

# Investors Mutual Equity Income Fund

Monthly report May 2017

Fund status: OPEN

- ▶ Global sharemarkets continued to edge higher led by the US market which continued to post new records
- ▶ The Australian sharemarket fell -2.7%, with Banks leading the falls impacted by going ex div and the new Government levy
- ▶ We continue to maintain a cautious approach given that many sectors look fully priced

	1 month	3 months	1 Year	3 years <sup>^</sup>	5 Years <sup>^</sup>	Since inception <sup>^</sup>
Income	+0.0%	+1.8%	+7.5%	+8.3%	+8.8%	+9.0%
Growth	-0.2%	+2.7%	+2.0%	+2.1%	+4.1%	+2.5%
Total Return*	-0.2%	+4.5%	+9.5%	+10.4%	+12.9%	+11.5%
Benchmark**	-2.7%	+1.4%	+10.8%	+6.0%	+11.7%	+7.5%

<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 300 Accumulation Index. The Fund has twin objectives of delivering (i) income greater than the S&P/ASX 300 Index yield +2% and (ii) returns with less standard deviation than S&P/ASX300.

## Sharemarket Commentary

Global equity markets, as measured by the MSCI World Index, gained a further +1.9% in May, becoming the 7<sup>th</sup> 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). Furthermore, a belief that the US Federal Reserve will remain accommodative has continued to buoy equities despite valuations being at historically high levels.

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 retail sector also had a tough month with weaker consumer sentiment along with fears of the impact of Amazon entering Australia weighing on the sector. Sentiment was not helped by news of the Australian arm of UK fashion retailer Top Shop falling into administration during the month. As a result, the share prices of listed retailers such as Myer, Harvey Norman, Super Retail and JB HiFi all fell heavily during the month as short sellers made the most of the prevailing negative sentiment. The AREIT sector also came under pressure as weakness in retail fed into REITs exposed to the sector - such as Westfield, Scentre and Vicinity.

Defensive sectors had a strong month with both the Telco and Utility sectors gaining +3.5% and +1.0% respectively. Telstra rebounded +4.3% following weakness in the previous month as investors grew more comfortable with the sustainability of its dividend over the medium term.

The **IML Equity Income Fund** fell -0.2% over the month, which was a much more resilient performance than the benchmark's fall of -2.7%. Our caution toward the Financials sector benefited relative performance as did the good performances of several of our core industrial holdings such as Sky City, Sonic Healthcare and Telstra.

We took advantage of the increase in volatility in May to write options around many of our key industrial holdings such as Sonic, AGL, IAG, Amcor and Ansell to generate very attractive income for the Fund. Whilst we remain cautious on Australian banks, the 10% correction in the sector is providing us with a potential re-entry point into our preferred banks like NAB, Commonwealth Bank and Westpac. We also reinvested a portion of the takeover proceeds from Duet Group into good quality companies that IML has researched for many years such as Pact Group, Fletcher Building and Genesis Energy. Based on our research, at current prices all these companies offer sound value as well as solid yields.

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 (%)\*

FY13	41.3%
FY14	48.2%
FY15	37.3%
FY16	37.1%

\*As per IFSA Standard

## Monthly Movements

S&P 500	1.4%
Euro Stoxx 50	1.0%
Nikkei	2.4%
ASX 300 Accum	-2.7%
AUD/USD	-0.5%
Gold	0.0%
Oil	-3.1%
Iron Ore	-17.4%

## Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$630m
Application	1.1289
Redemption	1.1233
Management fee	0.993%
Investment horizon	4-5 years
Distributions	Quarterly
Manager	Anton Tagliaferro

Security Category	Effective Exposure
Ordinary Shares	78.6%
Call Options	-13.3%
Put Options	2.7%
Cash	32.0%

# Investors Mutual Equity Income Fund

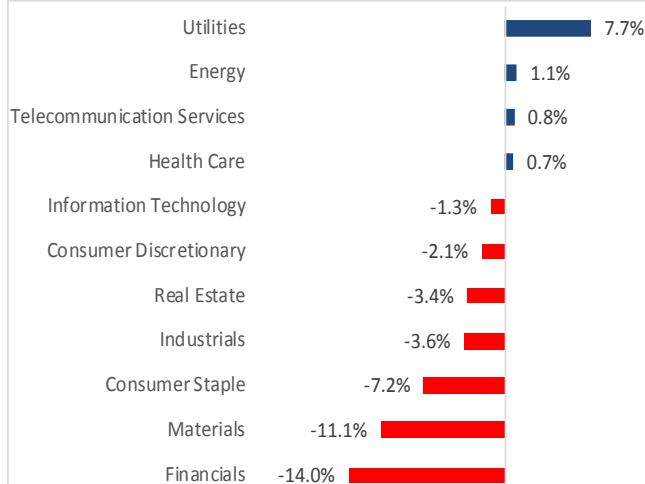
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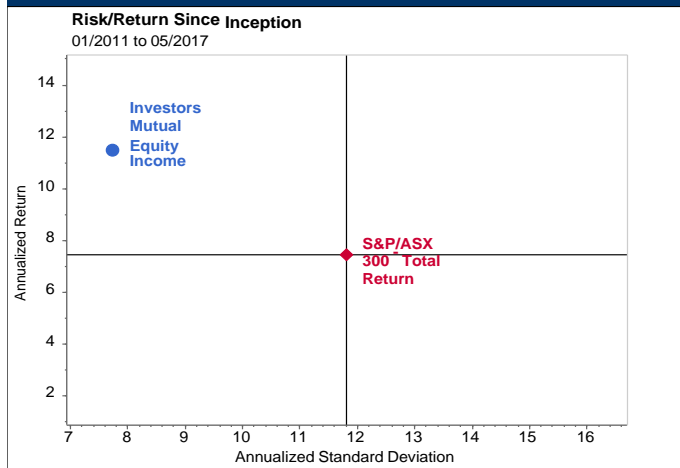
Characteristics	Fund	Benchmark
Number of stocks	39	
Portfolio Turnover*	37%	N/A
Volatility (STD DEV) since inception	7.82	11.89
Portfolio Beta (since inception)	0.61	1

\*Annualised rolling portfolio turnover since inception, SEC Standard

## Active Sector Weights



## Since Incept. Risk Return - Fund vs Benchmark



Source: Factset

Researcher	Rating
Morningstar	Bronze
Lonsec	Recommended
Zenith	Recommended

Portfolio top holdings	ASX Code
National Australia Bank	NAB
Telstra	TLS
Commonwealth Bank	CBA
Spark Infrastructure	SKI
Insurance Australia Group	IAG
Transurban	TCL
CSL	CSL
Caltex	CTX
Suncorp	SUN
AGL	AGL

## Value and Income portfolio update

As of 1 January 2011 the Value and Income Fund was restructured and its name was changed to the IML Equity Income Fund. The combination of the historical performance numbers for the Value and Income Fund and the present performance numbers for the Equity Income Fund is presented below.

## Fund information

Inception	1 May 2004
Size	\$630m
Application (ex)	1.1289
Redemption (ex)	1.1233

Period	Fund return	Benchmark
1 year	+9.5%	+10.8%
3 years <sup>^</sup>	+10.4%	+6.0%
Since Inception <sup>^</sup>	+8.6%	+8.6%

<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. Fund returns are the Value and Income Fund prior to 31 December 2010 and the Equity Income Fund from 1 January 2011. \*\* The benchmark for this Fund is S&P/ASX 300 Accumulation Index. The benchmark returns is the UBS Bank Bill +2% benchmark prior to 31 December 2010 and S&P/ASX 300 Accumulation Index from 1 January 2011.



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