

Investors Mutual Small Cap Fund



Monthly report October 2018

Fund status: OPEN

- ▶ Global sharemarkets fell heavily with the MSCI World index falling -7%
- ▶ The ASX Small Ordinaries index shed -9.6% with all sectors finishing the month lower
- ▶ The sell-off allowed us to selectively top up our positions in good quality industrial companies

	1 month	3 months	1 Year	3 years [^]	5 Years [^]	Since inception [^]
Total Return*	-6.9%	-5.7%	+7.8%	+10.8%	+12.0%	+9.8%
Benchmark**	-9.6%	-7.7%	+2.6%	+10.5%	+6.0%	+0.8%

[^]% Performance per annum. *Fund returns are calculated net of management fees, and assuming all distributions are re-invested. 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. **The benchmark for this Fund is the S&P/ASX Small Ords Index.

Sharemarket Commentary

Global equity markets fell heavily in October as the Federal Reserve continued to raise US interest rates during the month, while uncertainty surrounding Trump's trade tariffs caused fear over global growth going forward. The continued Brexit saga and concerns over Italy's new budget breaching EU guidelines did little to help investors' nerves. As a result, the MSCI World index finished -7% lower as the S&P500 fell -7% for the month erasing all gains made since the start of 2018. The tech heavy NASDAQ index fell -9% as many of the tech darlings, trading on lofty valuations, led the wider market lower due to a much needed correction. Over the month, the US Federal Reserve signalled its willingness to continue raising interest rates in an effort to limit any overheating in the US economy. Over the month the US 10-year bond yield rose to a 7-year high of 3.2% due to the US economy's strength and the impact of Trump's policies on the ballooning US Budget deficit.

In line with global markets, the Australian market experienced a difficult month falling -6.2% wiping out all gains made this calendar year, with all sectors finishing firmly lower. Similarly, the ASX Small Ordinaries index also fell heavily to finish the month down -9.6%. No sector was immune from the selling with the Small Resources down -6.1% and Small Industrials down -10.6%. The Energy sector fell -11.1% on a weaker oil price, while the Materials sector fared slightly better shedding only -5.4%, benefiting from the relative strength of gold stocks which were helped by a higher gold price.

The worst performing sector was the IT sector which fell -15.5% as many high flying stocks such as Afterpay and Wisetech fell over -25%. We have been very cautious on these stocks for a long time, with investors having bid valuations up aggressively without regard to their fundamentals. The Consumer Discretionary sector was also weak falling -11.3% with many retailers, such as Supercheap and Lovisa, warning of tougher trading conditions at their AGM's. Financials fell -10.3% as fund managers such as Pinnacle and Perpetual - whose earnings are highly dependent on the stockmarket's level - fell -30% and -18% respectively.

In a challenging month, the **IML Small Caps Fund** finished the month -6.9% lower, which whilst disappointing was ahead of the benchmark's fall of -9.6%. While some stocks held in the portfolio fell heavily over the month, we remain comfortable with the fundamentals of the companies held by our Fund and our Fund's positioning.

GWA fell heavily on fears around softer new housing approvals – however given the majority of its business comes from the renovation market, we believe that GWA – which is debt-free – looks good value trading on a PE of 14x and a yield of 6%. Clydesdale Bank fell on Brexit fears though we remain positive on its long-term prospects due to the company's recent acquisition of Virgin Money and the company's recent advanced accreditation which frees up significant capital to fund future growth, or a return to shareholders. Following a disappointing trading update by Domain, Fairfax's share price fell, with the negative sentiment also flowing through to our other media holdings Here, There & Everywhere and Southern Cross Media despite Southern Cross announcing continued revenue growth at its recent AGM, while costs remain well contained. We used weakness throughout the month to deploy our cash holdings selectively, topping up our positions in GWA and Southern Cross Media and similar good quality companies that we believe are well positioned to grow their earnings and dividends in the years ahead.

While the significant increase in volatility and pull back in global sharemarkets was well overdue, it has to be kept in perspective of the strong rises many markets have recorded in recent years. With US interest rates set to increase further in the near future and with an election due in Australia in the next 6 months, we remain cautious and would not be surprised to see further volatility in the months ahead. We continue to remain vigilant continuing to use weakness in the share prices of good quality industrial companies to put some of the Fund's cash holding to work.

