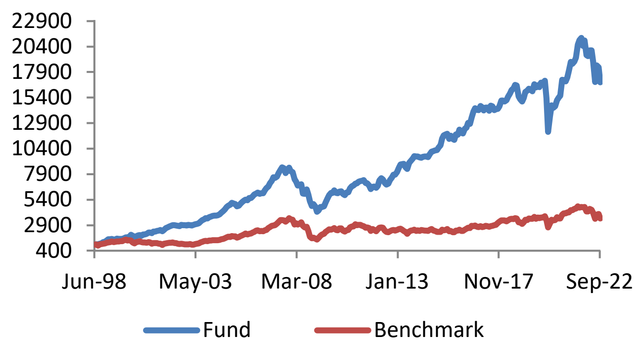
Active Sector Weights



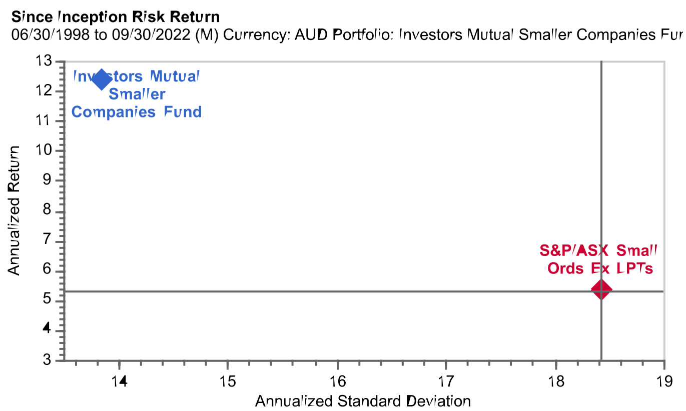
Top 10 Holdings

Top 10 Holdings	ASX code
A2B Australia	A2B
Skycity	SKC
TPG	TPG
Kelsian	KLS
SG Fleet	SGF
Myer	MYR
Bega	BGA
Clearview Wealth	CVW
Codan	CDA
Pact Group	PGH

Growth of $1,000 Invested at Inception



Fund Risk-Return vs Benchmark



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

Fund Facts

Fund Facts	
ARSN	093 182 471
APIR	IML0001AU
Inception	30 June 1998
Benchmark	S&P/ASX Small Ordinaries Index (excluding Property Trusts)
FUM	$111 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

Portfolio Characteristics	Fund	Benchmark
No. of stocks	63	174
Portfolio turnover[1]	39%	NA
Portfolio Beta (since inception)	0.61	1.00

Franking level (%)[2]

FY22	FY21	FY20	FY19	FY18
13.5%	21.9%	71.2%	44.7%	31.5%

Fund Ratings

Morningstar	Silver
Zenith	Recommended
Lonsec	Recommended *Visit *lonsec.com.au/logo-disclosure* for important information about this rating

[1]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
[2] As per FSC standard.

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