

Investors Mutual Equity Income 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^	5 Years^	Since inception^
Income	+0.0%	+1.8%	+7.6%	+8.0%	+8.1%	+9.0%
Growth	-3.6%	-6.1%	-8.5%	-2.0%	-0.7%	+0.5%
Total Return*	-3.6%	-4.3%	-0.9%	+6.0%	+7.4%	+9.5%
Benchmark**	-6.2%	-6.0%	+2.9%	+8.2%	+6.0%	+7.1%

^% 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). The Fund has dual objectives of delivering (i) income greater than the S&P/ASX 300 Index yield +2% and (ii) returns with less standard deviation than S&P/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 - reversed 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 for the stockmarket, the **Investors Mutual Equity Income Fund** finished -3.6% lower. While this was disappointing, it was a much better than the benchmark's fall of -6.2%. Our defensive positioning 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, Spark Infrastructure, Ausnet and Shopping Centres Australasia all 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 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.

The October correction provided us with good opportunities to top up our holding in quality industrial companies with attractive sustainable yields such as Abacus Property, Aurizon, IAG and Tabcorp. We also harnessed the significant rise in volatility to write put options targeting attractive entry prices in stocks such as Suncorp and Transurban. The selectivity and caution in our stock selection, the option premium buffer as well as the portfolio's cash holding all served the Fund well in a difficult month for the stockmarket.

A 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 either through selectively buying stocks or selling puts in favoured stocks.

Level of Franking (%)*

FY15	37.3%
FY16	37.1%
FY17	53.4%
FY18	27.5%

*As per IFSA Standard

Monthly Movements

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

Fund information

APIR	IML0005AU
Inception	1 Jan 2011
Size	\$804M
Application	\$1.0027
Redemption	\$0.9977
Mngmnt fee	0.993% p.a.
Investment horizon	4-5 years
Distribution	Quarterly
Manager	Anton Tagliaferro Michael O'Neill Tuan Luu

Security Category	Effective Exposure
Ord Shares	80.0%
Call Options	-11.9%
Put Options	2.3%
Cash	29.6%

Investors Mutual Equity Income Fund

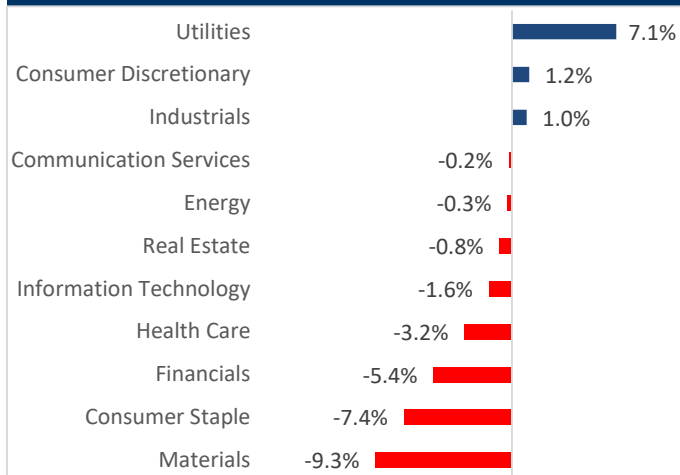
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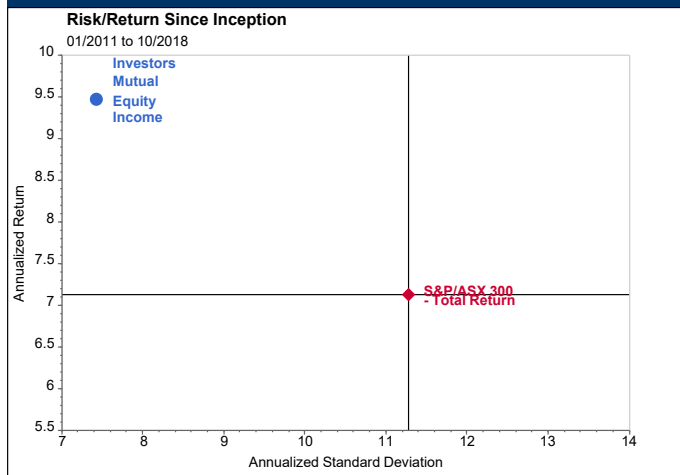
Characteristics	Fund	Benchmark
Number of stocks	48	300
Portfolio Turnover*	34%	N/A
Volatility (STD DEV) since inception	7.43	11.28
Portfolio Beta (since inception)	0.60	1.0

*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

Active Sector Weights



Since Incept. Risk Return - Fund vs Benchmark*



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

Researcher	Rating
Morningstar	Silver
Lonsec	Highly Recommended
Zenith	Recommended

Portfolio top holdings	ASX Code
National Australia Bank	NAB
Transurban	TCL
Westpac	WBC
Commonwealth Bank	CBA
Spark Infrastructure	SKI
Amcor	AMC
Caltex Australia	CTX
Telstra	TLS
Insurance Australia Group	IAG
Clydesdale Bank	CYB

Value and Income portfolio update

As of 1 January 2011 the Value and Income Fund was restructured and its name was changed to the IML Equity Income Fund. The combination of the historical performance numbers for the Value and Income Fund and the present performance numbers for the Equity Income Fund is presented below.

Fund information

Inception	1 May 2004	
Size	\$804M	
Application	\$1.0027	
Redemption	\$0.9977	
Period	Fund return	Benchmark
1 year	-0.9%	+2.9%
3 years [^]	+6.0%	+8.2%
Since Inception [^]	+7.8%	+8.3%

[^] % 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. Fund returns are the Value and Income Fund prior to 31 December 2010 and the Equity Income Fund from 1 January 2011. ** The benchmark for this F is S&P/ASX 300 Accumulation Index. The benchmark returns is the UBS Bank Bill+2% benchmark prior to 31 December 2010 and S&P/ASX 300 Accumulation Index from 1 January 2011.