Level of Franking (%)*

FY14	27.4%
FY15	25.1%
FY16	17.6%
FY17	29.0%
FY18	28.0%

*As per IFSA Standard

Monthly Movements

S&P 500	-6.8%
Euro Stoxx 50	-5.8%
Nikkei	-9.0%
ASX Small Ords.	-6.2%
AUD/USD	-2.0%
Gold	+2.3%
Oil	-9.3%
Iron Ore	+5.9%

Fund information

APIR	IML0006AU
Inception	1 Feb 2007
Size	\$100M
Application (Ex)	\$1.4276
Redemption (Ex)	\$1.4204
Cash	8.3%
Management fee	1.15% p.a.
Investment horizon	4-5 years
Distributions	Semi-annually
Manager	Simon Conn Marc Whittaker

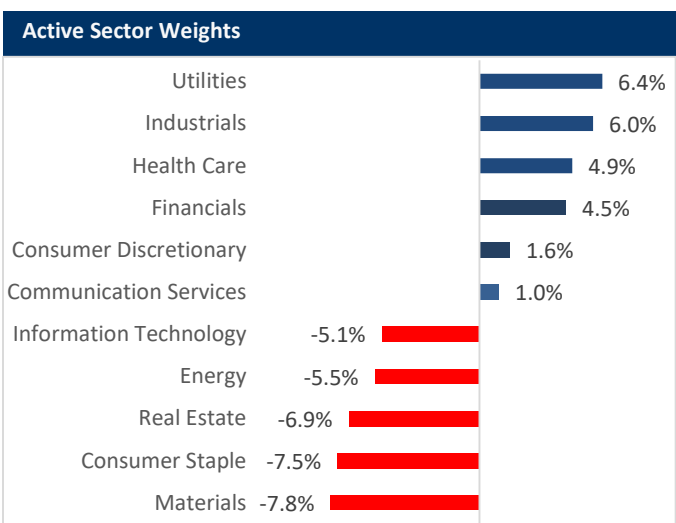
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Characteristics	Fund	Benchmark
Number of stocks	58	200
Portfolio Turnover*	38%	N/A
Annualised Tracking Error	10.16	N/A
Volatility (STD DEV) since inception	12.67	18.63
Portfolio Beta (since inception)	0.58	1.0

*Annual portfolio turnover over the last 12 months is computed by taking the lesser of purchases or sales and dividing by the average monthly net assets.

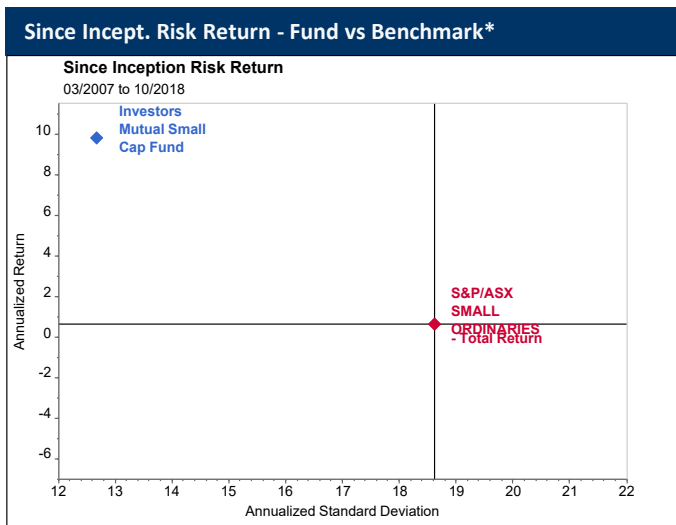
Researcher	Rating
Morningstar	Silver
Zenith	Recommended



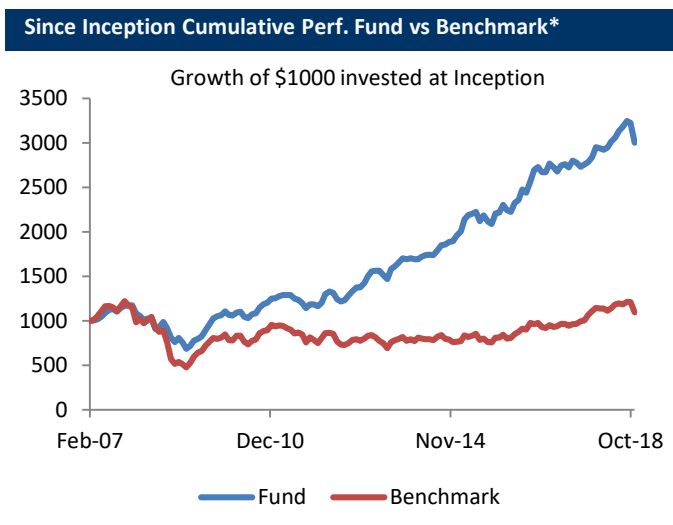
Portfolio top holdings

Portfolio top holdings	ASX Code
Spark Infrastructure	SKI
Southern Cross Media	SXL
Integral Diagnostics	IDX
Pact Group	PGH
Fletcher Building	FBU
Skycity Entertainment	SKC
Clydesdale Bank	CYB
GWA	GWA
Australian Pharmaceutical Industries	API
Crown Resorts	CWN

Source: IML



*S&P/ASX Small Ords Index,. Source: Factset



*S&P/ASX Small Ords Index,. Source: IML