

# Investors Mutual Concentrated Australian Share Fund



Monthly report October 2018

Fund status: OPEN

- ▶ Global sharemarkets experienced a significant bout of volatility with the MSCI World index falling -7%
- ▶ The Australian sharemarket similarly corrected falling -6.2%, with all sectors finishing the month lower
- ▶ The sell-off and pick up in volatility allowed us to selectively top up our positions in good quality industrials

	1 month	3 months	1 Year	3 years <sup>^</sup>	5 Years <sup>^</sup>	Since inception <sup>^</sup>
Income	+0.0%	+0.0%	+2.8%	+2.7%	+4.6%	+4.4%
Growth	-4.8%	-1.9%	+1.9%	+5.8%	+4.8%	+7.1%
Total Return*	-4.8%	-1.9%	+4.7%	+8.5%	+9.4%	+11.5%
Benchmark**	-6.2%	-6.0%	+2.9%	+8.2%	+6.0%	+8.0%

<sup>^</sup>% 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 300 Accumulation Index (ASX300)

## 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 -6.8% 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 signaled 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 one of its worst months on record falling -6.2% wiping out all gains made this calendar year, with our market also falling more than 10% from the recent decade high reached in late August - a clear sign of how quickly markets can turn. All sectors finished the month firmly lower, with the previously high-flying tech sector falling -10%, as this year's high flyers such as Wisetech and Afterpay fell over -25%. The Energy sector also fell heavily as the oil price - buoyed previously by claims from several brokers that it was heading back to USD 100 a barrel - reversing its recent gains with the sector dropping -9.3% over the month. Defensive sectors such as the REITs and Utilities proved somewhat more resilient falling -4.0% and -3.4% respectively while the Financials sector fell -6.1%, with the major banks remaining under pressure in the wake of the Royal Commission and AMP's -20% fall reflecting what was seen as a very unsatisfactory price received from the sale of the company's life insurance business.

In a difficult month, the **Investors Mutual Concentrated Australian Share Fund** finished -4.8% lower, which whilst disappointing was ahead of the benchmark's fall of -6.2%. Our defensive positioning and discipline around valuation benefited the portfolio through the month as the more expensive and frothy parts of the market - such as in the technology and select consumer facing sectors - came under significant pressure. Our portfolio's defensive positioning in quality industrials such as Transurban and Spark Infrastructure helped the portfolio hold up well. Our holding in the UK's Clydesdale Bank disappointed and was sold off heavily on concerns over Brexit. However, we took this opportunity to top up on our holding as we continue to see the bank in the early stages of a new phase of growth, thanks to the recent earnings accretive acquisition of Virgin Money, the achievement of advanced accreditation and the continued cost out programme - and with the bank trading on an attractive valuation of 0.7x book.

We used weakness throughout the month to deploy some of our cash holdings selectively to top up on our positions in good quality industrial companies such as Unibail-Rodamco and Transurban that we believe are well positioned to grow their earnings and dividends in the years ahead, whilst we used strength in the share price of Mayne Pharma to trim our position as it rallied earlier in the month.

The significant increase in volatility and pull back in global markets was well overdue, although 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 wary. However, we will continue to use weakness in good quality industrial names to put some of the Fund's cash holding to work.

## Monthly Movements

S&P 500	-6.8%
Euro Stoxx 50	-5.8%
Nikkei	-9.0%
ASX 300 Accum	-6.2%
AUD/USD	-2.0%
Gold	+2.3%
Oil	-9.3%
Iron Ore	+5.9%

## Fund information

APIR	IML0010AU
Inception	1 Sep 2010
Size	\$119M
Application	\$1.7587
Redemption	\$1.7499
Cash	18.6%
Mngmnt fee	0.993% p.a.
Holdings	10 -30 stocks
Stocks/sector limits	No
Investment horizon	4-5 years
Distribution	Semi-annually
Manager	Hugh Giddy

