

Investors Mutual Equity Income 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 Australian sharemarket fell -7.8% in February after having reached fresh record highs earlier in the month
- ▶ 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 [^] 1-Jan-2011
Income	+0.0%	+1.6%	+7.1%	+7.9%	+7.9%	+8.6%
Growth	-7.5%	-8.7%	-8.1%	-5.2%	-3.5%	-0.3%
Total Return*	-7.5%	-7.1%	-1.0%	+2.7%	+4.4%	+8.3%
Benchmark**	-7.8%	-5.2%	+8.7%	+8.6%	+6.2%	+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/ASX300 Accumulation Index (ASX300). The Fund has dual objectives of delivering (i) income greater than the S&P/ASX300 Index yield +2% and (ii) returns with less standard deviation than S&P/ASX300.

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 rally in global bonds was further supported by the US Fed announcing they would "act as appropriate to support the economy" in light of the evolving risks to economic activity. Other Central Banks added to this narrative - namely the Bank of Japan, the European Central Bank and the Bank of England.

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. Over the month, companies in the Healthcare and the Utilities sectors proved the most resilient falling -4% given the defensive qualities of their business models, whilst the Resources and Technology sectors fared the worst falling -13% and -16% respectively. The Resources sector fell in sympathy with the sell off in commodity prices, whilst the Technology sector tumbled as a number of previous market darlings such as Wisetech and Altium fell -40% and -22% respectively. The 1H20 reporting season was fairly lacklustre with earnings growth remaining elusive in many sectors and many companies cutting costs to support margins.

The Investors Mutual Equity Income Fund endured a challenging month falling -7.5%, faring slightly better than the benchmark's fall of -7.8%. It was a month in which just about every stock in the index finished in negative territory, despite some companies having very little direct exposure to the coronavirus. As the market rose to record levels in early February, we took profit in some of our REIT holdings such as Abacus, Charter Hall and Shopping Centres Australasia; and we also wrote call options over some of our holdings including Amcor, National Australia Bank, Origin Energy and Westpac. After volatility spiked in the last week of the month, we entered selectively into buy-write investments in stocks that showed resilience in the reporting period such as Coles, Sonic Healthcare and Telstra.

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 recover, 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 (%)*	
FY16	37.1%
FY17	53.4%
FY18	27.5%
FY19	39.6%

*As per IFSA Standard

Monthly Movements	
S&P 500	-8.2%
Euro Stoxx50	-8.4%
Nikkei	-8.8%
ASX 300	-7.8%
AUD/USD	-3.7%
Gold	+1.6%
Oil	-13.4%
Iron Ore	-12.4%

Fund information	
APIR	IML0005AU
Inception	1 Jan 2011
Size	\$768 M
Application	\$0.9355
Redemption	\$0.9309
Mngmnt fee	0.993% p.a.
Investment horizon	4-5 years
Distribution	Quarterly
Manager	Anton Tagliaferro Michael O'Neill Tuan Luu

Security Category	Effective Exposure
Ord Shares	90.2%
Call Options	-9.7%
Put Options	3.8%
Cash	15.7%

Investors Mutual Equity Income Fund

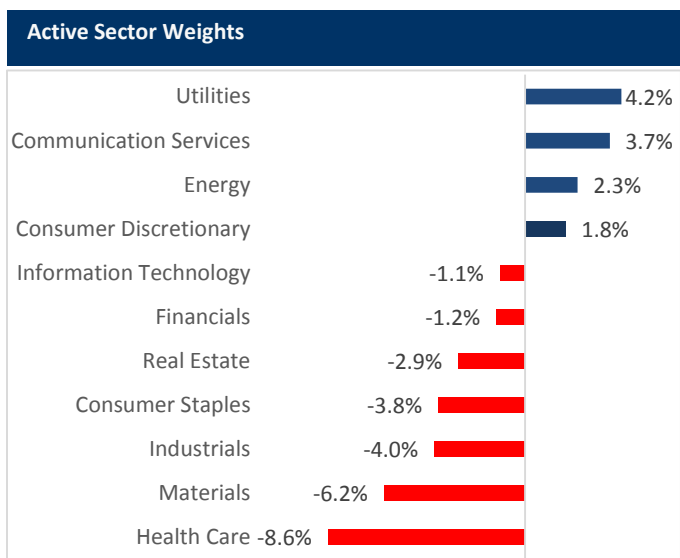
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Characteristics	Fund	Benchmark
Number of stocks	52	300
Portfolio Turnover*	33%	N/A
Volatility (STD DEV) since inception	7.62	11.33
Portfolio Beta (since inception)	0.61	1.0

*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

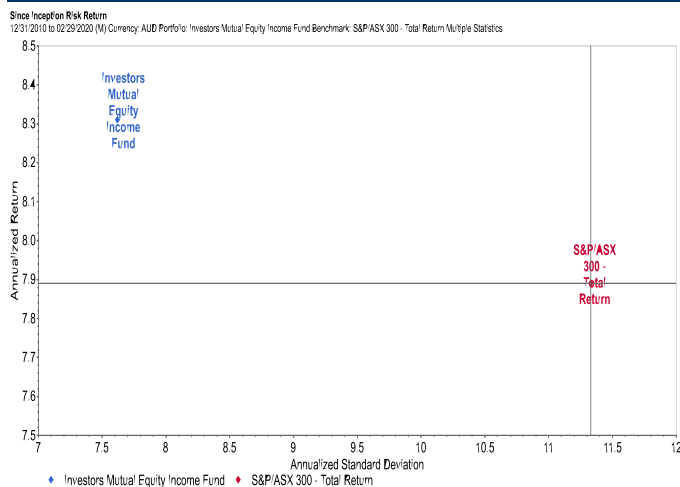
Researcher	Rating
Morningstar	Silver
Lonsec	Contact IML for the most recent rating
Zenith	Recommended



Portfolio top holdings

Portfolio top holdings	ASX Code
National Australia Bank	NAB
Westpac	WBC
Telstra	TLS
Amcor	AMC
Crown Resorts	CWN
Suncorp	SUN
Insurance Australia Group	IAG
AusNet	AST
Virgin Money UK	VUK
Tabcorp	TAH

Equity Income Fund Risk Return - Fund vs Benchmark* Since inception: 1 January 2011



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

The Value and Income Fund was restructured and renamed the Equity Income Fund on 1 January 2011 where the strategy of the Fund was changed to not hold international shares and to focus on its current strategy of generating income for unitholders. If the performance of the two funds are combined the results would be as follows:

	Fund return	Benchmark**
Since Inception^ 1 May 2004	+7.3%	+8.7%

^% Performance per annum *Fund returns are calculated net of management fees, and assuming all distributions are re-invested. Past performance is not indicative of future performance. Fund returns are the Value and Income Fund prior to 31 December 2010 and the Equity Income Fund from 1 January 2011. **The benchmark 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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