

Investors Mutual Australian Smaller Companies Fund



Quarterly Report September 2021

Fund status: OPEN

- ▶ Global sharemarkets endured a volatile quarter as investors were confronted with several issues
- ▶ The Fund's ex-100 benchmark returned +2.9% over the quarter, despite significant weakness from the miners
- ▶ We continue to use volatility to top up on 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*	+2.1%	+11.0%	+36.8%	+8.2%	+8.0%	+14.0%
Benchmark**	-2.3%	+2.9%	+30.5%	+9.2%	+10.0%	+6.8%

^% 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

The MSCI World Index declined -0.3% in a volatile September quarter to record its first loss since the March 2020 quarter. Following a positive start to the quarter, most world sharemarkets fell heavily in September, led by the US S&P 500 which declined -5% during the month. Concerns over inflation rose as energy prices and shipping costs soared. Supply chain disruptions were apparent in several sectors of the global economy which led to price rises as many companies scrambled to offset soaring input costs. Fears of contagion from financial woes at giant Chinese developer Evergrande, and debate about lifting the US debt ceiling to avoid government shutdowns also weighed on investor sentiment.

Commodity markets endured a volatile and unpredictable quarter. Oil and coal prices soared over the quarter as a lack of investment in the sector led to supply concerns. Conversely, the iron ore price halved over the September quarter as concerns over the strength of the Chinese economy and the Chinese authorities' commitment to curb carbon emissions via reductions in steel producing capacity took its toll. Domestically, August saw the release of FY21 company results, with most companies in the last 12 months buoyed by strong economies both in Australia and overseas, as accommodative fiscal and monetary stimulus helped the global economy recover strongly from the lockdown measures imposed. The Australian sharemarket, as measured by the ASX300, finished the quarter with a +1.8% return, with strength in the Industrials sector offsetting the -9.0% fall in the Resources sector.

The Fund's ex-100 benchmark enjoyed a solid quarter returning +2.9% with most sectors finishing in positive territory. The exception was weakness amongst the miners which weighed heavily on the Materials sector, which fell in sympathy with base metal and iron ore prices, especially through the month of September. Additionally, the Healthcare and Technology sectors were respectively weak as a dose of reality struck and several richly priced concept names sold off heavily.

On the positive side of the ledger, the Communication Services sector enjoyed a strong month following the release of strong earnings results by TPG Telecom, Southern Cross Media, MNF and HiPages. Event Hospitality shares rallied over +20% with the company set to benefit from the return to cinemas as lockdown restrictions ease. The pickup in M&A activity continued through the quarter and NZ's major fuel distributor Z Energy rallied 30% after receiving a takeover offer from Australia's Ampol. Retail giant Wesfarmers bid for pharmaceutical distributor Australian Pharmaceutical Industries as it opted to expand into a new retail segment.

Fund Information

APIR	IML0001AU
Inception	30 Jun 1998
Size	\$161 M
Application (Ex)	\$2.0240
Redemption (Ex)	\$2.0140
Cash	4.9%
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** enjoyed a very strong quarter, returning +11.0%, which was significantly better than the benchmark's return of +2.9%. The Fund benefited from the positive performance of many of its core holdings such as Home Consortium, TPG Telecom and MNF. The Fund also benefited from takeover bids for Australian Pharmaceuticals and Z Energy. Recent IPO's that we participated in such as Best & Less and the HealthCo Healthcare REIT also contributed to performance as did the Fund's limited exposure to the volatile iron ore and base metals companies which we had been wary of for some time given the highly elevated prices in these sectors.

Over the quarter, we trimmed our holdings in stocks such as Home Consortium, Events Hospitality, ReadyTech and Brickworks as the share prices of these companies rallied strongly. We deployed the proceeds to add to our positions in good quality companies that we believe are very attractively priced such as Bega Cheese, TPG Telecom and United Malt.

Stock Stories

In July, **Australian Pharmaceutical Industries (API)** received an all-cash takeover proposal from Wesfarmers at \$1.38 per share, which was subsequently raised to a bid of \$1.55 per share. API holds a strong market position as the second largest national wholesale drug distributor and the second largest retail pharmacy operator through its Priceline retail network. This commanding market position is attractive to Wesfarmers who are keen to add pharmaceuticals as a new and growing vertical to its retail operations. Wesfarmers would also be able to apply its clear strengths in distribution and retail to the API business. In September, API received a rival bid from wholesale competitor Sigma Healthcare in a combination of scrip and cash at \$1.57 per share.

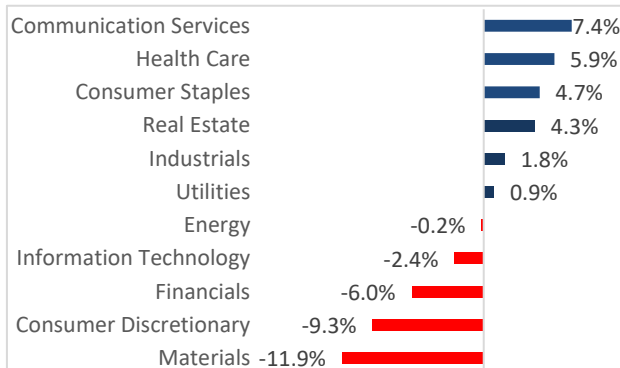
Clearview (CVW) had a strong quarter up +36%, after reporting an underlying profit of \$22.7m, up 54% from FY20, benefitting from the strong underlying claims and lapse performance in their life insurance operation. The outlook for FY22 is positive with the regulator having put in place procedures to lift profitability across the life insurance sector. Despite an improving industry outlook and continued sector consolidation, Clearview continues to trade substantially below its embedded value (EV) of \$0.96 which has prompted the company to initiate a strategic review. With some recent transactions executed at close to EV, the company continues to look reasonably priced at .75 times EV.

Outlook

The recent falls and volatility in certain segments of the Australian sharemarket, exemplified by iron ore companies, was a reminder to many of how quickly sentiment can change, particularly in popular and overpriced sectors. We continue to steer away from the riskier parts of the sharemarket and remain focused on identifying and holding good quality companies that in our opinion are well-managed, which offer sound value and which we believe can do well over the next 3-5 years.

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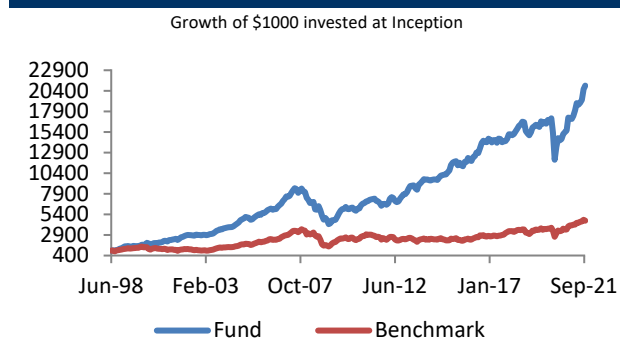
Sector Weights



Portfolio Top Holdings

Portfolio Top Holdings	ASX Code
Australian Pharmaceutical Industries	API
Pact	PGH
Pro-Pac	PPG
Skycity	SKC
SG Fleet	SGF
A2B	A2B
TPG	TPG
Readytech	RDY
Bega Cheese	BGA
Z Energy	ZEL

Since Inception Cumulative Perf. Fund vs Benchmark*



Since Incept. Risk Return Fund vs Benchmark*

