

# Investors Mutual Australian Smaller Companies Fund



Monthly report October 2020

Fund status: OPEN

- ▶ Global sharemarkets finished the month lower following a sell-off in the final week as further lockdowns were announced
- ▶ The Fund's ex-100 benchmark Index ended with a flattish return of +0.4% in a volatile month for the sector
- ▶ We continue to adopt a cautious approach to the sharemarket while looking to selectively deploy some of the Fund's cash

	1 month	3 months	1 Year	3 years	5 Years <sup>^</sup>	Since inception <sup>^</sup>
Total Return*	+1.3%	+7.2%	-5.1%	+2.9%	+5.8%	+13.1%
Benchmark**	+0.4%	+4.6%	-1.0%	+4.5%	+8.5%	+5.9%

<sup>^</sup>% 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

Amidst a significant uptick in volatility in the final week of the month, global equity markets finished the month lower, with the MSCI World Index falling -2.7% for the month, following September's -3% loss. All major bourses finished October in the red, unsettled by rising COVID cases through the US and Europe, the reintroduction of new lockdown measures throughout Europe and uncertainty arising from a contested US election. The US S&P500 fell -2.7% over the month, courtesy of a -6% fall in the final week. The tech-heavy Nasdaq index finished -2.3% lower over the month, with the Tech giants leading the sell-off after reporting earnings that failed to impress, coupled with cautious earnings guidance citing renewed pandemic risks. Across the Atlantic, Europe's Stoxx50 and the UK's FTSE100 index shed -7.3% and -4.8% respectively as European Governments reintroduced strict lockdown measures.

Domestically, the Federal Budget highlighted the significant impact of the pandemic on the nation's finances, with a projected deficit of \$214 billion for 2020-21, augmented by a fiscal stimulus package that was more generous than widely expected. Complementing the fiscal spend, the RBA cut rates by 0.15% in early November, taking the cash rate down to a new record low of 0.10%, whilst announcing a further \$100 billion in asset purchases as part of their QE programme.

Despite the -5% slide in the final week of the month, the Australian sharemarket as measured by the ASX300 held on to finish October with a positive return of +1.9%. M&A activity was a significant driver with the likes of Coca-Cola Amatil, Link Administration and AMP all receiving bids from offshore suitors.

The **Fund's ex-100 benchmark** managed to eke out a small gain for the month, returning +0.4% which was a rather benign finish given the Small Ords was up +10% mid-month. The Small Resources sector finished the month lower in sympathy with weakness in both gold and oil prices. Within the industrials segment of the market, the Healthcare sector endured a difficult month falling -9%. Stem-cell therapeutics company Mesoblast dropped -40% after the FDA ruled their key therapy requires additional testing, rendering a significant delay in the potential commercialisation of the drug. The Small Cap IT sector also had a soft month, with a number of previous high-flyers, such as Megaport, enduring a challenging month. On the positive side of the ledger, the Financials sector enjoyed a strong month returning +5%. Virgin Money UK rebounded +27%, with the competitive pressures on net interest margins easing, coupled with an improving environment for bad debt provisioning. In addition, HUB24 gained +24% after announcing a bid for Xplore Wealth at a significant 200% premium to the pre-bid price.

The **Investors Mutual Australian Smaller Companies Fund** had a very good month gaining +1.3%, which was much better than the benchmark's return of +0.4%. Our caution to the ever-volatile Small Resources sector as well as much of the speculative froth within the Tech sector helped relative returns. Furthermore, many of our core holdings in good quality companies such as Pro-Pac Packaging, Home Consortium, Metcash and Steadfast all enjoyed a strong month.

Over the month we used strength in the share prices of Sky City, Class and Steadfast to trim our holdings as these companies rallied strongly. We used this cash opportunistically to add to our holdings in good quality companies such as Southern Cross Media and Regis Healthcare at what we assess as bargain basement prices for these well-established companies.

With risk taking greatly encouraged by central banks' ultra-low interest rate policies, we continue to stay disciplined and focused on companies that, in our view, have a strong franchise, experienced and capable management and a resilient business that can generate healthy cash flows over the next few years. While the portfolio's performance has lagged the sharemarket in recent times, we remain very comfortable with the overall quality of the stocks and the positioning of the portfolio and continue to look for opportunities to add to our holdings when we believe prices look highly attractive.

