IML's Comments on Brexit

June 2016

The recent Brexit vote has sparked significant weakness in financial markets around the world and whilst it is undoubtedly an important economic and political event for the UK, in reality the underlying fundamentals of the vast majority of Australian companies are unchanged. Most ASX-listed companies are not directly exposed to the UK economy and it makes little sense for Australian investors to panic. Financial markets around the world move in unison and what we are seeing is a kneejerk, short term, reaction to a minor potential negative for the world economy in the long term.

At IML we continue to look at individual company fundamentals and take a 3 to 5 year view when investing. Our continued, disciplined focus on *Quality and Value* continues to hold our investors in good stead during these periods of heightened volatility and as always we will look to invest in companies with competitive advantage, recurring earnings, capable management which have solid growth prospects - *at reasonable valuations.*

The IML Australian Share Fund has been defensively positioned for a low economic growth environment for some time now. We continue to focus on quality industrial companies that can grow under their *own initiative* and look for stocks that can generate earnings via acquisitions, restructuring, new products, contracted growth and market share gains. The Fund has been positioned in companies in defensive industries such as packaging, utilities, gaming and healthcare for some time now and the majority of holdings in the portfolio have little-to-zero exposure to the UK. A few examples of such companies are Pact Group, AGL, IAG, Fletcher Building and Spark Infrastructure - all these companies have strong fundamentals and continue to look attractive on a medium to long term basis.

More broadly, with economic growth continuing to look lackluster globally and interest rates set to stay at record lows for some time yet, we continue to believe that well managed companies that can grow their earnings and pay healthy dividend yields will continue to be well sought after by investors in coming years. We continue to find good opportunities in the Australian sharemarket and we believe that our portfolio is well positioned to continue to deliver reasonable capital growth and a solid income stream to its investors in the years ahead.

Until recently the fund was holding close to 9% in cash and the recent volatility has provided us with some excellent opportunities to deploy this cash and add to our positions in companies such as AGL, NAB, Suncorp and Ansell at what we believe are very compelling valuations. So while mindful of the risks so well publicized daily in the media, we expect volatility will eventually ease and we continue to believe that when the dust settles, well managed companies that can continue to reward their shareholders through EPS growth and a healthy dividend stream, will continue to offer attractive returns in a world of continued low interest rates in the years ahead.

For further commentary re Brexit & volatility, please also see Peter Switzer's interview with IML Investment Director, Anton Tagliaferro, taken last week in the midst of this month's heavy sell down of Australian shares.