Investors Mutual Future Leaders Fund

Quarterly report September 2017

INVESTORS MUTUAL LTD

Fund status: OPEN

- Global sharemarkets continued to rally over the quarter thanks to strength in US stockmarkets, which hit new record highs
- The Fund's ex50 benchmark gained +1.4%, thanks to significant strength in the volatile small & mid cap resources segment
- We continue to be cautious given the competitive pressures impacting companies and the uneven economic environment

	1 month	3 months	1 Year	3 years^	5 Years^	Since inception^
Income	+0.0%	+0.0%	+8.5%	+11.5%	+11.5%	+10.5%
Growth	+0.7%	-1.6%	-8.0%	+1.6%	+2.4%	+0.9%
Total Return*	+0.7%	-1.6%	+0.5%	+13.1%	+13.9%	+11.4%
Benchmark**	+0.7%	+1.4%	+6.5%	+12.0%	+10.3%	+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 finished the September quarter on a firm note with the MSCI World Index gaining +5.0%. Global bourses were led higher by the US, as the Dow Jones continued its run of record highs and the S&P500 Index finishing the quarter up +4.5%. Europe's Stoxx50 and Japan's Nikkei were similarly strong over the quarter finishing +4.8% and +2.2% higher respectively.

Sentiment improved late in the quarter as equity markets looked to brush aside geopolitical rumblings such as the threat of nuclear war with North Korea. With markets reacting positively as the Republican Administration finally released a blueprint of corporate tax reforms. Also in the US, the Federal Reserve minutes released in September highlighted the need for further policy normalisation by enacting a program to wind back its balance sheet, a move which pundits labelled QT (quantitative tapering). The Fed also flagged its intention for a further US rate increase by the end of the year. The Fed minutes coincided with a backdrop of stronger US macro data releases, such as the ISM manufacturing gauge hitting a 13 year high. The tax reform proposals, coupled with Fed normalisation news buoyed the USD late in the quarter after it had fallen circa -10% over the previous 6 months.

Domestically, the AUD lost -1.4% against the USD in September, a welcome reprieve given its strength over the previous 6 months. Over the quarter, Base Metal prices gained +9.5%, the gold price gained +3.1% while the oil price gained +14.5% over the quarter as production cuts by OPEC gained traction.

In contrast to its global counterparts, the broader Australian market as measured by the ASX300 Accumulation Index had a lacklustre quarter overall eking out a +0.8% gain. Despite weakness in the Resources sector late in the quarter, courtesy of a hefty correction in the iron ore price, the Resource sector was the best performing sector over the quarter gaining +9.3%. By contrast the Industrials sector was soft falling -0.8%. Reporting season in August proved lacklustre despite the fact that many companies met their FY17 expectations, their forward guidance and outlook for FY18 underwhelmed investors.

The **Fund's ex50 benchmark** outperformed its large cap counterpart by gaining +1.4% over the September quarter. It was a tale of two markets with Small & Mid Industrials edging out a small gain, while the Small & Mid Resources surged ahead on the back of higher commodity prices.

Within the small & mid cap industrials segment, Consumer Staples was the best performer, gaining +5.6% as companies exposed to the ongoing soft commodities boom continued to be well supported, with the likes of a2 Milk, Costa, Blackmores and, Bellamy's all having a strong quarter. Conversely, index heavyweight Consumer Discretionary had a lacklustre quarter down -1.1%, as companies exposed to the Australian consumer were weaker as concerns that consumer spending going forward would slow due to record high debt levels and weak wages' growth. The Healthcare sector also had a challenging quarter falling -5.9% with API down -21.8% after the company flagged a softer end to the year and Mayne Pharma falling heavily after reporting a disappointing FY17 result. We remain confident in the investment case for both companies moving forward. Similarly, Telcos had a challenging quarter falling -11.7% with new mobile aspirant TPG falling -14.5% with investors cautious over their ambitious plans to compete as Australia's 4th mobile operator, in what is already a highly competitive environment.

Fund information	
APIR	IML0003AU
Inception	1 May 2002
Size	$569M
Application (Ex)	$1.1575
Redemption (Ex)	$1.1517
Cash	13.2%
Management fee	0.993% p.a.
Investment horizon	4-5 years
Distributions	Semi-annually
Managers	Simon Conn

Level of Franking (%)*	
FY12	57.8%
FY13	34.0%
FY14	26.4%
FY15	25.7%
FY16	14.2%
FY17	27.3%

*As per IFSA Standard

Performance & Strategy

The ***Investors Mutual Future Leaders Fund*** had a tough quarter with its unit price declining -1.6% against the benchmark's gain of +1.4%. Our caution to the volatile small & mid resources sector held back our relative performance over the quarter with many of the mining stocks rallying strongly as the sector surged. In addition, many of our small & mid cap Industrial holdings such as Mayne Pharma, API, GWA and Pact Group all had disappointing quarters following lacklustre guidance, although we remain comfortable with the management and long term outlook for these companies On a positive note, Clydesdale Bank, Pinnacle, Flight Centre, Steadfast and Tox Free all had a solid quarter.

