7 January, 2026

IML Funds' 31 December 2025 Distributions

We are pleased to advise that on 7 January, 2026 all IML funds will pay their distributions to investors for the half year ended 31 December, 2025, as shown in the table below.

IML FUND	APIR	31 DECEMBER DISTRIBUTION (CPU)
Investors Mutual Australian Share Fund	IML0002A	5.5000
Investors Mutual Concentrated Australian Share Fund	IML0010A	3.5000
Investors Mutual Equity Income Fund	IML0005A	1.5000
Investors Mutual All Industrials Share Fund	IML0004A	3.0000
Investors Mutual Future Leaders Fund	IML0003A	1.3750
Investors Mutual Australian Smaller Companies Fund	IML0001A	2.2000
Investors Mutual Small Cap Fund	IML0006A	2.0000
Investors Mutual Private Portfolio Fund	IML2681A	1.0000

As in previous years when the funds' unit prices are quoted ex-distribution, the unit prices will have fallen by the amount of the distributions paid (as outlined above). IML's ETFs announced their distributions via the ASX in December.

The December quarterly reports and commentaries for each of our funds will be published by mid-January 2026.

Market commentary and investment performance

Markets around the world continued their strong run in the second half of 2025. From June until the end of 2025, the key US benchmark index, the S&P500, rose 11% while the benchmark ASX 300 Accumulation Index rose 4.1%. For calendar year 2025, the S&P500 rose 17.9% and the ASX 300 Accumulation Index rose 10.7%.

The bull market that began in 2009 after the GFC, or Global Financial Crisis, with brief interruptions around the European sovereign debt crisis and the Covid-19 related lockdowns, has seen extraordinary asset appreciation covering equities, real estate, cryptocurrencies and precious metals. Economic growth has been quite tepid overall, sustained in many countries by a significant rise in government spending and deficits. Central banks have often funded these deficits by buying government bonds, effectively increasing the money supply, or by printing money.

After the GFC, inflation as measured by consumer prices was generally very tame, with the money printing mostly feeding into higher asset prices. When the Covid pandemic arrived, government spending surged at the same time as official interest rates were cut. The rise in government payments underpinned very strong retail sales and consumer spending, and combined with historically low interest rates (usually around 0%) it was unsurprising that inflation soon climbed towards 10%. Central bankers tried to call the inflation transitory, with the RBA (Reserve Bank of Australia) particularly tardy in raising rates to bring inflation under control. While inflation has subsided, the evident bias of the RBA toward monetary stimulus, rather than containing inflation, has continued. Inflation is now showing signs of accelerating after the RBA cut rates before inflation was clearly back at a low level. Australia now faces the prospect of rate hikes, and this has begun to be reflected in our financial markets, with equities slightly weaker and bond yields rising.

Bond yields have also been rising elsewhere, most notably in Japan where yields have not been at current levels (10-year bond at 2%) for almost two decades. High bond yields reflect concerns that inflation is less under control than hoped, and also that debt, and sovereign debt in particular, is on an unsustainable trajectory. This is a global problem, and despite calls for fiscal rectitude, the only evidence of committed deficit reduction is in Argentina, which was in dire straits previously.

Higher bond yields normally cap equity valuations and we have seen notable weakness in some higher PE stocks including the few that we own. In particular, the exuberant valuations for Artificial Intelligence (AI) themed companies are starting to be called into question.

While AI is undoubtedly a significant technological innovation, it has also become the great financial fad of the past two years, with commentators forecasting massive revenues for the industry and transformation of business processes and our daily lives. There are many challenges to overcome before the massive growth forecasts for computing power can be met and many question marks around whether society will accept huge job losses as people are replaced by computers and robots. Data centres and the hardware inside them will cost trillions of dollars, with very uncertain profitability and returns. Electricity and water availability is also a major obstacle, particularly in Australia where the East Coast is already in danger of suffering blackouts. Investors are coming to realise that the industry is unlikely to be able to hit its growth targets because of poor cash returns, technological obsolescence, heavy required investment, and the huge power requirements.

IML's large cap funds delivered positive returns for the year. However, most underperformed their benchmarks with the exception of the All Industrials Share Fund which outperformed the ASX 300 Industrials index. Pleasingly, the Equity Income Fund met its dual objectives: achieving income more than 2% higher than the ASX 300, whilst maintaining lower volatility than that index. The large cap funds benefitted from strong returns in stocks including Orica, Telstra, Brambles, Medibank Private, Charter Hall Retail and Dalrymple Bay Infrastructure. The funds' performance relative to the benchmark was negatively impacted by strong performance in the resources sector, and disappointing performance of some key holdings including CSL and Steadfast. With inflation persisting in many countries and market valuations looking stretched, we believe 2026 is likely to be a year that favours more defensive companies with reliable cashflows that are trading at reasonable valuations, leaving speculative and overpriced growth stocks more vulnerable to share market volatility.

Australian small-cap companies had a strong year after a slow beginning, with the Small Ordinaries Accumulation Index gaining +25.0% for the calendar year. Strong gains in the Small Resources sector drove much of the index performance with small-cap gold companies particularly strong on the back of a surging gold price, as investors continued to seek haven among tariff and geopolitical uncertainty.

The IML small and mid-cap funds had a good year, delivering high double-digit gains, however finished behind their benchmarks. The funds benefited from good returns from a range of stocks, with Electro Optic Systems, Austal, Cuscal, Ricegrowers, Vault Minerals, Orica, ALS, Imdex and Aussie Broadband all performing well. The funds' performance relative to their benchmarks was impacted by the very strong performance of the gold sector. Given the risk and volatility inherent in small-cap resource companies, this is a segment of the market where the funds have limited exposure. Once again, the funds benefited from takeover activity, most recently with Infomedia acquired by private equity investor TPG.

The IML Private Portfolio Fund maintained its steady absolute return generation with a third of market volatility, delivering a net total return of 3.6% for the year. The Fund's three strategies work together well to provide flexibility in changing market conditions while we focus on opportunities and downside protection.

Outlook

We have noted before how the low equity risk premium and the embrace of momentum over fundamentals reflects a complacency among investors. After another strong year of appreciation, overall valuations have become more stretched. There has been little sign of risk aversion, and many speculators have been so confident of future gains they leveraged their positions. As we noted last year, IML is no stranger to such times. We endured them in the lead up to the tech boom in 2000, the years before the GFC, and during the post-Covid discretionary spending boom. We know that when the market's mood changes again our discipline and patience will be rewarded.

We believe that IML's portfolios are well positioned and the companies we hold will continue to deliver solid and growing earnings and cashflows over time and are cheaply or appropriately valued for that outlook. Our focus will continue to be on companies which we believe have a strong competitive advantage, recurring earnings and cashflow, are well managed, and have the ability to grow earnings over time.

On behalf of the team at IML we would like to thank you for your continuing support and offer our best wishes for a happy, healthy and prosperous new year.

Yours sincerely,

Hugh Giddy, Senior Portfolio Manager and Head of Research
Marc Whittaker, Portfolio Manager