

Investors Mutual Concentrated Australian Share Fund



Monthly report July 2017

Fund status: OPEN

- ▶ Global markets rallied again in July led by the US and strength in Emerging economic sharemarkets
- ▶ The ASX300 had a flat month as gains in the Resources sector and Banks were offset by weakness in non-Bank industrials
- ▶ We continue to maintain a cautious approach and use any weakness to top up on our preferred stocks

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^]
Income	+0.0%	+1.5%	+2.5%	+3.0%	+5.5%	+4.8%
Growth	-3.3%	-4.0%	-0.1%	+8.3%	+8.5%	+7.9%
Total Return*	-3.3%	-2.5%	+2.4%	+11.3%	+14.0%	+12.7%
Benchmark**	+0.0%	-2.5%	+7.0%	+5.1%	+10.7%	+8.4%

[^]% 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 300 Accumulation Index (ASX300)

Sharemarket Commentary

The MSCI World Index continued to advance gaining +2.4% over the month, its 9th consecutive month of gains. The US sharemarket continued to set record highs with the S&P500 recording a healthy gain of +2.1% and the tech heavy NASDAQ index up +3.4%. Emerging Market stockmarkets were also stronger as those economies continued to recover. Emerging market sharemarkets were also strong thanks to higher commodity prices. In contrast, Europe's Stoxx 50 and Japan's Nikkei index recorded lack lustre returns over the month as the weaker US dollar weighed on sentiment.

The US dollar (USD) fell to its lowest level in almost 2 years with the Dollar index falling -2.9% in July to be down -6.7% over the past 6 months. Recent weakness has been attributed to scepticism surrounding the Trump administration, a lack of progress on policy reform as well as speculation that the new President may be indicted for irregularities leading up to the last election. In addition, continued low US inflation has cast doubts over further interest rate increases by the Fed Reserve. The weakness in the USD is providing a boost to US exporters, whilst it is a headwind for most global exporters to the US.

The Australian dollar gained +4.1% against the weaker USD and +2.7% on a trade weighted basis. The AUD/ USD has now risen +5.5% over the past 6 months to touch the 80-cent mark again during July. Commodity prices rebounded in July with the iron ore price gaining +16.8% as investors reacted to strong Chinese construction data and a pledge by the Chinese Government to cut down on steel overcapacity. The oil price also rebounded, gaining +10.4% for the month following a recent OPEC meeting in which the cartel agreed to increase compliance with previously agreed production cuts.

Despite good gains in the Financial and Resources sectors, the Australian market finished the month flat. Over the month, the Financial sector, led by the major banks, rallied +1.3% after APRA unveiled its long awaited new capital requirements that were much less onerous than initially feared. The Resources sector surged +5.0% on higher commodity prices. These gains were offset by weakness in companies with offshore earnings such as Healthcare companies CSL and Sonic and packaging company Amcor. Defensive sectors such as the Utilities sector slipped back as the Australian 10 year bond yield spiked to +2.7% in the latter part of the month. The Telecommunications sector was also weak as the media and brokers speculated about a fall in Telstra's dividends, although the company did not confirm this. Our view is that while in the longer-term Telstra will in all probability cut its dividend to a more sustainable level of 25 to 27 cps post the NBN rollout, although in the medium-term the company has sufficient balance sheet strength and strong cashflows to continue with its current high dividend payout.

The **IML Concentrated Australian Share Fund** had a disappointing month falling -3.3%, underperforming the benchmark's return. The Fund's zero weighting to the volatile Resources sector weighed on our relative performance, as did the Fund's very low weighting to the major Banks. Our positioning in the more defensive sectors such as Healthcare and Utilities detracted from our performance. Whilst many of the Fund's holdings such as CSL and Clydesdale have been impacted by the stronger Australian dollar, we believe the strong competitive position of these companies as well as their earnings outlook for the next 3 to 5 years has not changed significantly.

Looking ahead, we continue to use any weakness in the market to top up on some of these quality multinational stocks as we believe they remain attractive long term investments. We also continue to top up on high yielding stocks such as Shopping Centres Australia as we do not believe Australian interest rates will increase significantly any time soon. We continue to look for opportunities to top up on good quality companies at times of weakness in the sharemarket and given the high weighting of cash in the Fund we are well positioned to do this.

