Investors Mutual
Australian Smaller Companies Fund

Quarterly report December 2020

INVESTORS MUTUAL LTD

Fund status: OPEN

- Global sharemarkets had a volatile year with losses from the COVID correction erased by the ensuing strong rally
- In an unpredictable year, the Fund's ex-100 benchmark was stronger than the broader market gaining +10.8%
- 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*	-0.3%	+11.2%	+1.7%	+4.2%	+6.9%	+13.5%
Benchmark**	+2.9%	+14.3%	+10.8%	+6.5%	+10.5%	+6.4%

^% 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 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 year 2020 was one of the most unpredictable on record for global sharemarkets. The MSCI World Index gained +14% for the year, as it rallied sharply post the correction which occurred across most markets in March as COVID-19 was declared a global pandemic and governments around the world imposed travel bans and shutdowns across many sectors of their economies. To counter the fallout from the pandemic, most central banks around the world cut rates to record lows while also embarking on huge quantitative easing and other measures to ensure their banking systems held up in the face of the enormous economic fallout and closure of many parts of the economy. Most governments around the world also embarked on massive fiscal programmes designed to cushion their economies from the impact of the shutdowns.

Sharemarkets around the world finished the year strongly thanks to central bank and government actions as well as optimism for an improved economic outlook in 2021. Technology companies led the rally across most markets, many benefitting from changes in consumer behaviour during the pandemic – as evidenced by the US Technology sector's rise of +43%, which far exceeded the S&P500's +18% gain over 2020. The IT sector's strength also saw the NASDAQ break all records and finish the year up +45% as speculative activity took hold of certain segments of the market. Sharemarkets outside the US did not fare as well, with the European Stoxx 50 declining by -3% while the FTSE100 ended the year down -12%, weighed down by Brexit uncertainties.

Commodity markets experienced a fairly volatile 2020 given all the economic uncertainties. The oil price – which at one point saw the WTI price trade in negative territory on panic selling – finished the year down -22%, recovering from its lows as lockdowns and travel bans affected demand throughout the year. Iron ore had a very strong year, up +70% as it benefitted from COVID-related supply issues which affected many Brazilian mines with demand from China remaining strong. Base metals fell heavily earlier in the year but recovered strongly over 2020 thanks to a combination of COVID-induced supply disruptions, a weaker US dollar, and continued strong demand from China. The gold price also had a strong year on safe haven buying.

Global sharemarkets finished 2020 with a strong final quarter as the MSCI World Index added +13%, buoyed by the US Presidential election results and the rollout of COVID-19 vaccines as well as a resolution to the UK's trade deal with the EU. The US sharemarket led the rally, up +12% for the quarter to close 2020 at record highs. The Stoxx 50 and FTSE100 were both up around +11% for the quarter as the Brexit agreement saw some certainty return for the European and UK economies.

Like other sharemarkets around the world, the Australian sharemarket had a highly volatile year. After falling heavily during March as COVID-19-enforced lockdowns and travel bans severely affected various parts of the economy, huge Government programmes and stimulus as well as RBA measures through the lowering of interest rates to a record low 0.1% and significant quantitative easing helped the local market recover, with the S&P/ASX300 Accumulation Index ending the year up +1.7%.

The Fund's ex-100 benchmark was stronger than the broader market over the year, gaining +10.8% despite experiencing a sharper correction at the onset of the pandemic. The Small Resources sector did the heavy lifting, up +23% on the back of stronger iron ore, metal and gold prices. Within the Industrials segment of the market, the Consumer Discretionary sector was a beneficiary of the pandemic, up +13% as many retailers enjoyed increased sales, driven by the huge government income support payments and superannuation withdrawals, as well as the inability to travel overseas. Investors' infatuation for technology related companies saw stocks like PointsBet up +88% and a range of competitors in the 'Buy Now Pay Later' (BNPL) market benefit the Consumer Discretionary, Financial and Technology sectors. Over the year, the likes of BNPL players Sezzle, Openpay and Splitit were up +195%, +81% and +96% respectively. On the negative side of the ledger, companies involved in leisure, entertainment and travel activities experienced significant declines over the year as various restrictions and lockdowns were imposed, directly affecting their profits.

