

AUSTRALIAN SMALLER COMPANIES FUND

QUARTERLY REPORT



30 JUNE 2023

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*	+3.5%	+1.3%	+6.3%	+7.7%	+2.2%	+7.9%	+12.3%
Benchmark**	+0.2%	-0.8%	+9.9%	+5.0%	+2.0%	+6.5%	+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 **Smaller Companies Fund** had a solid quarter, up +1.3%, well ahead of its benchmark which fell -0.8%. While the Fund's performance was strong over the second half of the year, a difficult first six months of the year saw the Fund lag the benchmark over the year to June, returning +6.3%, behind the benchmark's +9.9%. The main reason for the disappointing relative performance was the strong rally in resources stocks, particularly lithium miners.
- Global markets were up for the quarter with the MSCI World Index +6.7%, led by the Nasdaq, +13%. Upgraded guidance from US chipmaker Nvidia, early in the quarter, led to a strong rally in the US tech sector. Gains became more widespread late in the quarter as optimism grew that the rate-rising cycle was near its end, with economic data revealing the US economy is proving more resilient than feared.
- The ASX 300 lagged global markets, rising +1.0% for the quarter, as the strong lead from overseas markets was tempered by a RBA rate hike which made local investors more cautious, compounded by a raft of negative retailer updates. For the Small Cap Index, Technology gained +9.9% amid general optimism towards tech stocks while the Financials also rose. Weighing on the Index over the quarter was a significant decline in the Materials sector down -7.0%, in line with weaker commodity prices and weakness amongst the retailers which led the Consumer Discretionary sector lower.
- For the quarter the Fund benefitted from several strong performances as many stocks recovered from oversold levels. Codan Adbri, SG Fleet and HMC Capital all posted gains. Kelsian rose significantly after settling a US acquisition, opening up a substantial new market opportunity for the business. Austal also gained after winning a new contract with the US Navy, potentially worth up to US\$3bn, while press speculation around takeover interest in the company also contributed.
- For the quarter the main detractors were Pact, as explained below, and Bega which fell after providing guidance that its FY24 profits would be flat on FY23, due to higher farmgate milk prices impacting the profitability of its commodity bulk milk division.
- Over the quarter we took advantage of share price strength to take part profits and trim our positions in Codan, A2B Australia, Integral Diagnostics and Southern Cross Media (following a raid of the register by fellow radio operator ARN at a 42% premium). While we added to our positions in Hipages and Readytech on share price weakness.

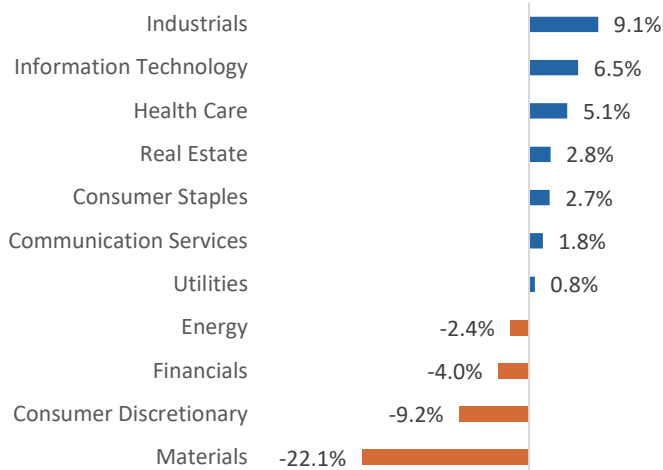
OUTLOOK

- Economies still face significant issues, setting a challenging backdrop for companies. Consumer demand has slowed but is still robust compared to pre-Covid trends. Inflation is proving persistent, with wage gains and house prices ticking up. Further interest rate rises are probable. We continue to act cautiously, focusing on well-established companies with strong competitive advantages and recurring earnings that are likely to perform well in a range of economic conditions.
- Market volatility is likely to continue into the new financial year, so we are also closely watching a number of companies, waiting for any opportunity to buy them at attractive prices.

