

Investors Mutual Equity Income Fund

Monthly report November 2017

Fund status: OPEN

- ▶ Global sharemarkets continued their rise in November led by the US which continues to scale new record highs
- ▶ The Australian sharemarket gained +1.7%, despite lacklustre performance from the major banks
- ▶ We continue to be cautious given competitive pressures impacting many Australian companies

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^]
Income	+0.0%	+1.8%	+9.2%	+8.2%	+8.4%	+9.1%
Growth	+1.0%	+2.3%	+3.5%	+1.7%	+2.9%	+2.0%
Total Return*	+1.0%	+4.1%	+12.7%	+9.9%	+11.3%	+11.1%
Benchmark**	+1.7%	+5.8%	+14.7%	+8.8%	+10.5%	+7.9%

[^]% 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.

Level of Franking (%)*

FY14	48.2%
FY15	37.3%
FY16	37.1%
FY17	53.4%

*As per IFSA Standard

Monthly Movements

S&P 500	+3.1%
Euro Stoxx 50	-2.8%
Nikkei	+3.3%
ASX 300 Accum	+1.7%
AUD/USD	-1.0%
Gold	+0.8%
Oil	+2.1%
Iron Ore	+16.1%

Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$751m
Application	\$1.1067
Redemption	\$1.1011
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	89.6%
Call Options	-30.2%
Put Options	2.1%
Cash	38.5%

Sharemarket Commentary

Global equity markets continued their record breaking ascent with the MSCI World Index gaining +1.8% in November with new record highs reached throughout the month. US markets proved the driver of global returns yet again with the Dow Jones Industrial Index gaining +3.8%, pushing through the 24,000 level as the broader S&P500 index gained +3.1%. Japan's Nikkei finished the month +3.3% higher, continuing its strong run on the continuation of the highly accommodative monetary policies known as Abenomics and weaker Yen. Conversely, Europe's Stoxx 50 index paused for breath following its recent rise, falling -2.8% over the month.

President Trump's tax overhaul looked to overcome a major hurdle late in the month with the US Senate narrowly approving the President's plan to cut both corporate and personal tax rates. US markets have been rallying significantly in the expectation of corporate tax rates being cut from 35% to as low as 20%. In further support for equity markets, incoming Chairman of the Federal Reserve Jerome Powell signalled his intention for a continuity of the current monetary policy as set under incumbent Chairwoman Janet Yellen. In a further boost for the Financials sector, Powell stated that recent regulations for Wall Street were tough enough and could be relaxed with the intention of making them less burdensome and more efficient.

Domestically, the RBA kept rates unchanged at 1.5% for the 15th consecutive month, delivering a downward revision to the inflation trajectory, despite a modest pick up in wages growth. Highlighting the challenging conditions for Australia's heavily indebted consumer, retail sales for the September quarter disappointed, contracting -0.3%. Commodity markets were mixed, the iron ore price rebounded +16.1% to a 10 month high as Chinese rebar (steel) futures surged higher and as Chinese steel producers look to ramp up production before Chinese reforms to cut pollution are implemented. Oil gained +2.1% as OPEC and non OPEC countries agreed to extend production cuts whilst both Coal and the Base Metals fell -3.1% and -2.6% respectively.

The Australian sharemarket as measured by the ASX300 index had a solid month gaining +1.7%. The Financials index finished the month flat as ANZ, NAB and Westpac reported their results also trading ex dividend. Sentiment was further beset by the increasing likelihood of a Royal Commission of inquiry into the culture and practices of the financial sector. REITs were the best performing sector gaining +5.3% courtesy of bond yields both domestically and in the US falling sharply, along with a strong rally in Westfield. Bond price strength also helped the Utilities sector to gain +3.0% over the month. The Resources sector gained +3.1% primarily led by Energy stocks thanks to the continued strength in the oil price.

The *IML Equity Income Fund* had a solid month gaining +1.0%, whilst a good result it was slightly below the benchmark's return of +1.7%. Our underweight to the major banks benefited relative performance, as we remain less than sanguine on their earnings outlook and believe there is better value in insurers such as IAG and Suncorp and NAB spinoff – Clydesdale Bank. However our underweight to the Resources sector held back our performance relative to the index. Our holdings in stocks such as IAG, Abacus, Z Energy, Brambles, Westfield and Suncorp all had a strong month for the portfolio.

