

IML CONCENTRATED AUSTRALIAN SHARE FUND

Investors Mutual Limited (IML) was established in 1998 by Anton Tagliaferro as a specialist Australian equities manager. IML has a conservative investment style and aims to deliver consistent returns for clients over the long term. IML achieves this through the disciplined application of a fundamental and value-based approach to investing.

We are looking to invest in quality companies that are trading below their underlying value. Put another way, we invest in companies which we assess as having:

- a competitive advantage,
 - recurring, predictable earnings,
 - capable management, and
 - the ability to grow over time
- ... at a reasonable price

The Concentrated Australian Share Fund was established to complement the existing suite of funds that IML offers and to also meet the needs of investors who desire a higher conviction Australian equities portfolio. IML has always been a bottom-up value manager. We see an opportunity to provide our clients with a more concentrated portfolio which is totally index unaware. The Fund will focus on holding a maximum of 25 stocks selected by the portfolio manager that in their view will deliver excellent long term returns to the Fund's unitholders.

The IML Concentrated Fund aims to deliver clients with a high alpha portfolio that is attractive on a risk / return basis and that will deliver superior long term returns while demonstrating lower volatility (beta) than the overall market.

We believe the IML Concentrated Fund will appeal to clients who want a fund with more investment flexibility than that of a 'traditional' Australian Equity fund. The IML Concentrated Fund's portfolio has limited portfolio constraints (e.g. no sector limits). The Fund can hold between 15 – 25 stocks. We would anticipate that at most times the Fund will hold approximately 20 stocks which represent IML's highest conviction ideas. The Fund also has the flexibility to hold a maximum of 20% in cash.

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. 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. The sectors that yield the most opportunities currently are healthcare, telecommunications and consumer staples.

The Concentrated Fund is a true stock picking fund and so should perform well in most market environments. Nevertheless, the time when it is likely to stand out most is when markets are choppy, going up and down with limited overall progress – quality undervalued companies will still perform well in such conditions.

PORTFOLIO

MANAGER: Hugh Giddy

IML'S INVESTMENT STYLE

IML's investment style aims to deliver superior risk-adjusted returns by favouring quality stocks whose share prices are significantly different from their assessed 'inherent value'.

IML aims to deliver portfolios that demonstrate:

- ☑ Resilience in falling markets
- ☑ Reasonable capital growth in rising markets
- ☑ Steady dividend income

Given these objectives, the portfolio is heavily biased towards companies that are attractive on a risk/return basis and demonstrate lower volatility than the overall market.

IML believes a company's share price will reflect its underlying value in the long term.



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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.

ANSELL



Ansell is a leading global industrial and medical glove manufacturer, as well as the second largest global player in the condom market. Most of Ansell's production is carried out in the developing world with 9,000 of their 11,500 employees located in Asia. Ansell's products are positioned at the premium end of the glove and condom markets, where their quality of product and innovation sets them apart from their competitors.

Over the past 7 years Ansell's management team has done an outstanding job delivering compounded growth rates in earnings of 17% p.a. This has been due to a number of initiatives including cost reductions, production innovation and improving OH&S standards across the world, particularly in emerging markets. Ansell trades on a FY11 PE ratio of 13.5x, with a strong debt free balance sheet. Ansell is a quality company which represents good value.

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