

Investors Mutual Australian Smaller Companies Fund



Quarterly Report March 2021

Fund status: OPEN

- ▶ Global sharemarkets enjoyed a strong start to CY21, led once again by the US as investor confidence remained buoyant
- ▶ The Fund's ex-100 Index gained 2.4% over the quarter following a solid reporting season
- ▶ 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*	+3.8%	+5.4%	+49.8%	+5.9%	+7.8%	+13.6%
Benchmark**	+0.2%	+2.4%	+55.1%	+8.3%	+10.9%	+6.5%

^% 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 enjoyed a strong first quarter of calendar 2021, returning +5.9% thanks to continued investor optimism as the global economy recovers from the turmoil caused by COVID-19 and as vaccines are rolled out around the world. These gains were made despite the headwinds of a substantial selloff in bond markets. The benchmark US 10-year bond rose 0.5% to a 12-month high of 1.7% by the end of March on inflationary fears as a combination of continued strong fiscal stimulus, strong commodity prices and continued record low overnight interest rates stoked investor concerns. Over the quarter President Biden's US\$1.9 trillion stimulus package was approved, with the new President now looking to get a proposed US\$2 trillion infrastructure plan approved by Congress, while in Australia the Federal Government unveiled a \$1.2 billion tourism support package.

The US S&P500 Index recorded fresh record highs in March, pushing through the 4,000 level for the first time. The S&P500's return of +6.1% for the first quarter marked the index's best 12-month rolling return since 1936 and a staggering +80% return since the March 2020 lows. Across the Atlantic, Europe's Stoxx50 jumped +10.7% for the quarter, while Japan's Nikkei Index returned +6.9%. Encouragingly, we saw the value style of investing as the main driver of quarterly returns, with the frothier end of the market coming under pressure.

In Australia, the selloff in US bonds and inflationary concerns saw the Australian 10-year bond yield spike +0.7% to 1.9%, its highest level in nearly two years. The result saw the Reserve Bank of Australia ratchet up its quantitative easing programme in February by targeting longer-dated bonds in a bold move as the RBA looked to flatten the yield curve. The continued strong rise in house prices has also led to expectations of the RBA re-imposing some sort of macroprudential controls in future, although the RBA appears reluctant to intervene at this stage. Commodities endured another strong quarter, although prices came off their highs in March, with the iron ore price down -5% while the Oil and the Base Metals index shed -4% and -3% respectively. The broader Australian sharemarket as measured by the S&P/ASX300 Index enjoyed a solid quarter, returning +4.2%. At the sector level, performance was mixed, reflecting the rotation from the more speculative and momentum-driven end of the market into good quality companies trading on attractive valuations.

The Fund's ex-100 Index returned +2.4% for the quarter. The Small Resources endured a tough quarter shedding -2.8% in sympathy with falling commodity prices, particularly base metals and the gold price. The IT sector fell -1% over the quarter, with the likes of Megaport, Bravura, BrainChip and Audinate all falling considerably as many investors reduced their holdings in light of rising bond yields, which significantly affect valuations, being based on long-dated forecasts. Similarly, many of the speculative 'med-tech' names within the Healthcare sector, such as PolyNovo and Nanosonics, as well as e-commerce stocks such as Kogan, Temple & Webster and Redbubble, all came under increasing pressure.

On the positive side of the ledger, the Consumer Staples sector had a strong quarter, with soft commodity plays including Bega Cheese, Costa, Elders and Select Harvests finishing higher following positive updates. In contrast, infant formula companies including Bubs and Synlait fell in sympathy with their large-cap peer A2 Milk, which faces ongoing challenges in its Chinese daigou sales channels. The Communication Services sector gained +9.9%, with Nine Entertainment gaining +21% following a strong result which showed strong growth across all its key divisions including TV advertising, Stan subscriptions and its 60% holding in Domain. Nine will also benefit from an agreed deal with Google and Facebook, following pressure and subsequent legislation from the Federal Government to pay content fees to Australian media players.

The Financial sector enjoyed a strong quarter, gaining +6.9%, supported by rising yields as well as positive trading updates from a number of companies. These included Virgin Money UK, which gained +44% as investors became increasingly encouraged by the firm's asset quality, combined with their ample provisioning.

Fund information	
APIR	IML0001AU
Inception	30 Jun 1998
Size	\$158 M
Application	\$1.8553
Redemption	\$1.8461
Cash	6.0%
Mgmt fee	0.993% p.a.
Investment horizon	4-5 years
Distributions	Semi-annually
Managers	Simon Conn Marc Whittaker

Level of Franking (%)*	
FY15	31.3%
FY16	14.0%
FY17	25.8%
FY18	31.5%
FY19	44.7%
FY20	71.2%

*As per FSC Standard

Performance & Strategy

The **Investors Mutual Australian Smaller Companies Fund** enjoyed a strong quarter, returning +5.4%, which was meaningfully better than the benchmark's return of +2.4%.

The Fund benefitted from a range of excellent performances over the quarter from our holdings in good quality industrials such as Crown Resorts, Tabcorp, Pact Group, Incitec Pivot, Nine Entertainment, Virgin Money UK, Event Hospitality & Entertainment, SeaLink, MNF Group, and Bega Cheese.

Many of these companies reported solid interim results and were rerated as a result. Reporting season highlighted the solid financial position of many listed companies, and with these companies having a positive outlook, investors refocused on them, particularly in light of the compelling valuations on offer as these stocks had largely been left behind in the momentum rally.

