

Investors Mutual Future Leaders 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 Fund's ex-50 benchmark fell -9.8% 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*	-10.6%	-10.0%	-6.1%	+1.9%	+5.0%	+9.9%
Benchmark**	-9.8%	-7.1%	+2.2%	+7.9%	+8.1%	+8.5%

[^]% 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 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 in the final week of February, as indiscriminate selling took hold regardless of a company's exposure to the coronavirus.

The Fund's ex-50 benchmark similarly endured a turbulent and volatile month falling -9.8%, with all sectors finishing in negative territory. The ex-50 Resources sector fell -9% in sympathy with the heavy sell off in commodity prices, whilst the Industrials segment of the market fared slightly worse, shedding -10%. Within Industrials the Tech sector found the going tough with a number of previous high flyers derating with the WAAAX all 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 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 and Steadfast.

The **Investors Mutual Future Leaders Fund** endured a challenging month falling -10.6%, faring more poorly than the benchmark's fall of -9.8%. 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. The Fund's holdings in stocks such as Crown, SkyCity and in Events Hospitality had a tough month due to fears over the drop in inbound tourism negatively impacting the earnings of these companies, although all of these three companies have very strong balance sheets and will be able to navigate the current challenging times for the industry.

In addition, our holdings in companies such as Southern Cross Media and Regis Healthcare also had a challenging month. However, we believe the headwinds 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 equity investors, after the good gains seen in recent years. We have been through these corrections several times in our 21 year history and 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 well sought by investors and should recover well.

Level of Franking (%)*

FY15	25.7%
FY16	14.2%
FY17	27.3%
FY18	30.7%
FY19	51.2%

*As per IFSA Standard

Monthly Movements

S&P 500	-8.2%
Euro Stoxx 50	-8.4%
Nikkei	-8.8%
ASX Small-Mid Index	-9.8%
AUD/USD	-3.7%
Gold	+1.6%
Oil	-13.4%
Iron Ore	-12.4%

Fund information

APIR	IML0003AU
Inception	1 May 2002
Size	\$510 M
Application (Ex)	\$0.9666
Redemption (Ex)	\$0.9618
Cash	11.0%
Mngmnt fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn Marc Whittaker

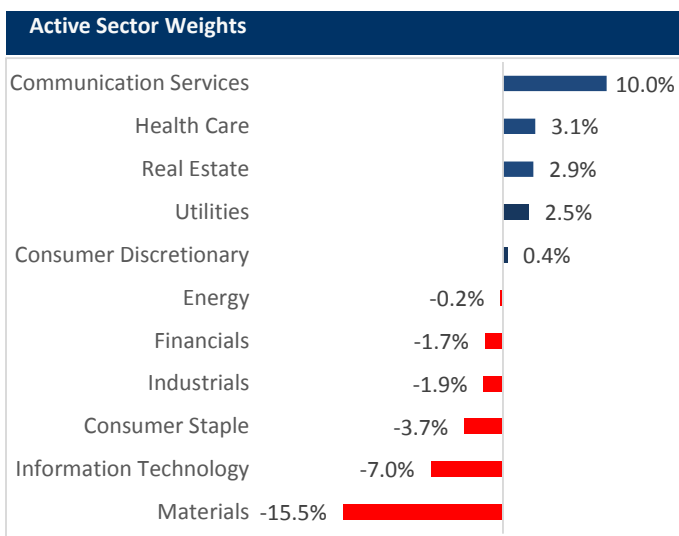
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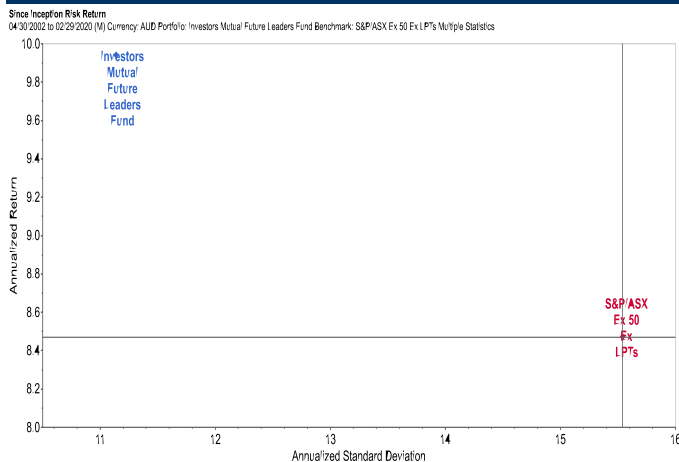


Characteristics	Fund	Benchmark
Number of stocks	73	224
Portfolio Turnover*	28%	N/A
Annualised Tracking Error	8.31	N/A
Volatility (STD DEV) since inception	11.14	15.54
Portfolio Beta (since inception)	0.61	1.0

*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



Since Incept. Risk Return - Fund vs Benchmark*



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

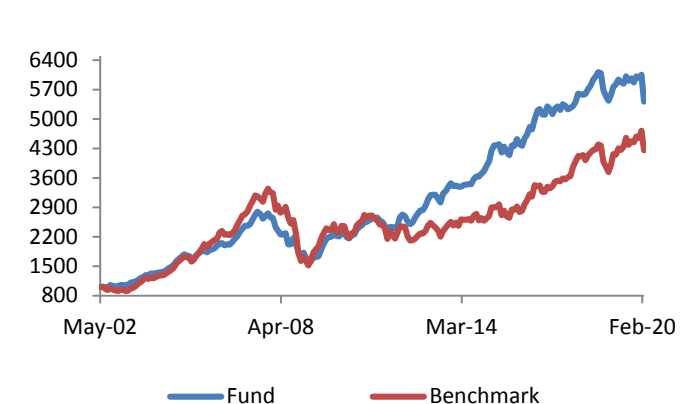
Researcher	Rating
Morningstar	Silver
Lonsec	Contact IML for the most recent rating
Zenith	Recommended

Portfolio top holdings

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

Source: IML

Since Incept. Cumulative Perf. Fund vs Benchmark*



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



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