Investors Mutual Equity Income Fund

Monthly report July 2017

INVESTORS MUTUAL LTD

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%	+3.2%	+7.7%	+7.9%	+8.4%	+9.1%
Growth	-1.8%	-4.7%	-2.7%	+0.9%	+3.0%	+1.8%
Total Return*	-1.8%	-1.5%	+5.0%	+8.8%	+11.4%	+10.9%
Benchmark**	+0.0%	-2.5%	+7.0%	+5.1%	+10.7%	+7.3%

^% 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). The Fund has dual 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

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 Financials and Resources sectors, the Australian market finished the month flat. Over the month, the Financials 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 Resource sectors 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 as well as defensive sectors such as the Utilities sector which slipped back as the Australian 10 year bond yield spiked to +2.7% during July.

The **IML Equity Income Fund** had a disappointing month falling -1.8%, underperforming the benchmark. Our low weighting to the volatile Resources sector weighed on our relative performance, as did our caution to the major Banks. Our positioning in the more defensive sectors such as Healthcare and Utilities detracted from our performance. Whilst many of our holdings such as CSL, Amcor and Ansell were impacted over the month by the higher 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.

We took advantage of the increase in volatility throughout the month to write options around our key industrial and financial holdings. Stocks that we know well were excessively sold off which allowed us to generate attractive income by selling puts in good quality companies like Clydesdale Bank and Sonic Healthcare. Conversely, we sold calls on stocks such as IAG and Suncorp as they rallied to new 12 month highs. We also selectively accumulated sound retail trusts such as BWP Trust, Charter Hall and SCA Property on distribution yields of +6% as the sector was sold off with the rise in 10-year bond yields.

Looking ahead, we continue to use any weakness in the market to top up on some 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 and Spark Infrastructure which are trading on +6 % yields and locked in growth 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 generate good income for the Fund using the options market.

Level of Franking (%)*	
FY14	48.2%
FY15	37.3%
FY16	37.1%
FY17	53.4%

*As per IFSA Standard

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	IML0005AU
Inception	1 Jan 2011
Size	$645m
Application	$1.0787
Redemption	$1.0733
Mngmt fee	0.993%
Invest. horizon	4-5 years
Distributions	Quarterly
Managers	Anton Tagliaferro Michael O'Neill Tuan Luu

Security Category	Effective Exposure
Ordinary Shares	78.5%
Call Options	-9.6%
Put Options	3.6%
Cash	27.5%

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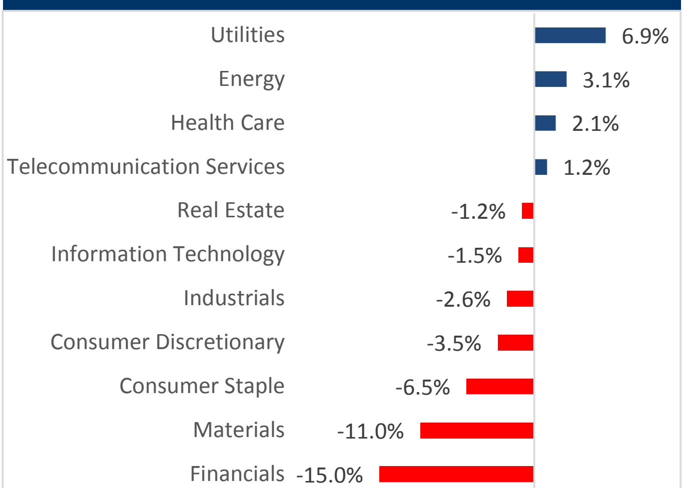
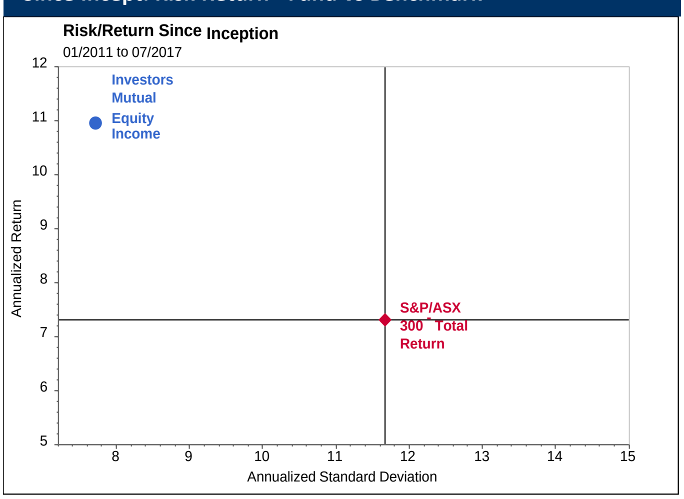
Characteristics	Fund	Benchmark
Number of stocks	40	300
Portfolio Turnover*	45%	N/A
Volatility (STD DEV) since inception	7.72	11.66
Portfolio Beta (since inception)	0.61	1

*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
Transurban	TCL
Insurance Australia Group	IAG
CSL	CSL
Caltex	CTX
Clydesdale Bank	CYB
Ansell	ANN

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	$645m
Application (ex)	$1.0787
Redemption (ex)	$1.0733

Period	Fund return	Benchmark
1 year	+5.0%	+7.0%
3 years^	+8.8%	+5.1%
Since Inception^	+8.4%	+8.5%

^ % 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. 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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