The Fund's ex-100 benchmark continued its strong recovery over the final quarter of calendar year 2020, rallying +14.3% as all sectors finished in positive territory. The Small Resources sector led the rise as it gained +20% for the quarter, while the Small Industrials sector was up +12%.

As the success and rollout of vaccines were announced, companies that will benefit from a 'return to normality', including shopping malls, entertainment and travel companies, all rebounded strongly in the final quarter. Thus, the Consumer Discretionary sector jumped +11%, with strong performances from companies like WebJet and SeaLink offsetting the declining share prices of many online retailers which corrected from their highs. The Communication Services sector also gained +10%, led by media companies such as Nine Entertainment and Southern Cross Media as advertising activity improves. The Financial sector also benefitted from the anticipated economic recovery and strong markets, up +24%. The ex-100 Technology sector was more muted, as many overvalued names including several 'buy now pay later' providers pulled back as the appetite for anything-tech cooled off.

Fund information	
APIR	IML0001AU
Inception	30 Jun 1998
Size	$162 M
Application (Ex)	$1.7611
Redemption (Ex)	$1.7523
Cash	6.3%
Mgmnt 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 IFSA Standard

Performance & Strategy

The ***Investors Mutual Australian Smaller Companies Fund*** recorded a positive year in calendar 2020 posting a total return of +1.7% for its investors, although this was behind the benchmark's strong return which was buoyed by the Small Resources and Tech sectors. While many of our core holdings in well-managed, good quality industrial companies such as Metcash, Pro-Pac and Nine Entertainment all contributed positively over the year, our low weighting to the higher risk Resources, Financials and IT sectors held back our relative performance.

For the final quarter, the ***Investors Mutual Australian Smaller Companies Fund*** posted a strong gain of +11.2%, although this was behind the benchmark's gain of +14.3%. The Fund benefited from several of our holdings such as Home Co and Southern Cross Media enjoying a strong quarter. In addition, the Fund also benefited from takeovers offers for Regis Healthcare and Vital Harvest.

We used strength in the share prices of companies such as Spark NZ, SeaLink and Centuria to trim positions and lock in some profits over the quarter. We deployed some of this cash to participate in a number of capital raisings over the quarter including Bega Cheese, which raised $401m to acquire Lion Dairy & Drinks and which will position the company as a leading branded consumer packaged goods business. The Fund also deployed funds to add Hipages to the portfolio. Hipages, which listed on the ASX in November, is 25% owned by News Corp and operates the leading online platform connecting 'tradies' to customers. We deem the long-term prospects for Hipages to be promising. We also topped up our holdings in high calibre companies during the quarter, adding to our positions at attractive valuations in companies which in our view are well positioned over the next 3 to 5 years.

Stock stories

Metcash (MTS) reported strong results in December for the 6 months ended October 2020 for their food, hardware and liquor businesses. The ongoing strength reflects a move to shop local, dine at home and DIY home improvement. The standout for us was the hardware division where the company posted very strong result and encouraging commentary on their recent acquisition of Total Tools, a business focussed on high quality tools for professionals. We added to our position in Metcash throughout 2020 as we believe the company remains attractively priced given the company's prospects for the next few years.

