

# Investors Mutual Australian Smaller Companies 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 Fund's ex100 benchmark gained +3.8% over the month, with small resources strongly outperforming small industrials
- ▶ We continue to be cautious given competitive pressures impacting many Australian companies

	1 month	3 months	1 Year	3 years <sup>^</sup>	5 Years <sup>^</sup>	Since inception <sup>^</sup>
Total Return*	+1.9%	+2.8%	+2.8%	+12.4%	+13.1%	+14.8%
Benchmark**	+3.8%	+11.9%	+19.8%	+13.1%	+6.5%	+6.2%

<sup>^</sup>% 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

Global equity markets continued their record breaking ascent in November with the MSCI World Index gaining +1.8% reaching new record highs 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%. 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. 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 the weaker Yen. Conversely, Europe's Stoxx 50 index paused for breath following its recent strength, falling -2.8% over the month.

Domestically, the RBA kept rates unchanged at 1.5% for the 15<sup>th</sup> 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, with the iron ore price rebounding +16.1% to a 10 month high as Chinese steel producers look to ramp up production before reforms to cut pollution are introduced. Oil gained +2.1% as OPEC and non OPEC countries agreed to extend production cuts, whilst both Coal and the Base Metals were slightly weaker down -3.1% and -2.6% respectively.

The broader Australian sharemarket as measured by the ASX300 index had a solid month gaining +1.7%. The Fund's ex 100 benchmark was similarly strong, gaining +3.8% with all sectors save for the Utilities firmly higher. As has been the case throughout the year, Small Resources outperformed gaining +8.1%, with the small industrials index gaining +2.8%. Many of the small energy plays reacted favourably throughout the month given their leverage to the oil price, whilst many of the miners, including those exposed to the battery technology hype continued to find strong support. Financials gained +3.5% with many of the fund managers finding support in sympathy of buoyant global markets. Contrary to the exuberance of prior months, companies with Chinese "daigou" distribution channels came in for a breather over the month with the likes of a2 Milk and Bellamy's finishing the month lower following gains of +70% in the prior 3 months.

In company news, Integral Diagnostics rallied +34% following a receipt of an intention by Capital Health to make a takeover. We increased our holding in Pact by participating in a rights issue undertaken to fund two acquisitions (an Asian and an Australian materials handling acquisition) with the Asian acquisition announced giving Pact scale in a growing part of the world. Mayne Pharma hosted their AGM which highlighted early signs of stabilisation for their generics business which has been the cause of weakness over the past 6 months, whilst their branded and contract manufacturing divisions continue to grow at a steady pace. We also benefited from our participation in the Propel Funerals IPO with the stock rallying +25% following its listing.

The *IML Smaller Companies Fund* had a solid month gaining +1.9%, albeit below the benchmark's return. Our caution toward the highly volatile small resources sector held back relative performance, however, we remain comfortable with our positioning given the huge swings we have become accustomed to from this sector. The portfolio benefited from strong returns from the likes of; Integral Diagnostics, Melbourne IT, Tox Free, Pro-Pac, Steadfast, Z Energy, GWA and Pinnacle Investments.

Investor sentiment continues to remain buoyant as the global economy appears likely to grow fairly strongly in 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. With US interest rates set to increase further in the near future, we remain cautious as many markets are at record highs and some excesses are 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.

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	+3.1%
Euro Stoxx 50	-2.8%
Nikkei	+3.3%
ASX Small Ords EX LPT	+3.8%
AUD/USD	-1.0%
Gold	+0.8%
Oil	+2.1%
Iron Ore	+16.1%

Fund information	
APIR	IML0001AU
Inception	30 Jun 1998
Size	\$183m
Application (Ex)	\$1.9572
Redemption (Ex)	\$1.9474
Cash	12.1%
Management fee	0.993%
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn Marc Whittaker