STOCKS IN FOCUS

- Codan (CDA)**, the communications and metal detection supplier, moved +47% higher over the quarter. This followed a solid investor update which set out the growing global opportunity for its emerging communications business, supported by increased investment in mission critical communications infrastructure by the military and first responders. While the earnings outlook for its metal detection business is improving, as the company continues to execute its growth agenda outside Africa.
- HMC Capital (HMC)**, an alternative real asset manager, gained +34% after announcing an initial investment of \$350m by an institutional investor in its Last Mile Logistics fund. Following this commitment, HMC stated that it is on track to establish more than \$2bn of unlisted funds, and a total of \$10bn of committed assets by Dec 2023.
- Pact Group (PGH)**, the leading rigid plastic packaging manufacturer in Aust & NZ, fell after reporting that its FY23 results will be negatively impacted by slower demand from retail and agricultural customers, with poor weather in NZ partly to blame. Pact is focused on improving its balance sheet and has a program underway looking at asset sales and cost reductions. We continue to believe Pacts core rigid business remains at the forefront of plastic resin reuse and that the company has a solid outlook. This was validated late in the quarter by the signing of Aldi as a re-use customer for its home brands, adding another significant customer to its plastics re-use program.

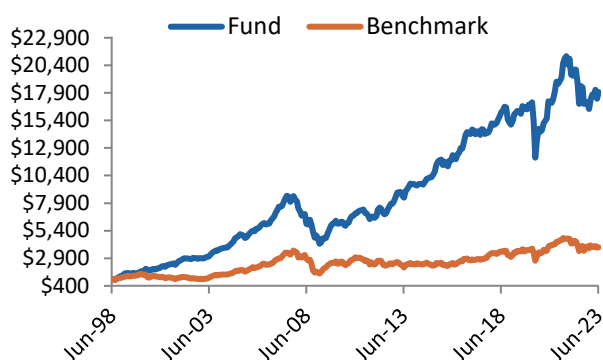
ACTIVE SECTOR WEIGHTS



TOP 10 HOLDINGS

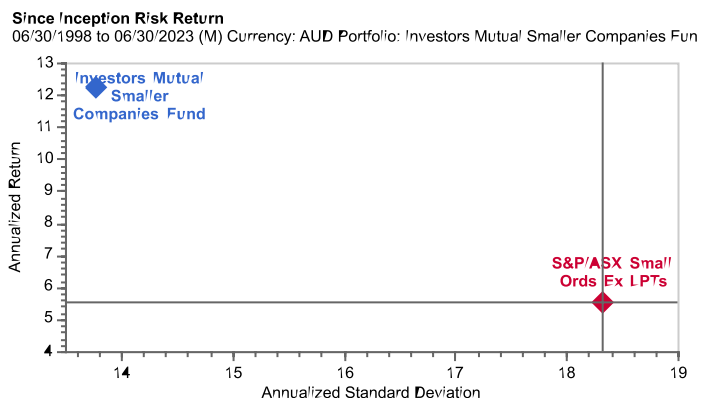
TOP 10 HOLDINGS	ASX CODE
A2B Australia	A2B
Skycity	SKC
SG Fleet	SGF
Kelsian	KLS
Australian Clinical Labs	ACL
Codan	CDA
G.U.D.	GUD
Readytech	RDY
TPG	TPG
HMC Capital	HMC

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

FUND RISK-RETURN VS BENCHMARK



Since Inception Risk Return

06/30/1998 to 06/30/2023 (M) Currency: AUD Portfolio: Investors Mutual Smaller Companies Fund

FUND FACTS

ARSN	093 182 471
APIR	IML0001AU
Inception	30 June 1998
Benchmark	S&P/ASX Small Ordinaries Index (excluding Property Trusts)
FUM	\$109 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	61	178
Portfolio turnover ¹	24%	NA
Portfolio Beta (since inception)	0.61	1.00

FRANKING LEVEL (%)²

FY23	FY22	FY21	FY20	FY19
79.9%	13.5%	21.9%	71.2%	44.7%

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.