

IML EQUITY INCOME FUND

Effective 1 January 2011 the Value & Income Fund underwent a change of name and has been restructured. The fund’s name has changed to the IML Equity Income Fund.

The changes to the structure of the fund include:

- The asset allocation, which now is, Australian Equities (50-100%) and Cash (0-50%) and therefore no exposure to International Equities
 - The new objective has been set at 2% above the yield of S&P/ASX 300 Accumulation Index
- The management fees charged for the Fund is aligned with the majority of our other funds
- and reduced from 1.025% p.a. to 0.974% p.a.

WHAT ARE THE OBJECTIVES OF THE RESTRUCTURED FUND?

The objective of these changes is to deliver our investors a consistent income/distribution over time in the range of 7– 10% per annum. Distributions will continue to be paid quarterly.

IML believes that these changes will deliver a fund to investors that will provide a higher and more consistent level of income/distributions than the previous investment strategy had delivered underpinned by the following:

- By investing only in quality high yielding Australian equities – with high franking levels
- By seeking to generate extra income through the use of option strategies on certain stocks held within the portfolio; and

Distributing modest amount of realised capital gains over time

■ We believe the changes outlined above will provide existing and potential investors access to a portfolio of quality stocks and a portfolio and investment strategy that delivers strong consistent income/distributions overtime with low levels of volatility and access to capital growth overtime.

DOMINANT THEMES IN THE SHAREMARKET TODAY

The global economy is characterised by major dichotomies. Most developed countries have numerous problems, mostly around the excessive levels of government and household debt. This is suppressing spending and inhibiting job creation. For example, in the US the real unemployment rate (which accounts for people who have stopped looking or stopped registering for benefits that are no longer available) is close to 20% and in European countries like Spain the situation is similar. By contrast many emerging economies have high savings, robust demand, and have grown strongly since the dark days of the GFC. However, these economies are not immune to the problems and weak demand in the developed nations.

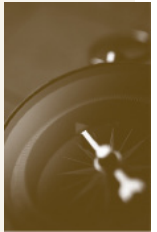
Consumers are trying to reduce their indebtedness and banks are less willing to lend to clients who may turn out to be risky. Credit growth in Australia is going to be low or non-existent for some time. This means the banks will struggle, as new credit represents their revenue growth. Retailers have enjoyed a favourable spending environment as consumers have happily “put it on the card” or taken inducements to buy things they cannot afford, but conditions are tougher now. China is trying to slow its economy’s breakneck pace which could put a lid on the resources boom for the moment. The best opportunities lie in the areas least dependent on very favourable economic conditions. IML believes that the sectors that yield the most opportunities currently are healthcare, telecommunications and consumer staples.

PORTFOLIO

MANAGER: Jason Teh

THE IML EQUITY INCOME FUND WILL SEEK TO:

- Generate a higher and more consistent income stream than that of a traditional equity fund
- Provide tax effective income and a
- conservative exposure to equities



DISTRIBUTION PROFILE TARGETED

SOURCE	% P.A.
Dividend Yield	4-5%
Option Premium	2-3%
Capital Gains (est)	1-2%
Total	7-10%*

* Takes into account capital gains, before fees.

The Investors Mutual Equity Income Fund investment process is consistent with the IML investment process that has been consistently applied since the inception of IML in 1998.

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PORTFOLIO UPDATE

METCASH



Metcash is the dominant distributor of goods to independent food and liquor retailers in Australia. It supplies the IGA network of independent supermarkets, liquor stores such as Cellarbrations and The Bottle-O and operates the Campbells Cash and Carry Network of wholesale stores.

Through its aligned network of 2,500 independent retail grocery stores and 13,000 licensed premises, Metcash commands almost 20% of Australia's spend on food and Liquor. This places them number 3 in the market behind Woolworths and Coles.

Metcash has been able to grow earnings steadily over time by growing the number of stores it distributes to and increasing its product offering within those stores such as fresh produce and an expanded range of private label products. Trading on FY11 PE ratio of 13x, with a fully franked dividend yield of 6% and a strong balance sheet, Metcash is a quality company which represents good value.

DULUX (DEMERGED FROM ORICA JULY 2010)



Dulux Group is Australia's largest manufacturer and supplier of Paints and Stains, and also offers a range of home improvement and garden care products. Dulux's brands are focused on the premium end of their respective markets, in respect of which they are the market leader. Dulux's coatings brands are led by Dulux, which is Australia's most recognised paint brand, as well as, British Paints, Cabots, Intergrain and Feast Watson. Dulux's home improvement and garden care brands include Selleys, Yates, Poly, Zero and Dynamic Lifter.

Over the past 7 years Dulux Group has delivered consistent earnings growth despite a generally weak domestic housing market and the entrance of many large international competitors (PPG, Nippon and Valspar). This is a testament to Dulux's quality brands and pricing power. Trading on FY11 PE ratio of 12.8x, with a fully franked dividend yield of 5.6% and a strong balance sheet, Dulux Group is also a quality company which represents good value.

TATTS GROUP



Tatts Group is a community based gaming company. Its core businesses include operating the Saturday Lotto, Powerball and Oz Lotto as part of various State lotteries as well as operating the UniTAB wagering business which takes bets on horse races and other events through pubs, clubs and its UniTAB outlets. Those betting on the Melbourne Cup in Queensland, South Australia and the Northern Territory do so through Tatts.

Its gaming operations have proven over the last century to be reasonably resilient and gaming's place in Australian culture appears secure. Tatts' gaming businesses are supported by government issued licences that ensure the company's competitive position remains reasonably stable. These licences are very long term, with for example its Queensland UniTAB wagering licencing expiring in 2100. Its businesses are able to generate strong cash flows, with growth tracking the growth in consumer income levels.

The company is trading on a PE ratio of 11.0 times and a dividend yield of 8.6%. It has a market capitalisation of \$3.2 billion.

CFS RETAIL PROPERTY TRUST (CFX)



CFX is one of the largest retail-specific Australian Real Estate Investment Trust (A-REIT), which invests in high quality regional and sub-regional shopping centres across Australia. CFX's portfolio contains approximately \$7.7bn worth of shopping centre assets including quality assets like Chadstone shopping centre in Victoria and Chatswood Chase in NSW. The company also has a \$1.5bn development pipeline which includes such developments as Myer Melbourne and an S&P 'A' credit rating, the highest of any A-REIT.

CFX over a number of years has demonstrated its ability to grow earnings while paying high dividends to shareholders. This combined with its lowly geared balance sheet make CFX a quality defensive company. Trading on a yield over 7% and a 15% discount to NTA, CFX also represents great value.

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