

Investors Mutual Small Cap Fund

Monthly report February 2020



Fund status: OPEN

- ▶ Global sharemarkets endured a turbulent month as panic set in over the economic impact of the coronavirus
- ▶ The ASX Small Ordinaries Index fell -8.7% in February with every sector finishing firmly in negative territory
- ▶ We are adopting a cautious approach to the sharemarket looking to selectively use some of the Fund's cash

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^]
Total Return*	-11.0%	-10.1%	-5.0%	+2.4%	+6.1%	+8.4%
Benchmark**	-8.7%	-5.9%	+1.6%	+8.3%	+7.4%	+1.4%

[^]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 Ords Index.

Sharemarket Commentary

Global sharemarkets endured a turbulent month due to heightened investor concern about the spread of the coronavirus outside of mainland China, and the negative impact on global economic growth. The MSCI World Index fell -7.6% over the month, with the losses coming in the final week of the month as all major stockmarkets sold off heavily.

In a dramatic shift from earlier in the month when investor confidence drove the US market to a new record high, the US S&P500 fell -13% in the final week of February resulting in a monthly loss of -8.2%, with all sectors finishing lower. In similar fashion Europe's Stoxx50 and Japan's Nikkei index fell -8.4% and -8.8% respectively. The market's fear gauge, the VIX volatility index reached an intraday high of 50, its highest reading since 2011. As the concerns and selling in sharemarkets intensified, investors looked for safety in perceived safe haven assets. Thus the US 10-year yield fell to its lowest level on record, falling 0.4% to 1.1%, whilst its Australian counterpart also fell to a record low of 0.7% over the month.

The global economic impact from the virus arose from the extensive travel bans and factory closures which have ensued since the outbreak of the virus. China's factory and non-factory purchasing (PMI) data from February sank to its lowest level on record (from 51 to 35) as the closures took effect. In addition, US manufacturing data pointed to a slowdown as producers reported bottlenecks in their supply chains hampering their ability to get parts.

Domestically, as world growth forecasts were trimmed, our key commodity prices came under sustained pressure. The iron ore price fell -12% over the month on softening Chinese demand, whilst the oil price fell -13%. The AUD shed -3.7% against the USD to its lowest level in over 10 years. In a move to try and shore up investor confidence and domestic economic activity, the RBA cut interest rates by 0.25% in early March to a new record low of 0.5%.

In line with offshore sharemarkets, the Australian sharemarket - as measured by the ASX300 index - endured a difficult month falling -7.8%, after having reached an all time high only a few weeks earlier. No sector was spared the heavy sell off of in the final week of February, as indiscriminate selling took hold regardless of a company's exposure to the coronavirus.

The Small Ordinaries Index similarly endured a turbulent and volatile month falling -8.7%, with all sectors finishing in negative territory. The Small Resources sector fell -10% in sympathy with the heavy sell off in commodity prices, whilst the Industrials segment of the market held up a little better, shedding -8.4%. Within Industrials the Tech sector found the going tough with a number of previous high flyers derating with the likes of Appen, Audinate and EML Payments falling significantly. Similarly, the speculative "medtech" plays that have captivated investor imagination, buoyed by the ongoing hype experienced a dose of reality with the likes of Clinuvel, Mesoblast, Polynovo and Pro Medicus all falling meaningfully from their recent highs. Despite the hefty correction in many of these speculative companies, they still look meaningfully overvalued. The REITs sector proved the most resilient sector shedding -1.8%, buoyed by falling interest rates across the globe. The 1H20 reporting season was fairly lacklustre with earnings growth remaining elusive in many sectors and many companies cutting costs to support margins. Companies with strong franchises that delivered reasonable earnings growth continue to do well, such as Integral Diagnostics, Steadfast and Spark New Zealand.

The Investors Mutual Small Cap Fund endured a challenging month falling -11.0%, faring more poorly than the benchmark's fall of -8.7%. It was a month in which just about every stock in the index finished in negative territory, despite some companies having very little exposure to the coronavirus. Our holdings in gaming stocks such as Crown and SkyCity had a tough month due to fears over attendance levels at these casinos should the virus worsen as did our holding in Event Hospitality which has been hit by the drop in tourism. In addition, our holdings in companies such as Southern Cross Media and Regis Healthcare also had a challenging month. However, we believe most of the headwinds facing these companies are facing are not long term in nature and we believe they look attractive on a 3 to 5 year view.

