

Investors Mutual Small Cap Fund

Monthly report May 2017

Fund status: OPEN

- ▶ Global sharemarkets continued to edge higher led by the US which continued to post new records
- ▶ The ASX Small Ordinaries Index fell -2.1% with the consumer sector hit hard as weakness persisted in retail stocks
- ▶ We continue to maintain a cautious approach given that many sectors look fairly fully priced

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^]
Total Return*	-1.4%	+1.7%	+9.9%	+16.0%	+16.9%	10.2%
Benchmark**	-2.1%	+0.3%	+3.5%	+6.0%	+4.2%	-0.5%

[^]% 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 Ords Index.

Sharemarket Commentary

Global equity markets, as measured by the MSCI World Index, gained a further +1.9% in May, becoming the 7th straight monthly increase and the longest winning streak in over a decade. US markets led the gains with the S&P500 clocking up new record highs as the market nudged forward another +1.4%, while Japan's Nikkei gained +2.4%. Conversely, Europe's Stoxx 50 was relatively flat as markets absorbed Macron's victory over Le Pen in the French Presidential elections. Despite increasing concerns over the stability of Trump's presidency, the US market ended in positive territory thanks to the release of solid US Q1 corporate earnings, a firming economic outlook as well as continuing strong share price momentum in the large technology stocks colloquially known as the FANGS (Facebook, Amazon, Netflix and Google).

The broader Australian sharemarket as measured by the ASX300 declined -2.7% over the month, led by Financials which fell -8% as bank shares de-rated when ANZ, NAB and Westpac went ex-dividend after reporting lacklustre interim results and as forward earnings were adjusted downwards to reflect the impact of the surprise impost of the Government's 6 basis point levy announced in the May Budget.

The ASX Small Ordinaries Index fell -2.1%, with the Small Industrials Index falling -3.2%, weighed down primarily by consumer related stocks. Despite weakness in commodity prices (iron ore -17%, oil -3%, base metals -1%), the Small Resources Index surprisingly gained +2.2%, rebounding from last month's weakness. Sector performance was mixed, with index heavyweight Consumer Discretionary falling -4.5% as retail stocks recorded significant falls. In addition embattled television network Ten fell -30% on the back of reporting another loss. Financials fell -5.2%, in sympathy with their large cap peers. Telcos performed well for the month with the sector up +4.6%.

Domestically, the retail sector dominated the headlines with concerns that high levels of consumer debt and weak wages growth will weigh on consumer activity going forward. Compounding these concerns was the effect Amazon's entry into Australia will have on the sector. Sentiment was not helped by news that the Australian arm of UK fashion retailer, Top Shop, has fallen into administration during the month. Finally, the proposed merger between APN Outdoor and oOh media failed to transpire as the competition regulator voiced concerns with the two parties calling off their dalliance, resulting in both stocks falling over the month.

The **IML Small Caps Fund** fell -1.4% over the month, which while disappointing, proved more resilient than the benchmark's fall of -2.1%. Our caution toward the highly speculative and volatile small resources held back our performance, however we remain comfortable with this positioning especially in light of the current drop in commodity prices. Several of our core industrial holdings such as Fairfax, Spark Infrastructure, Genesis, Tox Free, Z Energy and SkyCity had a pleasing month although our holdings in Myer, Mayne Pharma and Pact disappointed.

While the retail sector remains tough, we remain encouraged by the results of Myer's strategy to close unprofitable stores and invest in its top located stores. As for Pact Group and Mayne Pharma, we remain positive given the long term strategies of both companies to grow their earnings in the next 3 to 5 years. Pact Group's strong cashflows from its mature packaging businesses are being used to help the company expand into the contract manufacturing and pallet pooling sectors while Mayne Pharma is investing in a \$100m state of the art new manufacturing plant in the US which in coming years will produce the company's new products as well as contract manufacture for other pharma companies based outside the US.

The current correction to the Australian sharemarket was, in our view, overdue and a reality check for many sectors where the outlook remains mixed in the short term. This was illustrated in the Australian Banking sector as it rallied strongly over the last 6 months in sympathy with US banks despite a continued subdued earnings outlook and with many Resource companies share prices that needed to correct to reflect the current weakness in the prices of commodities such as iron ore and oil.

We continue to avoid the noise surrounding markets and continue to focus on using our healthy cash balance to take advantage of any opportunities to add to our holdings in good quality shares that in our opinion remain attractively priced on a 3 to 5 year view.