The rally in the market allowed us to capture attractive income by writing call options over some of our investment holdings such as CSL, Caltex and IAG at prices approaching full valuation. The month also presented a number of corporate sell-downs and large block-trade opportunities including Woodside Petroleum, Amcor and Orica at significant discount to market prices which we participated in, coupled with good income from the increased volatility in the option market.

Global sharemarkets continue to trend higher as interest rates remain low and as investors continue to gain comfort that the global economy can continue to grow sustainably into 2018. While this may be so, it remains a challenging environment for many companies to grow their earnings given the intensely competitive nature of most sectors and with US interest rates set to increase further in the near future. We remain cautious as we enter 2018 with many markets at record highs and some excesses beginning to appear. We continue to focus our attention on good quality companies that we believe are well positioned to grow their earnings and dividends in the years ahead.

Investors Mutual Equity Income Fund

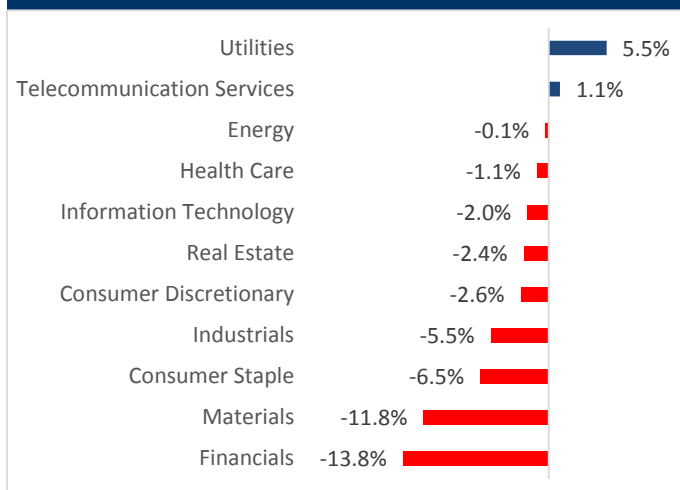
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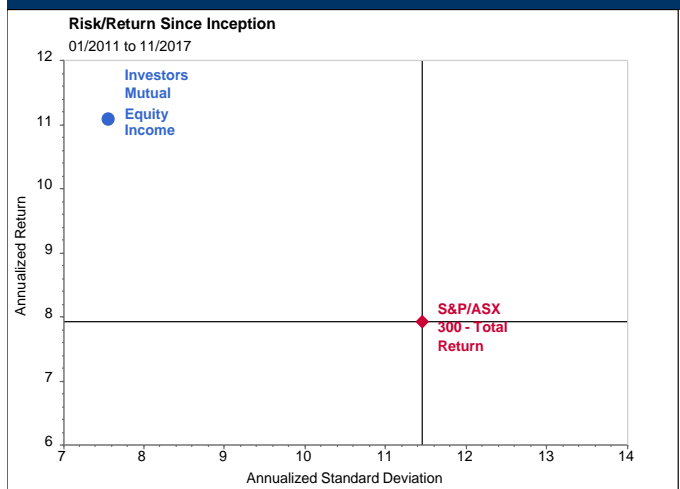
Characteristics	Fund	Benchmark
Number of stocks	45	300
Portfolio Turnover*	36%	N/A
Volatility (STD DEV) since inception	7.55	11.46
Portfolio Beta (since inception)	0.60	1

*Annualised rolling portfolio turnover since inception, SEC Standard

Active Sector Weights



Since Incept. Risk Return - Fund vs Benchmark*



*Benchmark = S&P/ASX 300 Accumulation Index, Source: Factset

Researcher	Rating
Morningstar	Silver
Lonsec	Highly Recommended
Zenith	Recommended

Portfolio top holdings	ASX Code
National Australia Bank	NAB
Commonwealth Bank	CBA
Telstra	TLS
Spark Infrastructure	SKI
Westpac	WBC
Insurance Australia Group	IAG
CSL	CSL
Sonic Healthcare	SHL
Shopping Centres Australasia	SCP
Transurban	TCL

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	\$751m
Application (ex)	\$1.1067
Redemption (ex)	\$1.1011

Period	Fund return	Benchmark
1 year	+12.7%	+14.7%
3 years [^]	+9.9%	+8.8%
Since Inception [^]	+8.5%	+8.8%

[^] % 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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