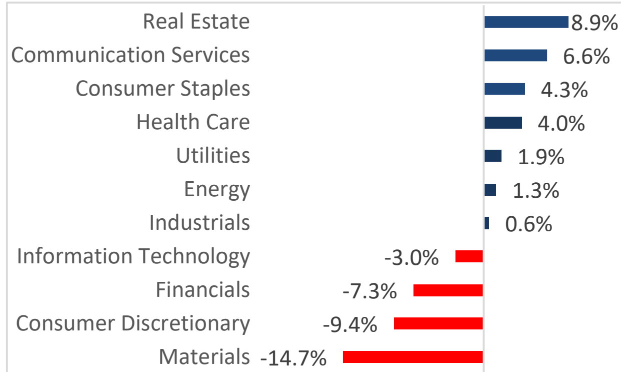
Event Hospitality and Entertainment (EVT) experienced a volatile December quarter, rising alongside other travel stocks as part of the "reopening trade" before falling in December when the company announced that the sale of its German cinema operations had fallen through. The outlook for Event should steadily improve in 2021 given expectations for a return of domestic tourism and a strong film slate given many blockbusters originally planned for 2020 have been pushed forward. Event's valuation is underpinned by its $2bn property portfolio, with material development upside at its two sites on George Street in Sydney. At its current share price investors are effectively paying nothing for the earnings from the entertainment and hospitality businesses, giving us confidence in retaining Event as a core holding despite near term earnings headwinds.

Southern Cross Media (SXL) shares rebounded in the December quarter along with the rest of the media sector as advertising conditions improved with the easing of restrictions on movement. Radio advertising was flat year-on-year on December indications suggest that these green shoots should continue into early 2021. We also see the potential for revenue upside if SXL's new Sydney breakfast team of Erin Molan, Dave Hughes and Ed Kavalee finds ratings traction. SXL is generating positive cashflow and has a strong balance sheet after raising equity in March.

Outlook

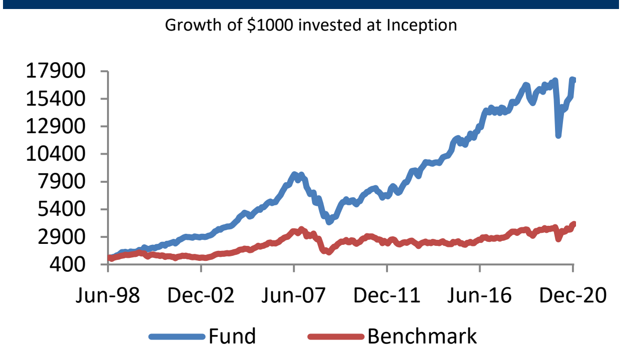
While sharemarkets around the world recovered strongly as the year progressed thanks to central bank and government actions as well as optimism for an improved economic outlook in 2021, many companies' profitability and dividends continue to be impacted by the economic turmoil during 2020. In light of the mixed economic outlook going forward, we continue to focus on good quality companies that we believe represent good value and which we believe can do well over the next 3 to 5 years.

Sector Weights



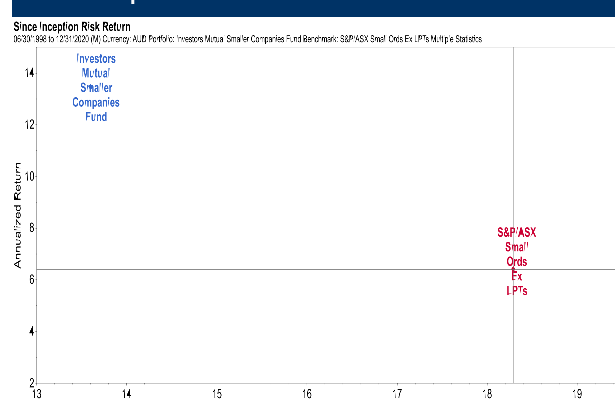
Portfolio top holdings	ASX Code
Pact Group	PGH
Skycity Entertainment	SKC
Pro-Pac Packaging	PPG
Australian Pharmaceutical Industries	API
Home Consortium	HMC
SG Fleet	SGF
Bega Cheese	BGA
A2B Australia	A2B
Event Hospitality and Entertainment	EVT
Southern Cross Media	SXL

Since Inception Cumulative Perf. Fund vs Benchmark



Source: IML

Since Incept. Risk Return Fund vs Benchmark*



*Benchmark = S&P/ASX Small Ords ExLPTs Source: Factset

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