# Investors Mutual Australian Smaller Companies Fund

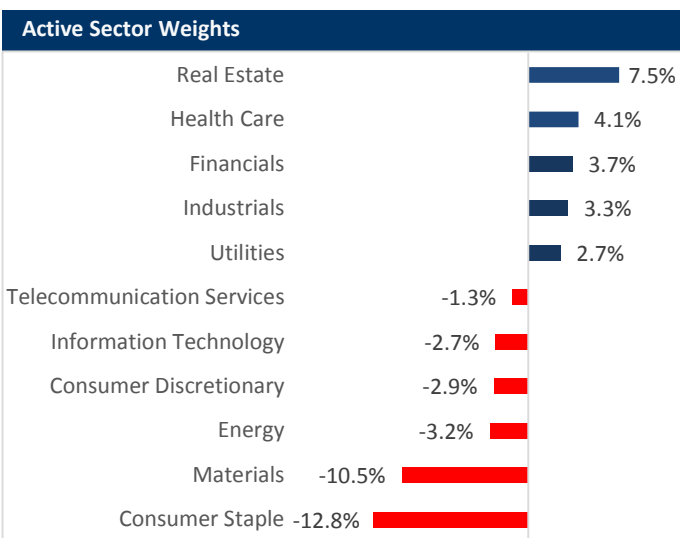


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Characteristics	Fund	Benchmark
Number of stocks	57	175
Portfolio Turnover*	32%	N/A
Annualised Tracking Error	11.46	N/A
Volatility (STD DEV) since inception	12.62	17.68
Portfolio Beta (since inception)	0.54	1

\*Annualised avg rolling portfolio turnover since inception, IFSA Standard

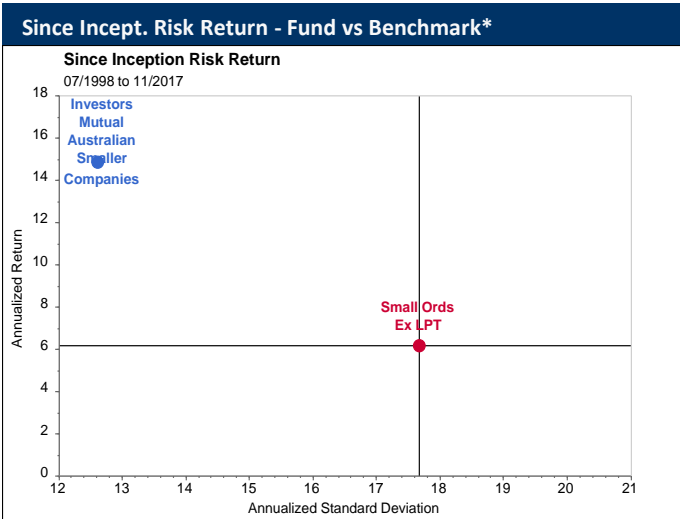
Researcher	Rating
Morningstar	Silver
Lonsec	Highly Recommended
Zenith	Recommended



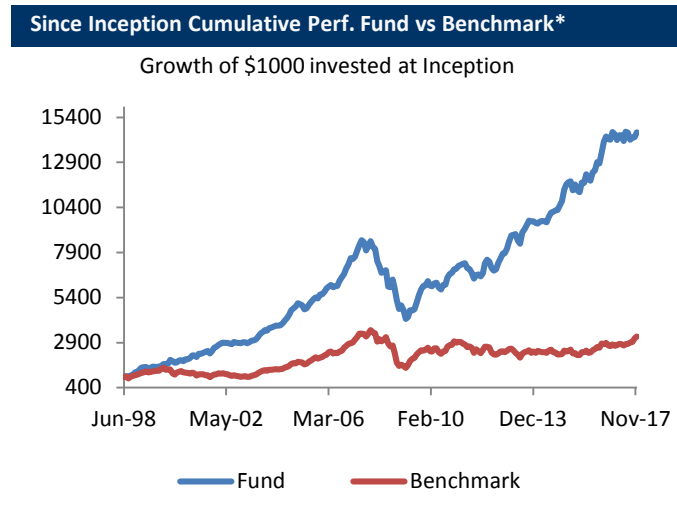
### Portfolio top holdings

Company Name	ASX Code
Tox Free	TOX
Pact Group	PGH
Integral Diagnostics	IDX
Z Energy	ZEL
Shopping Centres Australasia	SCP
Southern Cross Media	SXL
Lifehealthcare	LHC
Hotel Property Investments	HPI
GWA	GWA
Fletcher Building	FBU

Source: IML



S&P/ASX Small Ordinaries Index (ex LPT), Source: Factset



S&P/ASX Small Ordinaries Index (ex LPT), Source: IML



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