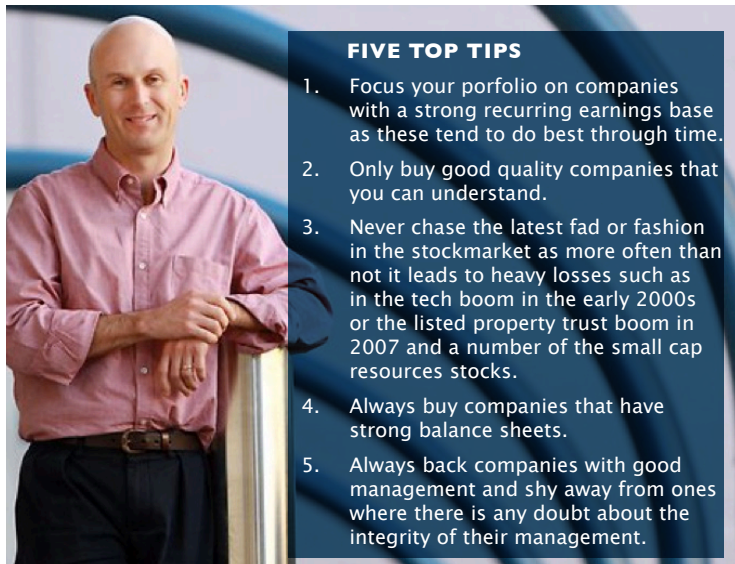


## FROM LITTLE THINGS BIG THINGS GROW

The Australian: Wealth - 21 September 2011

IML Senior Portfolio Manager, Simon Conn was featured in The Australian, the article has been re-published below:

### THE SMALL CAP SECTOR OFFERS BARGAIN STOCKS THAT CAN GROW IN TOUGH TIMES



#### FIVE TOP TIPS

1. Focus your portfolio on companies with a strong recurring earnings base as these tend to do best through time.
2. Only buy good quality companies that you can understand.
3. Never chase the latest fad or fashion in the stockmarket as more often than not it leads to heavy losses such as in the tech boom in the early 2000s or the listed property trust boom in 2007 and a number of the small cap resources stocks.
4. Always buy companies that have strong balance sheets.
5. Always back companies with good management and shy away from ones where there is any doubt about the integrity of their management.

**S**IMON Conn is the senior portfolio manager for Investors Mutual's Future Leaders Fund and its littler sibling, the Australian Smaller Companies Fund. The former has \$218 million under management, the latter \$134.5m.

#### WHAT IS YOUR APPROXIMATE INVESTMENT FOCUS?

The IML Future Leaders Fund invests in companies outside the ASX 50 using a bottom-up approach that builds a portfolio of quality companies with a high level of recurring income, focusing on companies with strong management, solid balance sheets, that can grow and are reasonably priced.

What's your background and the IML small-cap fund's history? Investors Mutual Limited was established in 1998 as a specialist Australian equities fund manager. I was a member of the founding team that has seen the business grow to be one of Australia's leading boutique equity fund managers. I've been involved in stock selection since 1998 and have been the portfolio manager of the small-cap funds since 2004. I think that makes me one of the longer-standing fund managers in this space.

#### IS YOUR SECTOR UNDERVALUED BY THE OVERALL INVESTMENT MARKET AND, IF SO, WHY DO YOU THINK THAT IS?

With the recent pullback in the market, there are many attractively priced companies, with some trading at levels that have not been seen for many years. We believe in the current market investors need to be very selective as we are entering a lower economic growth environment, where growth will be harder to generate for many companies.

We are very focused on yield, as we believe the dividends paid by companies will be a far larger part of the return from investing in the market.

In this environment we are focusing the funds on companies that can grow their earnings through factors that are independent of the economic cycle.

Stocks such as Ridley Corp and Thorn Group have recently made reasonably priced acquisitions, which should assist their earnings growth.

Many of the companies in the portfolio are on single-digit price-earnings, have strong balance sheets and are paying yields in some cases above 8 per cent with franking, which is cheap for these businesses.

#### HOW MUCH MONEY DOES YOUR FUND HAVE UNDER MANAGEMENT AND HOW MANY STAFF?

Our small-cap portfolio has about \$380m in three funds altogether. Rob Bishop is the back-up portfolio manager to this fund. Rob joined IML in 2008 and brings with him a wealth of experience in resource equities.

IML today is led by founder and investment director Anton Tagliaferro along with Hugh Giddy, head of research. In total IML has eleven investment professionals, making it one of the largest equity teams in Australia.

#### HOW HAS IT PERFORMED IN RECENT YEARS VERSUS ITS VARIOUS BENCHMARKS?

As our focus is on recurring income streams, the portfolio has delivered consistent returns through various market cycles. In a relative sense the Future Leaders Fund performs best when markets are rational and companies that are cautious and prudent in their approach are rewarded.

For the year to June all our small-cap funds have outperformed their benchmarks over six months, one year, three years and five years. For the 12 months to June the Future Leaders Fund returned 20 per cent for our investors compared with the benchmark, which delivered 15 per cent.

What have been some of your best and worst investments? Two stocks that we have made good money from over the past 12 months are Thorn Group and Credit Corp Resources.

Thorn Group provides consumers with basic household items, such as TVs and refrigerators through its Radio Rentals stores, on deferred payment terms.

We have been longstanding shareholders in Thorn Group, having identified it as a company that could do well in an environment where interest rates were increasing and the household sector was under increasing stress.

Credit Corp, again, is a business that we believe can continue to prosper even in tougher times.

The company buys bad debts from financial institutions. This company has a long track record in the industry and is well regarded by the financial institutions from which it buys debts.

A stock that has been a disappointing performer has been APN News and Media. The stock price has fallen as the earnings in the regional media businesses have been affected by floods in Queensland and earthquake in NZ. While the regional media result was disappointing we believe it is understandable in light of the difficult operating environment in these markets.

With the outlook for the NZ economy improving due to a business-friendly government, strong terms of trade and lower interest rates, we think the company is well placed to grow their earnings.

#### WHAT'S THE MINIMUM INVESTMENT IN YOUR FUND?

Investors can access the fund directly with a minimum initial investment of \$500,000.

However, the Sandhurst Professional Series, which is a mezzanine product, has a minimum of \$25,000. This product is very popular with self-managed super funds. Our suite of funds is widely available through various master trusts and wrap accounts.

#### ARE YOU AN ACTIVIST FUND MANAGER IN TERMS OF GETTING INVOLVED WITH UNDERPERFORMING COMPANIES?

IML has a strong history of becoming active when companies we own make decisions that we believe are not in the best interest of shareholders.

This was recently the case with GPG, where we were active in agitating for change at the board level after the company reneged on an earlier announcement they had made to move to sell off their investments and wind up the company.

This agitation was ultimately successful with new directors appointed to the board and the company announcing that they would seek to sell assets and return funds to shareholders, with an initial return of capital made in July. These changes led to an initial re-rating of the company, which has been a positive contributor to the fund over the past 12 months.