Mayne Pharma's (MYX) share price declined significantly over the quarter after announcing a disappointing FY17 result due to strong competition in the US generics market in the second half of the year. While this pricing pressure will also impact FY18, a range of initiatives such as cost cutting and new product launches will help offset some of this weakness. In addition, the company's branded products and contact manufacturing divisions are expected to post good growth going forward. At current prices, we believe the company is oversold, trading at a discount to peers in the US industry. At this stage, we are holding our position in the company while closely monitoring the company's progress into FY18.

Clydesdale Bank (CYB) gained +9.1% in the September quarter following a market update in which the bank announced it was ahead of schedule on its cost out programmes. Furthermore, we are encouraged with the bank expecting to achieve capital efficiencies when it is granted advanced accreditation by the UK regulator which could result in a return of capital via a buyback. Furthermore, the Bank of England's announcement that UK rates may be raised later this year also led to strength in financials in the UK as this would help the sector's profitability.

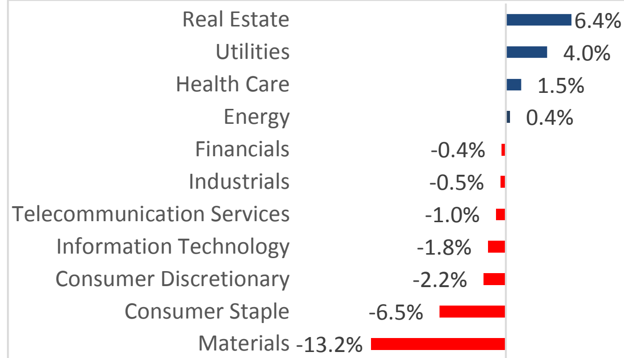
Pact Group (PGH) declined -10.6% for the quarter after the FY17 results showed soft underlying market conditions offset by the benefits of acquisitions and self-help initiatives. The long-term partnership with Woolworths in crate pooling operations commenced in Aug-17, which we see as a solid investment which further diversifies Pact's business and reflects the capable strategic execution being carried out by Pact's experienced management team.

Integral (IDX) rallied +2.4% for the quarter after the diagnostics company reported a solid FY17 result. The result highlighted continued growth in examinations in excess of Medicare data in states where IDX operates. In addition, the new CEO outlined a clearer strategic plan to improve operational performance, and Medicare data since year end has reflected improving diagnostic imaging industry trends.

Outlook

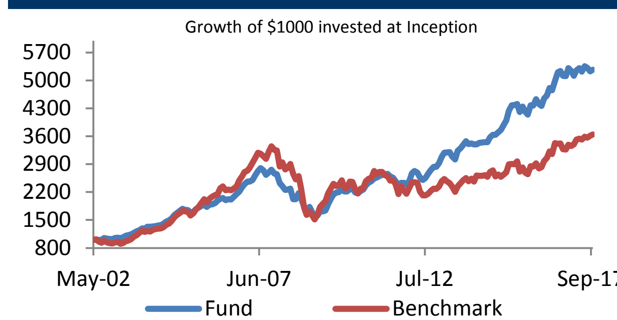
We remain cautious given the continued low growth and highly competitive economic environment which is making it difficult for many companies to grow their earnings. We continue to focus our attention on good quality companies that we believe are well positioned to sustainably grow their earnings and dividends in the years ahead while also maintaining a healthy level of cash in the portfolio as we await further opportunities to buy good quality stocks at the right level. We are still cautious on the Resource sector given the continued high levels of supply apparent in most commodity markets.

Sector Active Weights



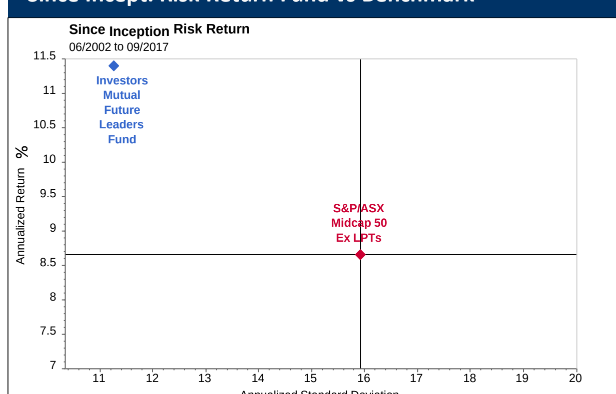
Portfolio top holdings	ASX Code
Tox Free	TOX
Pact	PGH
Clydesdale Bank	CYB
Spark Infrastructure	SKI
Shopping Centres Australasia	SCP
Ansell	ANN
Z Energy	ZEL
Fletcher Building	FBU
Southern Cross Media	SXL
Bank of Queensland	BOQ

Since Incept. Cumulative Perf. Fund vs Benchmark*



*S&P/ASX 300 Accumulation Index (ex. S&P/ASX50, ex LPT), Source: IML

Since Incept. Risk Return Fund vs Benchmark*



*S&P/ASX 300 Accumulation Index (ex. S&P/ASX50, ex LPT), Source: Factset

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