Over the quarter we took advantage of strength in many share prices to take profits in companies such as Integral Diagnostics, SeaLink, Pact Group, and News Corporation, recycling the proceeds into companies we believe look undervalued, such as AusNet, Infomedia, and Brickworks.

SeaLink (SLK) was up +38% for the March quarter, with the company's interim result a standout in the February reporting season. The company reported profits well ahead of market expectations, driven largely by the Transit Systems bus business, which now represents the majority of earnings. Transit Systems operates public bus routes across Australia as well as in Singapore and the United Kingdom under long-term contracts. The essential nature of these operations was borne out by the result, with no route reductions recorded in the period. The result benefitted from contract wins in Perth and Adelaide and ongoing route optimisation in Sydney. Despite the tough operating environment for the legacy marine and tourism segment, management was able to deliver a flat result through careful cost management and government assistance.

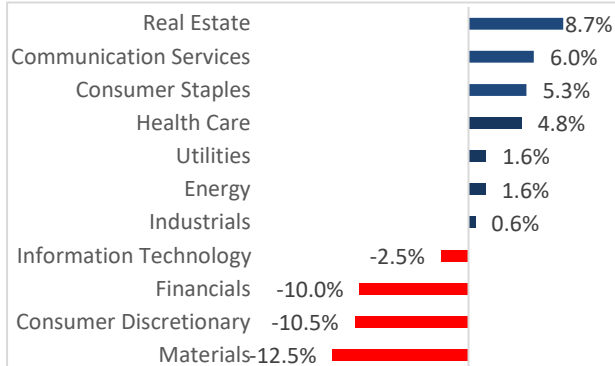
Pact Group (PGH) was another strong performer, up +33% in the quarter following a strong interim result which saw net profit after tax up 44% to \$50 million and a dividend of 5 cents per share declared with the company's three divisions all doing well. Pact's core packaging business delivered volume growth and higher margins through disciplined cost management and an improved product mix while the contract manufacturing and materials handling/pooling divisions both exceeded expectations. In addition, the strong cash cashflow generated in the half saw the balance sheet position improve significantly. With the stock having previously traded at a significant valuation discount to the market, the solid result and improved balance sheet saw Pact re-rate strongly. Pact remains well-positioned to capitalise on an increased customer focus on sustainability as it pursues a range of initiatives to increase the use of recycled materials in its packaging manufacturing division.

Bega Cheese (BGA) rallied +25% for the quarter following release of a strong 1H21 result, with normalised net profit after tax up strongly to \$29.7 million. With the result the company confirmed that it was on track to meet its earnings guidance for the full year and reconfirmed the synergies target for the Lion Dairy & Drinks acquisition. Investors are increasingly warming to the acquisition of Lion, which has seen Bega increase its exposure to the branded foods segment and allows the company to extract more value from its existing milk intake.

It has been a long wait, but it appears that value investing is making a strong comeback and we are finally beginning to see this play out for many of the companies in IML's portfolios. With bond yields rising and by extension the equity risk premium, we are seeing the steam come out of many of the speculative leaders of the past 12 months. Further increases in bond yields will likely see these trends accelerate. It looks likely that we are seeing a sustained return to favour for good quality companies previously shunned amid the momentum-driven mania of recent years.

We continue to look for companies that possess the key attributes we look for and that we believe continue to look like reasonable value and which we think can do well in the next 3 to 5 years.

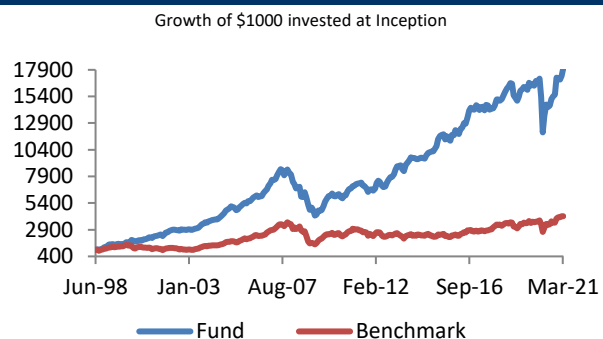
Sector Weights



Portfolio top holdings

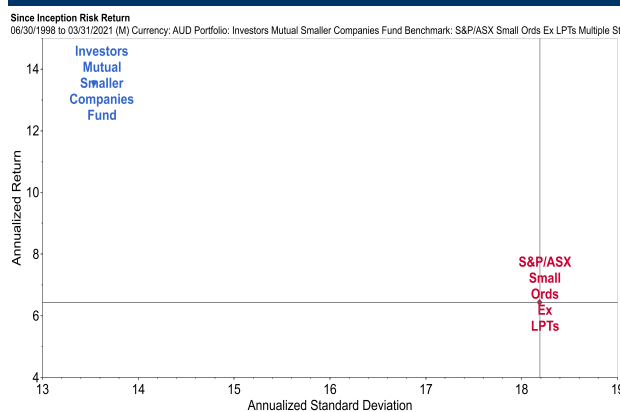
Portfolio top holdings	ASX Code
Pact Group	PGH
SkyCity Entertainment Group	SKC
Pro-Pac Packaging	PPG
Metcash	MTS
Home Consortium	HMC
SG Fleet Group	SGF
Event Hospitality & Entertainment	EVT
Bega Cheese	BGA
A2B Australia	A2B
Integral Diagnostics	IDX

Since Inception Cumulative Perf. Fund vs Benchmark



Source: IML

Since Incept. Risk Return Fund vs Benchmark*



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

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