

December 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*	-3.6%	-2.8%	-21.7%	-0.8%	+1.7%	+7.3%	+12.1%
Benchmark**	-4.0%	+7.0%	-18.8%	+1.3%	+2.5%	+4.6%	+5.6%

[^]% 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 -2.8% decline, which was significantly behind the benchmark's return of +7.0%. The main reasons for the disappointing relative performance were poor performances by some key holdings, as well as another strong quarter for resources stocks, where we remain cautious given their cyclical nature. For the calendar year, the fund lagged the benchmark, declining -21.7% compared to the benchmark's drop of -18.8%, with the small Resources sector (-8.4%) holding up much better than the small Industrials sector (-24.4%), in a very difficult year for small cap stocks.
- ▶ The MSCI World Index rose +7.5% for the quarter, thanks to strong gains in October-November, although global markets dipped again in December as concerns resurfaced about the global economy slowing in 2023 as interest rates continued to rise around the globe.
- ▶ The small company sector's -18.4% calendar year fall was a significant underperformance on the ASX 300's drop of -1.8% for 2022. This reflects investors' preference for the more liquid, larger-cap companies as investors reduced their small cap exposure given elevated uncertainty with high inflation, rising interest rates and a slowing global economy. Impacting the Fund's returns were disappointing performances from some of our key holdings such as Pact, Codan and Mayne Pharma after giving disappointing trading updates. At current valuations we believe that a significant amount of bad news has now been priced in for many of our small industrial holdings and we remain confident in the Fund's long-term prospects.
- ▶ Offsetting the losses were gains by some key holdings including Kelsian, Bega, Southern Cross Media, Regis Healthcare, Myer and Readytech. Readytech's share price increased after receiving a takeover proposal from Pacific Equity Partners (PEP), although PEP pulled out late in the quarter the stock still finished up on confirmation that current trading remains robust.
- ▶ Over the quarter, we took advantage of the volatility to trim our positions in Myer, Ridley Corp, Readytech and Regis Healthcare, while we increased our weighting in Integral Diagnostics, Bega and Australian Clinical Labs on share price weakness.

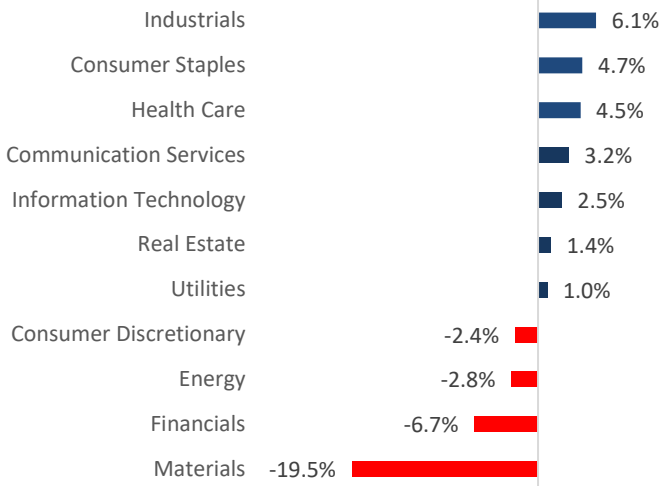
Outlook

- ▶ Given that inflation remains high in most parts of the world, and interest rates remain elevated, we believe sharemarkets will remain volatile given the ongoing uncertainty. While inflation appears to be peaking in some parts of the world, the impact on corporate earnings from higher interest rates and slower economic growth is yet to be fully reflected in many companies' earnings expectations.
- ▶ In the small cap sector, where many industrial stocks have already dropped significantly, we believe our Funds are well positioned given the attractive valuations available and our focus on quality.

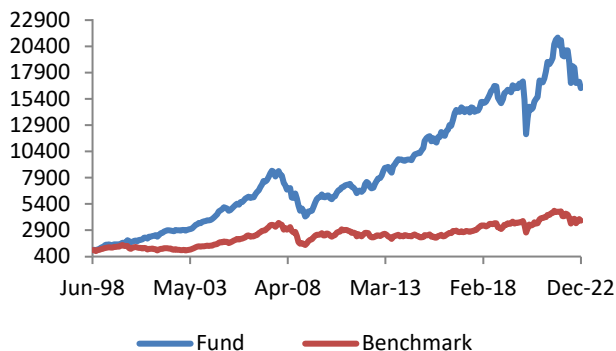
Stocks in Focus

- ▶ **Bega (BGA)** is one of Australia's leading branded dairy and food companies, owner of a range of brands including Vegemite and Pura Milk. Bega rallied over the quarter as it confirmed at October's AGM that the price rises it required to recover the significant increase in costs incurred in late FY2022 had been fully passed through to the market. While the impact of the cost increases will impact the first half of the FY2023 result these price increases should lead to a much improved second half result. It also flagged the potential for further business efficiencies and cost out programs which will assist future earnings growth.
- ▶ **Kelsian (KLS)** (previously Sealink) is one of Australia's largest tourism and bus transport providers, with bus operations also in Singapore and the UK. It was up significantly over the quarter after winning a new bus contract in SW Sydney and renewing an existing adjoining bus contract. It also expanded its Australian footprint after acquiring Horizon West, building out its West Australian operations.
- ▶ **SkyCity (SKC)** a leading operator of casinos across NZ and SA, fell over the quarter despite providing a strong trading update at its AGM in October. It started the year strongly with EBITDA up 10% in the first quarter on pre-Covid levels on a like-for-like basis. Weighing on the share was Austrac's announcement that it will start civil proceedings, in relation to breaches of the AML Act at its Adelaide casino. While the final fine is yet to be announced, we believe it will be more than reflected in SkyCity's current low valuation, with the business well positioned for these uncertain economic times.

Active Sector Weights



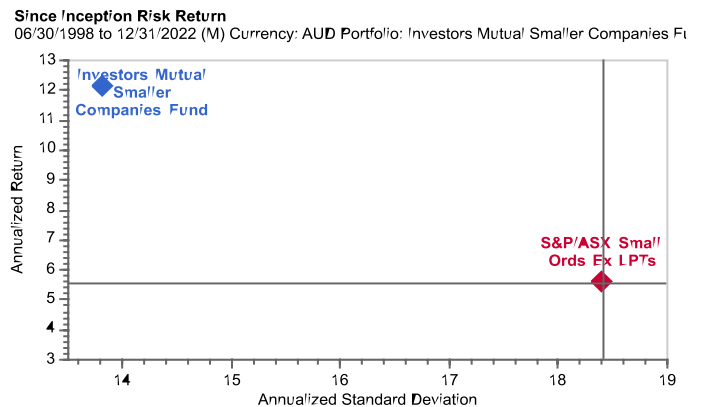
Growth of \$1,000 Invested at Inception



Top 10 Holdings

Company Name	ASX code
Bega	BGA
Skycity	SKC
A2B Australia	A2B
Kelsian	KLS
TPG	TPG
Integral Diagnostics	IDX
Australian Clinical Labs	ACL
SG Fleet	SGF
Myer	MYR
Infomedia	IFM

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	
ARSN	093 182 471
APIR	IML0001AU
Inception	30 June 1998
Benchmark	S&P/ASX Small Ordinaries Index (excluding Property Trusts)
FUM	\$108 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)

Portfolio Characteristics	Fund	Benchmark			
No. of stocks	61	178			
Portfolio turnover ¹	33%	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				

¹Annual 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.

Asset Classes and Allocation Range	Aust Equities (80-100%) Cash (0-20%)
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