

Investors Mutual Australian Smaller Companies Fund



Monthly report July 2017

Fund status: OPEN

- ▶ Global markets continued to rise helped by US markets which continued to hit new record highs
- ▶ The ASX Small Ordinaries Index had a soft month as weakness in Industrials offset a strong month for Resources
- ▶ We continue to maintain a cautious approach waiting for the right opportunities to arise

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^]
Total Return*	-0.3%	+0.9%	+8.4%	+13.8%	+15.9%	+15.1%
Benchmark**	+0.7%	+0.6%	-0.8%	+4.9%	+4.9%	+5.6%

[^]% 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 Small Ordinaries Index (ex LPT)

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 economic 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 continued speculation that the new President may be indicted for irregularities leading up to the election last November.

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 touching the 80-cent mark during July. Commodity prices rebounded in July with the iron ore price gaining over +16.8% as investors reacted to strong Chinese construction data. The oil price also rebounded +10.4% following the recent OPEC meeting.

Despite good gains in the Financials and Resource sectors, the broader market as measured by the ASX 300 Accumulation Index finished the month flat. Over the month, the Financials sector, led by the major banks, rallied +2.3% after APRA unveiled its long awaited new capital requirements that were much less onerous than initially feared. The Resource sector surged +5.0% on higher commodity prices.

The **Fund's ex 100 benchmark** squeezed out a small gain of +0.7% in July, with the Small Resources index gaining +2.9% as commodity prices rebounded strongly. These gains were largely offset by the Small Industrials index which finished the month down -0.2%. Within the small industrials segment, Financials had a strong month up +3.2% rising in sympathy with their large cap peers. Conversely, the Healthcare sector fell -5.0%, also in sympathy with their large cap peers. Companies with offshore earnings exposure were sold off given the strength of the AUD, particularly against the USD where most of their offshore revenues are generated.

Fletcher Building had a volatile month after a challenging period for the construction business, announcing that CEO Mark Adamson would leave the business and reporting further losses by this division. Whilst disappointing, we note that many of the losses have been pulled forward into FY17 earnings, with the outlook for FY18 remaining largely unchanged. Cabcharge also had a weak month following legislative changes made in Victoria to extinguish perpetual taxi plate licenses. We believe management are doing a good job to reposition the company and take further costs out of the business. We remain confident the company has a solid future in the personal transportation market.

The **IML Smaller Companies Fund** had a fairly flat month, returning -0.3%. Our caution to the volatile small resources sector held back our relative performance given that the Resources sector was the driver of returns over the month. Pleasingly the Fund benefited from its holdings in Pinnacle Investment Management, McPherson's, Southern Cross Media and Integral Diagnostics which all did well.

We continue to use any period of weakness in share prices to top up on good quality small cap industrial companies, such as Fletcher Building and Pact Group which we believe represent very good long term value at current levels. In our view, Australian interest rates are unlikely to increase significantly in the foreseeable future and as such we remain happy to top up on high yielding stocks such as Shopping Centres Australasia which is yielding over 6% at current levels.

Level of Franking (%)*	
FY13	42.9%
FY14	25.5%
FY15	31.3%
FY16	14.0%
FY17	25.8%

*As per IFSA Standard

Monthly Movements	
S&P 500	2.1%
Euro Stoxx 50	0.3%
Nikkei	-0.5%
ASX Small Ords EX LPT	0.7%
AUD/USD	4.1%
Gold	2.0%
Oil	10.4%
Iron Ore	16.8%

Fund information	
APIR	IML0001AU
Inception	30 Jun 1998
Size	\$172m
Application (Ex)	\$1.9559
Redemption (Ex)	\$1.9461
Cash	10.2%
Management fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn Marc Whittaker

