

Monthly Update

31 July 2010

Sharemarket Commentary

The Australian sharemarket rose 4.5% during July aided by a rally in the US after many US companies reported reasonable results. The US rally helped all world markets rally with European markets up 6% while Asian markets rose 5.4%. US company results showed very subdued revenue growth but were helped by continued tight cost control and reduced capital expenditure. This trend was reflected in US economic data released over the month which reflected a very soft economy particularly in the housing, manufacturing and services sectors.

The global stockmarket rally during July was characterised by fairly thin volumes as investor sentiment remained fickle. There was very limited news flow out of Australian companies with most companies due to update investors when reporting their full year results in August. Domestically, the RBA kept interest rates at 4.5% influenced by the release of the June quarter CPI which came in at 0.6%, well below expectations. The Australian economy continues to travel reasonably well as evidenced by an improvement in consumer confidence and solid employment growth. The Australian dollar rallied by 7% to 90.1 US cents over the month aided by firmer commodity prices while the yield on Australian 10 year government bonds rose 0.11% to 5.2%.

The rally in Australia was helped by an 8.8% rally in the banking sector which recovered some of the heavy losses suffered in the June quarter. The Resource sector also rallied strongly thanks to firmer commodity prices over the month as well as the Government's announcement of a Minerals Resource Rent Tax to replace the more onerous Resources Super Profits tax resource tax. Defensive sectors underperformed over the month, including Consumer Staples (+1.7%), Utilities (+3.0%), Telecommunications Services (-0.5%) and Healthcare (+0.9%) as investors chased higher beta stocks...

Corporate activity news included the successful conclusion of a takeover bid for Healthscope by private equity as well as new takeovers announced for Mitchell Communications, Intoll Group and Centennial Coal by overseas companies. Late in the month AWB and Graincorp proposed a merger which if it goes ahead would create Australia's largest listed agricultural company.

We are firmly of the view that we are now in a period of very subdued global economic growth as we enter a deleveraging period from the very high levels of debt accumulated pre the GFC. We thus believe that earnings growth will not be as strong for many companies as the consensus expects, particularly for cyclical companies. We thus continue to skew our portfolio heavily towards companies that we believe are well positioned to grow in the years ahead despite the lack lustre global economic outlook.

Australian Share Fund

The Fund unit price rose by 3.9% over the month, thereby recovering half of the June quarter's losses. This was a good result given our portfolio's strong defensive skew and reflected good performances from stocks such as Westpac and Orica.

All four major banks outperformed the market in July, with improved sentiment regarding funding and regulatory issues. Stress test results from European bank regulators implied that a lower shortfall in capital than expected. In addition, the Basel Committee moderated the proposed changes liquidity and capital requirements. Westpac was the top performer, rising 13% during the month, following a successful extension of US funding with a US\$3bn raising in three and five year notes. IML remains comfortable retaining its holding in Westpac, given its focus on Australian operations and its lower credit risk profile than other major banks although we remain underweight the banks.

Tatts Group, which was added to the Fund in recent months, did well over the month, rising 9.4% in June. During the month, the Victorian Gaming Minister, invited Tatts Group, Tabcorp and Ladbrokes to apply for a Victorian wagering licence. The licence is to be issued before the end of the year. IML remains comfortable with our position in Tatts Group. It is a resilient business with excellent management, and it generates strong cash flows.

Orica also helped Fund performance, rising 5.2%. The company successfully demerged its consumer products division in June. In addition, coal and aggregate markets showed signs of improvement. Orica is a dominant global player in explosives, with a competitive advantage in technology. It has strong recurring earnings which are leveraged to mining volumes rather than commodity prices, and has a strong management team.

Industrial Share Fund

The Fund unit price rose 4.2% over the month, recovering half of the June quarter's losses. The Fund benefited from positions in Westpac and Orica (+28%). The Fund did well over the month considering its skew towards defensive stocks.

The Fund's holding in Amcor continues to perform well. Amcor has been significantly re-rated in recent times as investors start to factor in the benefits that will accrue to the company from its very well timed acquisition of the Alcan packaging assets from RIO in 2009. Amcor's earnings have been resilient in the last few years despite an indifferent economic climate. The company remains well placed to grow its earnings in the next few years thanks to the synergy benefits coming through from the Alcan acquisition and remains a core holding of the Fund.

During the month Woolworths share price retreated due to the release of the company's June quarter numbers which showed a marked slowing in sales growth. Like other food retailers, Woolworth's sales are being detrimentally impacted by the current very low rates of food inflation. While Coles sales have improved, albeit from a low base, in our view Woolworths will continue to be the dominant and leading food retailer in Australia. The company remains extremely well managed, has a resilient earnings stream and generates significant free cash flow that can be used to increase dividends or implement further share buybacks in the years ahead. We used weakness in Woolworths share price over the month to increase our holding in the company.