Clearly this is a very painful time for all sharemarket investors, after the gains of recent years. IML has been through corrections several times in our 21 year history and we will remain disciplined in our approach to investing at all times. It is impossible to say exactly when the current volatility will settle down. However, when the sharemarket does stabilise, good quality companies with real businesses and sustainable earnings and dividends – which is where IML's portfolios have always focused on - should again be sought after by investors and should recover over time.

Level of Franking (%)*	
FY15	25.1%
FY16	17.6%
FY17	29.0%
FY18	28.0%
FY19	50.1%

*As per IFSA Standard

Monthly Movements	
S&P 500	-8.2%
Euro Stoxx 50	-8.4%
Nikkei	-8.8%
ASX 300 Accum	-7.8%
AUD/USD	-3.7%
Gold	+1.6%
Oil	-13.4%
Iron Ore	-12.4%

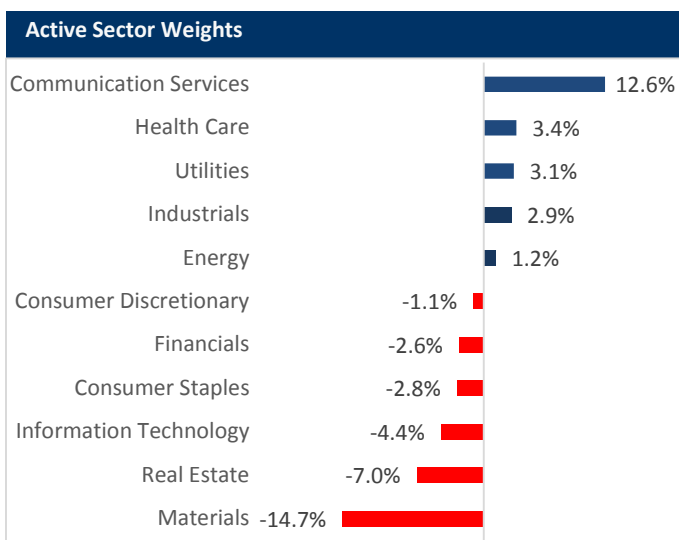
Fund information	
APIR	IML0006AU
Inception	1 Feb 2007
Size	\$78 M
Application (ex)	\$1.2347
Redemption (ex)	\$1.2285
Cash	13.1%
Mngmnt fee	1.15%p.a
Investment horizon	4-5 years
Distribution	Semi-annually
Manager	Simon Conn Marc Whittaker

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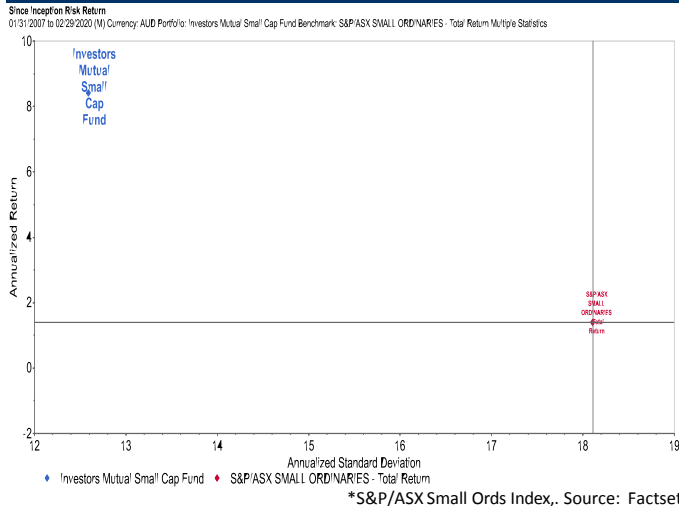
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Characteristics	Fund	Benchmark
Number of stocks	62	200
Portfolio Turnover*	27%	N/A
Annualised Tracking Error	9.97	N/A
Volatility (STD DEV) since inception	12.63	18.17
Portfolio Beta (since inception)	0.59	1.0

*Annual portfolio turnover over the last 12 months is computed by taking the lesser of purchases or sales and dividing by the average monthly net assets.



Since Incept. Risk Return - Fund vs Benchmark*



Researcher	Rating
Morningstar	Silver
Zenith	Recommended

Portfolio top holdings	ASX Code
Salmat	SLM
Crown Resorts	CWN
Skycity Entertainment	SKC
Australian Pharmaceutical Industries	API
Event Hospitality and Entertainment	EVT
GWA	GWA
Integral Diagnostics	IDX
Pact Group	PGH
Virgin Money UK	VUK
Steadfast	SDF

Source: IML

Since Inception Cumulative Perf. Fund vs Benchmark*

Growth of \$1000 invested at Inception