Level of Franking (%)*	
FY12	127.3%
FY13	86.5%
FY14	27.4%
FY15	25.1%
FY16	17.6%

*As per IFSA Standard

Monthly Movements	
S&P 500	1.4%
Euro Stoxx 50	1.0%
Nikkei	2.4%
ASX Small Ords.	-2.1%
AUD/USD	-0.5%
Gold	0.0%
Oil	-3.1%
Iron Ore	-17.4%

Fund information	
APIR	IML0006AU
Inception	1 Feb 2007
Size	\$84m
Application (Ex)	\$1.5426
Redemption (Ex)	\$1.5350
Cash	11.6%
Management fee	1.15% p.a.
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn

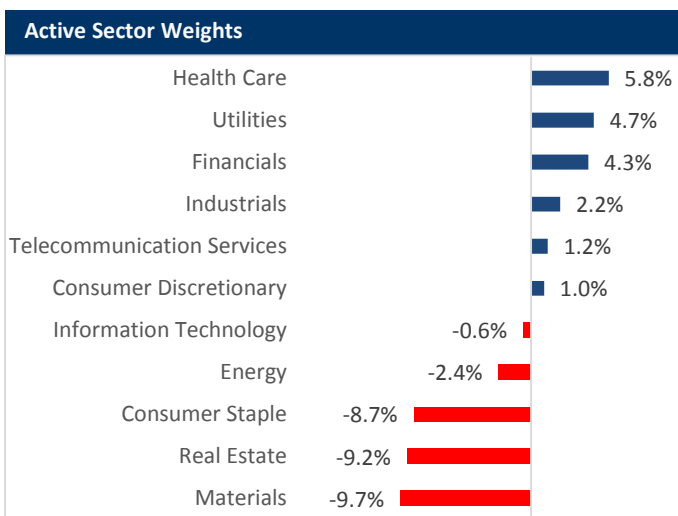
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Characteristics	Fund	Benchmark
Number of stocks	58	200
Portfolio Turnover*	31%	N/A
Annualised Tracking Error	10.47	N/A
Volatility (STD DEV) since inception	13.26	19.53
Portfolio Beta (since inception)	0.59	1

*Annualised rolling portfolio turnover since inception, IFSA Standard

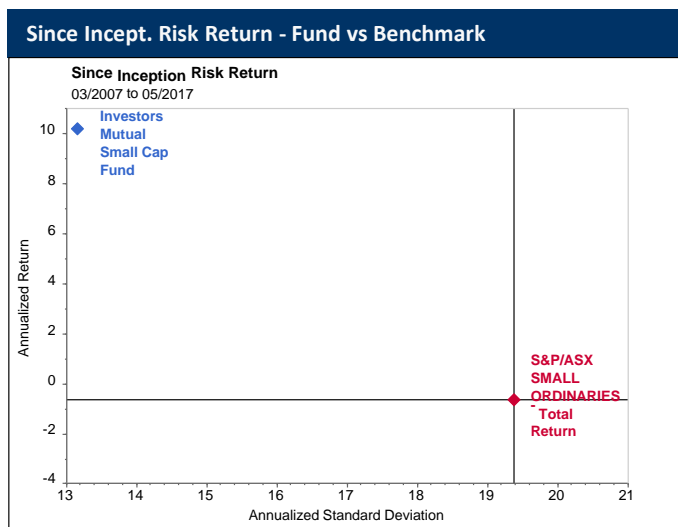
Researcher	Rating
Morningstar	Bronze
Zenith	Recommended



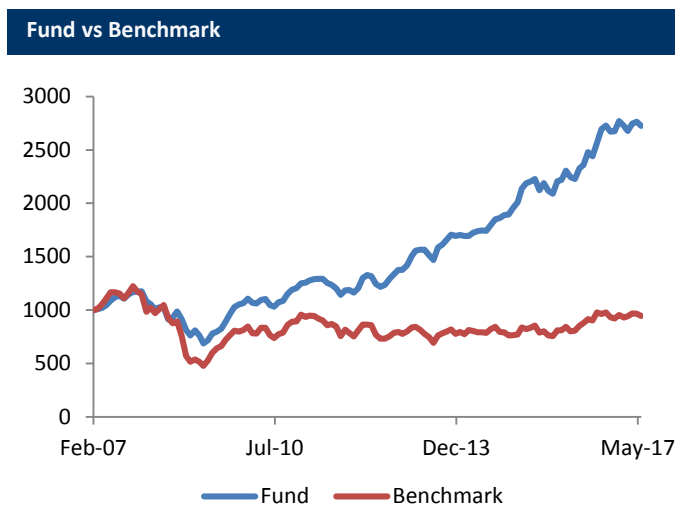
Portfolio top holdings

Portfolio top holdings	ASX Code
Tox Free	TOX
Pact Group	PGH
Mayne Pharma	MYX
Clydesdale Bank	CYB
Z Energy	ZEL
Flight Centre	FLT
Ansell	ANN
GWA	GWA
Spark Infrastructure	SKI
Fletcher Building	FBU

Source: IML



Source: Factset



Source: IML