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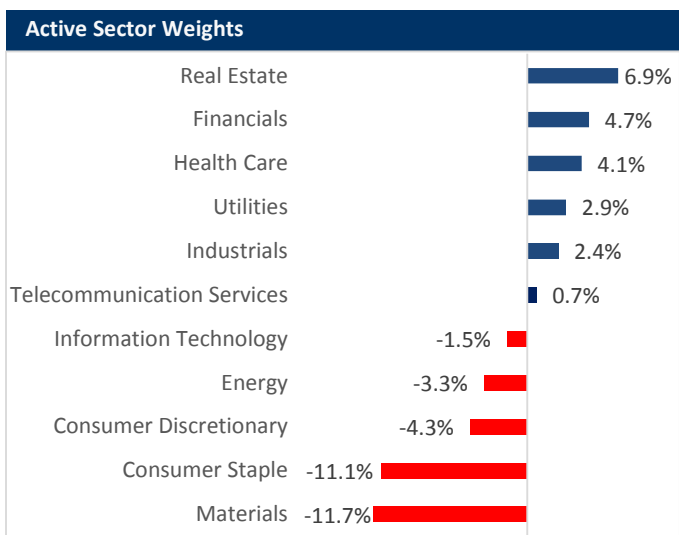


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Characteristics	Fund	Benchmark
Number of stocks	53	175
Portfolio Turnover*	35%	N/A
Annualised Tracking Error	11.36	N/A
Volatility (STD DEV) since inception	12.70	17.76
Portfolio Beta (since inception)	0.55	1

*Annualised avg rolling portfolio turnover since inception, IFSA Standard

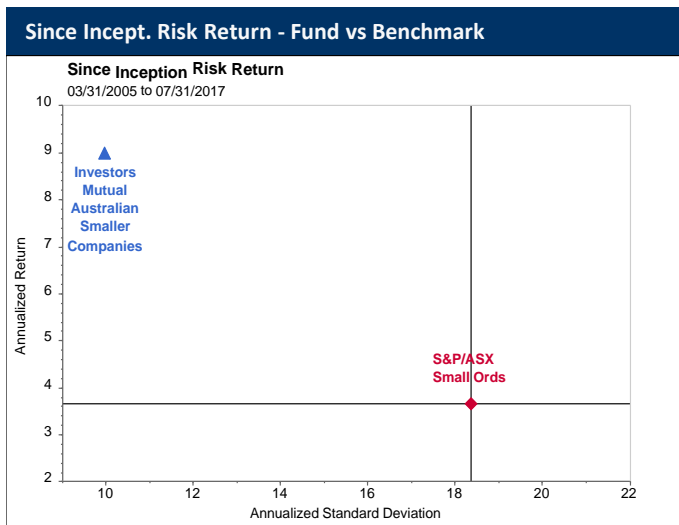
Researcher	Rating
Morningstar	Bronze
Lonsec	Highly Recommended
Zenith	Recommended



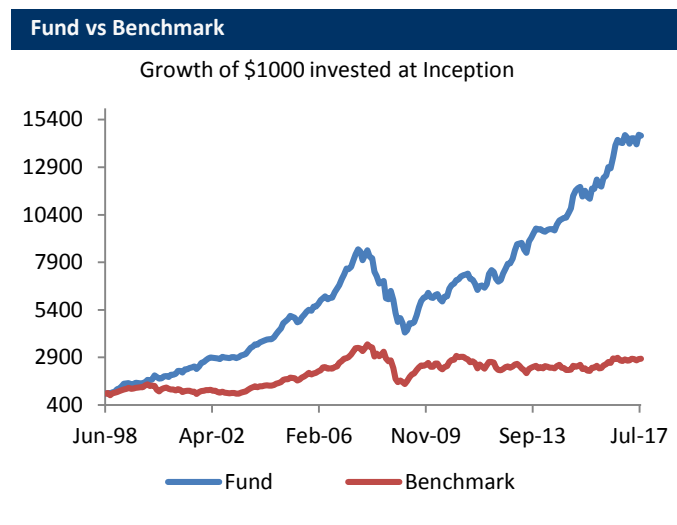
Portfolio top holdings

Company Name	ASX Code
Tox Free Solutions	TOX
Pact	PGH
Southern Cross Media	SXL
Z Energy	ZEL
Ht&E	HT1
Fletcher Building	FBU
Mayne Pharma	MYX
Centuria Capital	CNI
Shopping Centres Australasia	SCP
Thorn Group	TGA

Source: IML



Source: Factset



Source: IML



iml.com.au
 1300 551 132
 iml@iml.com.au

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