

Investors Mutual Future Leaders 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 Fund's ex 50 index fell -0.5% 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*	-1.6%	2.0%	8.5%	14.8%	15.2%	11.6%
Benchmark**	-0.5%	3.6%	9.3%	10.3%	9.7%	8.7%

[^] 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 (ex. S&P/ASX50, ex LPT)

Sharemarket Commentary

Global equity markets as measured by the MSCI World Index gained a further +1.9% in May, 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 Macon'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 and a firming economic outlook.

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 Fund's ex 50 benchmark fell -0.5% over the month. Sector performances were mixed despite weakness in commodity prices (iron ore -17%, oil -3%, base metals -1%). The materials sector surprisingly gained +1.8%, rebounding from last month's weakness. Index heavyweight Consumer Discretionary fell -2.6% as retail stocks recorded significant falls. Financials fell -3.1% in sympathy with their large cap peers. Utilities performed well for the month with the sector up +2.5%.

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. 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 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. Adding some respite to the Consumer Discretionary sector was Fairfax Media, which rallied +17% as private equity firm Hellman & Friedman bid against TPG Capital for full control of Fairfax. Both companies made indicative offers of \$1.25 per share, valuing the business at approximately \$2.8b.

The IML Future Leaders Fund fell -1.6% over the month, a disappointing result against the benchmark's fall of -0.5%. Our caution toward the highly speculative and volatile mining and mining services held back our performance, however, we remain comfortable with this positioning especially in light of the current drop in commodity prices. While several of our core industrial holdings such as Fairfax, Genesis, Tox Free, Z Energy and SkyCity had pleasing months, 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	57.8%
FY13	34.0%
FY14	26.4%
FY15	25.7%
FY16	14.2%

*As per IFSA Standard

Monthly Movements

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

Fund information

APIR	IML0003AU
Inception	1 May 2002
Size	\$527m
Application (Ex)	1.2193
Redemption (Ex)	1.2133
Cash	14.3%
Management fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn

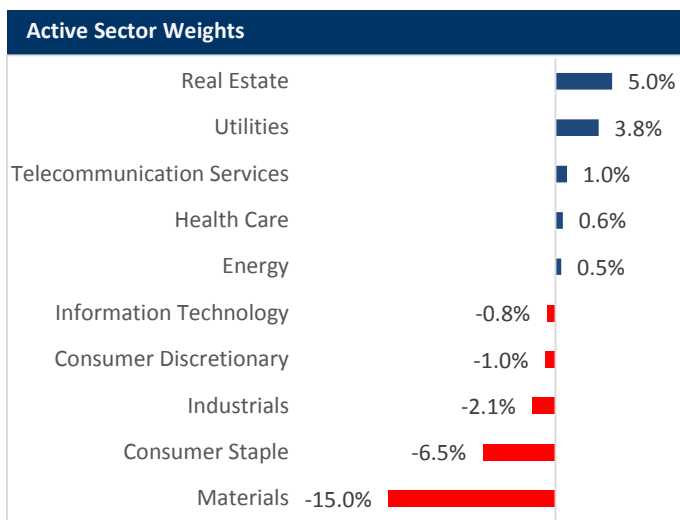
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Characteristics	Fund	Benchmark
Number of stocks	65	
Portfolio Turnover*	36%	N/A
Annualised Tracking Error	8.70	N/A
Volatility (STD DEV) since inception	11.40	16.17
Portfolio Beta (since inception)	0.60	1

*Annualised rolling portfolio turnover (avg. over 10 years) IFSA Standard

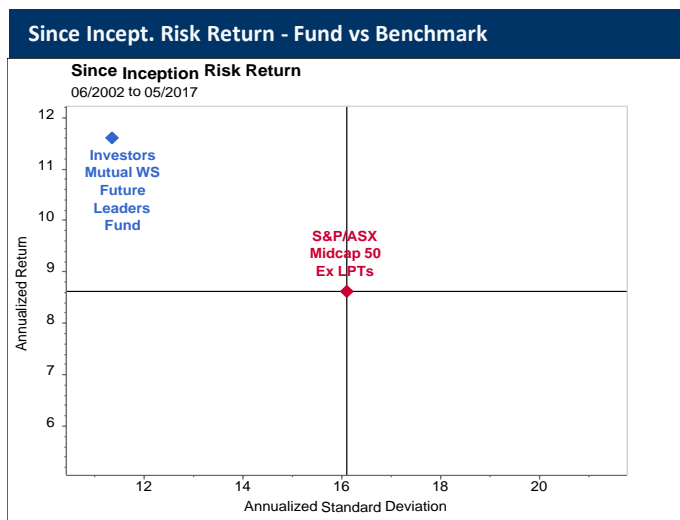
Researcher	Rating
Morningstar	Bronze
Lonsec	Highly Recommended
Zenith	Recommended



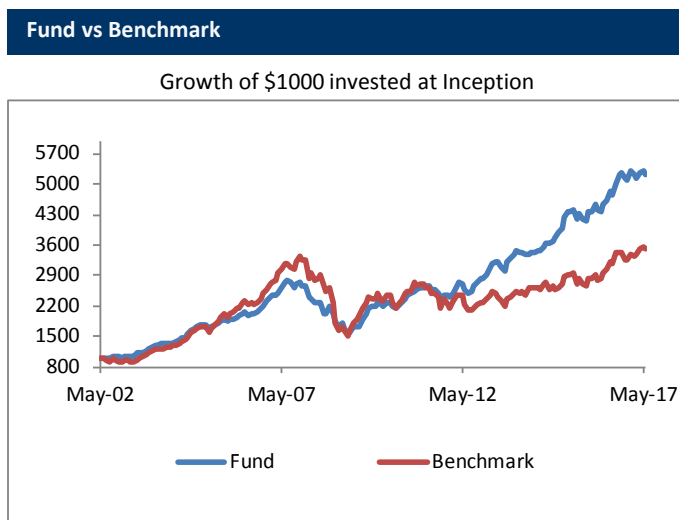
Portfolio top holdings

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

Source: IML



Source: Factset



Source: IML