Monthly Movements

S&P 500	2.1%
Euro Stoxx 50	0.3%
Nikkei	-0.5%
ASX 300 Accum	0.0%
AUD/USD	4.1%
Gold	2.0%
Oil	10.4%
Iron Ore	16.8%

Fund information

APIR	IML0010AU
Inception	1 Sep 2010
Size	\$55m
Application	\$1.7006
Redemption	\$1.6922
Cash	19.5%
Management fee	0.993% p.a.
Holdings	10 -30 stocks
Stocks/sector limits	No
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Hugh Giddy

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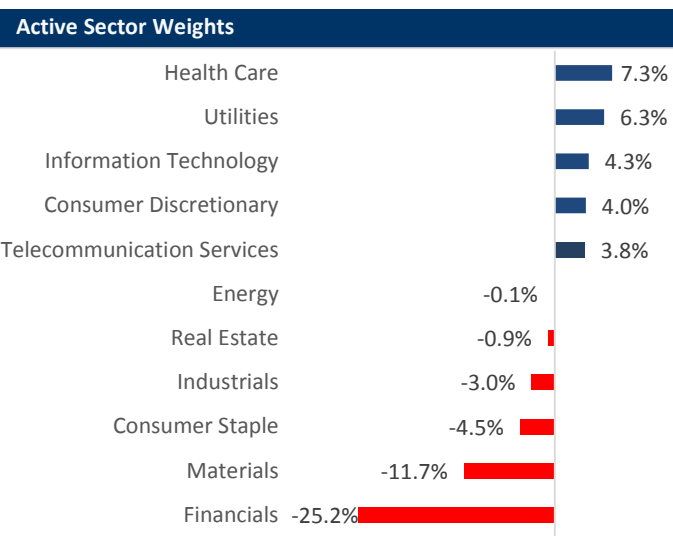


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Characteristics	Fund	Benchmark
Number of stocks	27	300
Portfolio Turnover*	13%	N/A
Annualised Tracking Error	6.31	N/A
Volatility (STD DEV) since inception	8.54	11.57
Portfolio Beta (since inception)	0.62	1

*Annualised average rolling portfolio turnover since inception, IFSA Standard

Researcher	Rating
Lonsec	Highly Recommended
Zenith	Recommended

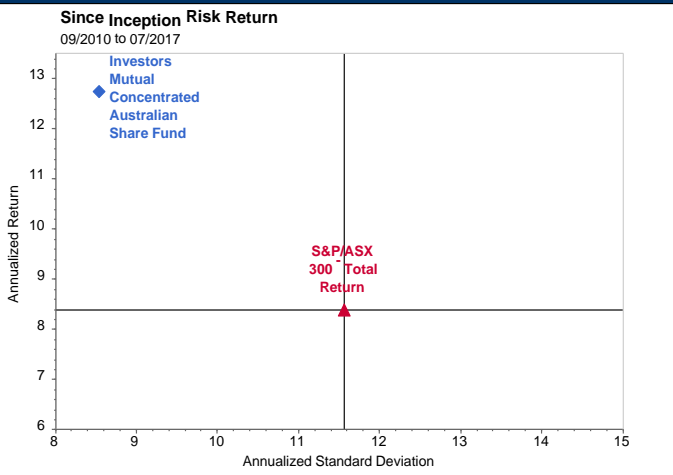


Portfolio top holdings

Portfolio top holdings	ASX Code
CSL Limited	CSL
Spark Infrastructure Group	SKI
Telstra Corporation	TLS
Fletcher Building	FBU
Clydesdale Bank	CYB
Z Energy	ZEL
Commonwealth Bank	CBA
Link Administration Holdings	LNK
Abacus Property Group	ABP
AGL Energy	AGL

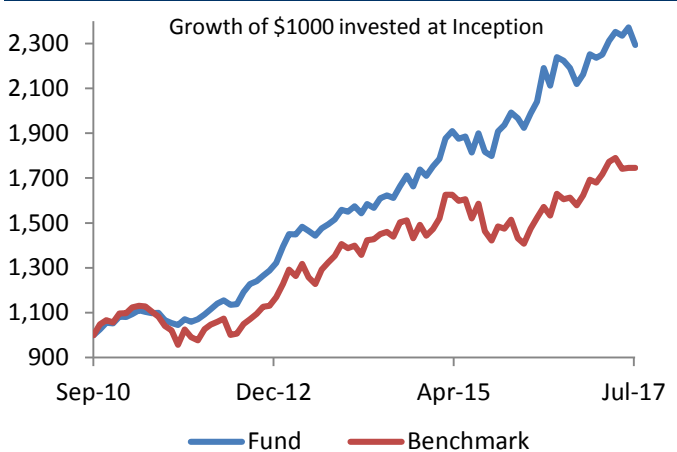
Source: IML

Since Incept. Risk Return Fund vs Benchmark



Source: Factset

Fund vs Benchmark



Source: IML



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