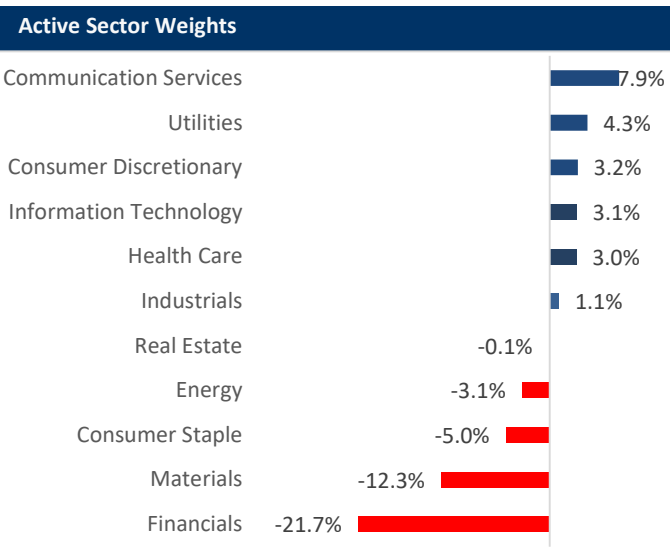
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Characteristics	Fund	Benchmark
Number of stocks	27	300
Portfolio Turnover*	12%	N/A
Annualised Tracking Error	6.27	N/A
Volatility (STD DEV) since inception	8.40	11.22
Portfolio Beta (since inception)	0.62	1.0

\*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



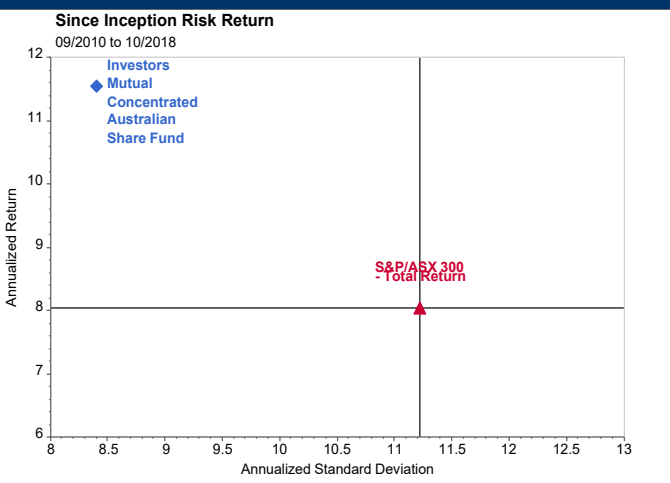
Researcher	Rating
Lonsec	Highly Recommended
Zenith	Recommended
Morningstar	Silver

### Portfolio top holdings

Portfolio top holdings	ASX Code
CSL	CSL
Telstra	TLS
Clydesdale Bank	CYB
Chorus	CNU
Transurban	TCL
Spark Infrastructure	SKI
Fletcher Building	FBU
Brambles	BXB
Unibail-Rodamco-Westfield	URW
Abacus Property	ABP

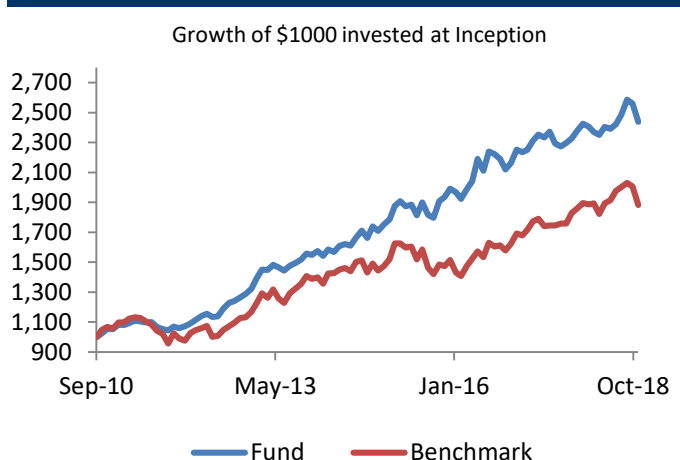
Source: IML

### Since Incept. Risk Return Fund vs Benchmark\*



\*Benchmark = S&P/ASX 300 Accumulation Index, Source: Factset

### Since Incept. Cumulative Perf. Fund vs Benchmark\*



\*Benchmark = S&P/ASX 300 Accumulation Index, Source: IML



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