## Level of Franking (%)\*

FY16	14.0%
FY17	25.8%
FY18	31.5%
FY19	44.7%
FY20	71.2%

\*As per IFSA Standard

## Monthly Movements

S&P 500	-2.7%
Euro Stoxx 50	-7.3%
Nikkei	-0.9%
ASX Small Ords EXLPT	+1.9%
AUD/USD	-2.0%
Gold	-0.3%
Oil	-8.5%
Iron Ore	-1.7%

## Fund information

APIR	IML0001AU
Inception	30 Jun 1998
Size	\$150 M
Application	\$1.6179
Redemption	\$1.6099
Cash	8.4%
Management fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn Marc Whittaker

# Investors Mutual Australian Smaller Companies Fund

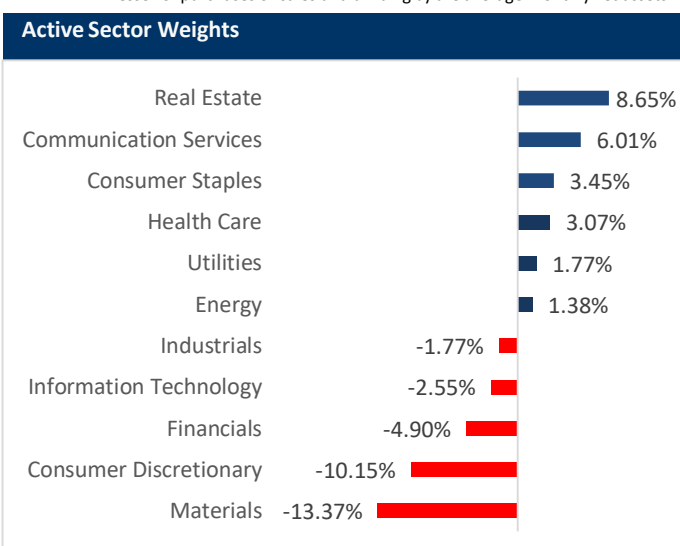


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Characteristics	Fund	Benchmark
Number of stocks	74	180
Portfolio Turnover*	41%	N/A
Annualised Tracking Error	11.05	N/A
Volatility (STD DEV) since inception	13.51	18.23
Portfolio Beta (since inception)	0.59	1.00

Researcher	Rating
Morningstar	Silver
Lonsec	Contact IML for the most recent rating
Zenith	Recommended

\*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



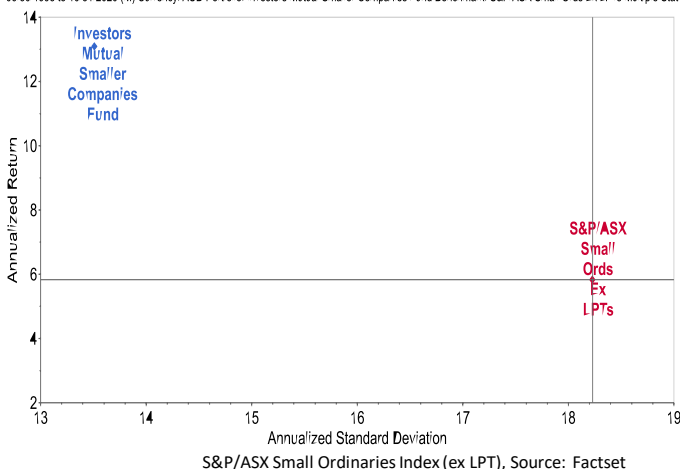
### Portfolio top holdings

Company Name	ASX Code
Skycity Entertainment	SKC
Pact Group	PGH
Pro-Pac Packaging	PPG
Home Consortium	HMC
Australian Pharmaceutical Industries	API
Integral Diagnostics	IDX
Event Hospitality and Entertainment	EVT
A2B Australia	A2B
McPherson's	MCP
Tassal	TGR

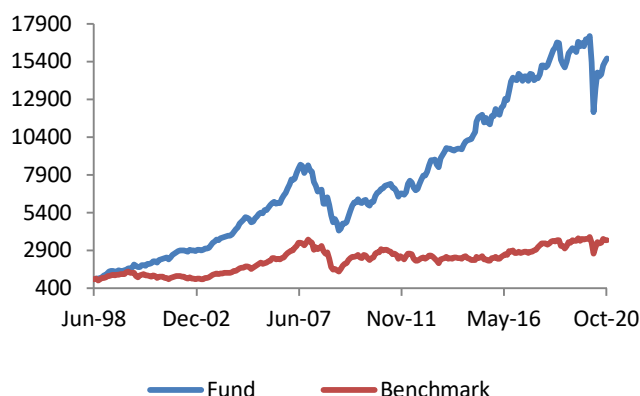
Source: IML

### Since Incept. Risk Return - Fund vs Benchmark\*

Since Inception Risk Return  
06/30/1998 to 10/31/2020 (M) Currency: AUD Portfolio: Investors Mutual Smaller Companies Fund Benchmark: S&P/ASX Small Ords Ex LPTs Multiple Stats



### Since Inception Cumulative Perf. Fund vs Benchmark\*



S&P/ASX Small Ordinaries Index (ex LPT), Source: IML



[iml.com.au](http://iml.com.au) 1300 551 132 [iml@iml.com.au](mailto:iml@iml.com.au)

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