Performance Statistics

Fund Start Date	30 June 1998	
Fund Size	\$1.6 billion	
Period	Fund Return*	Benchmark**
1 month	+3.9%	+4.5%
3 months	-4.0%	-6.0%
6 months	+1.7%	+0.1%
1 year	+13.3%	+10.0%
2 years [^]	+3.3%	-0.6%
3 years [^]	-4.0%	-6.1%
5 years [^]	+4.4%	+4.9%
Since Inception [^]	+11.3%	+8.9%

[^] % Performance per annum

*Fund returns are calculated net of management fees, and assuming all distributions are re-invested.

** The benchmark for this Fund is the S&P/ASX 300 Accumulation Index

*** 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.

Performance Statistics

Fund Start Date	1 May 2002	
Fund Size	\$271 million	
Period	Fund Return*	Benchmark**
1 month	+4.2%	+4.4%
3 months	-4.6%	-7.1%
6 months	+0.9%	-1.4%
1 year	+12.8%	+11.7%
2 years [^]	+4.9%	+1.5%
3 years [^]	-4.6%	-8.2%
5 years [^]	+3.1%	+2.2%
Since Inception [^]	+7.3%	+5.6%

[^] % Performance per annum

* Fund returns are calculated net of management fees, and assuming all distributions are re-invested.

** The benchmark for this Fund is the S&P/ASX 300 Industrials Accumulation Index

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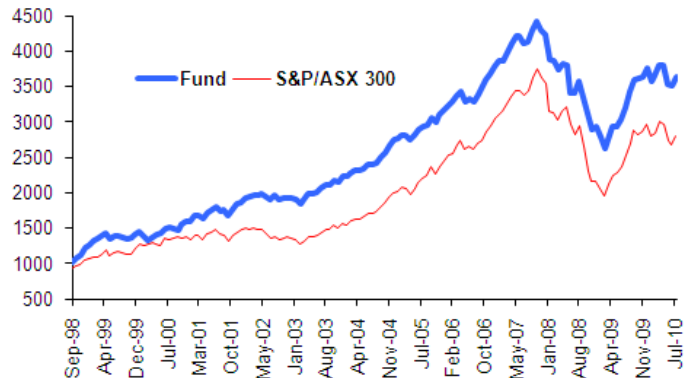
Portfolio	% of Fund
Westpac	9.13%
BHP	7.98%
CBA	7.43%
Telstra	6.53%
NAB	4.69%
CSL	4.41%
Amtcor	3.78%
Origin Energy	3.50%
IAG	3.15%
Woolworths	3.00%
Top Ten Stocks	53.60%
Other Stocks	39.79%
Cash	6.61%
Total	100.0%

Australian Share Fund

Australian Share Fund (IMAS) - July 2010

Performance

IMAS vs S&P/ASX 300 Accumulation Index



* **Other Stocks held include:** Woolworths, Metcash, Crown, Sky City, APA Group, Orica, Transurban, Amalgamated Holdings, Tabcorp, Foster's and others.

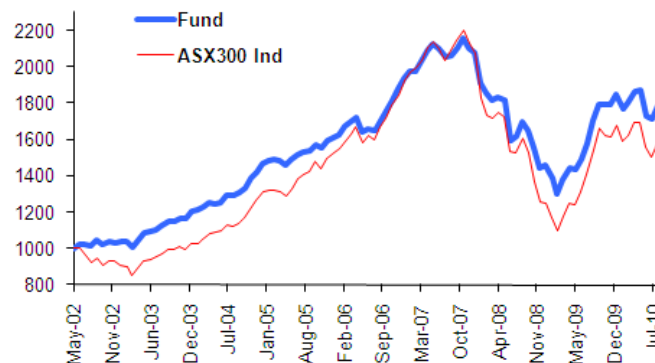
Portfolio	% of Fund
Westpac	12.53%
CBA	9.74%
Telstra	7.31%
NAB	7.08%
Amtcor	4.75%
CSL	4.73%
Woolworths	3.74%
Crown	3.55%
IAG	3.53%
Metcash	2.99%
Top Ten Stocks	59.95%
Other Stocks	31.24%
Cash	8.81%
Total	100.00%

Industrial Share Fund

Industrial Share Fund (IMIS) - July 2010

Performance

IMIS vs. S&P/ASX300 Industrials Accumulation Index



* **Other Stocks held include:** Amalgamated Holdings, Sky City, Transurban, ConnectEast, APA Group, Tabcorp, Foster's, Orica, Ansell, Ridley and others.

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