IML INVESTORS MUTUAL LTD

'We are a true to label Australian equities value manager'

Industrial Share Fund

Fund Report
As at March 31, 2011

Sharemarket Commentary

The Australian sharemarket rose 3.1% in a volatile quarter for world markets. Strength in overseas sharemarkets on optimism of world growth helped many sharemarkets rally strongly during January and February although the tsunami in Japan, as well as unrest in many parts of the Middle East and North Africa led markets to fall sharply in early March. Sharemarkets however regained their poise in late March to close the quarter higher.

Despite rising geopolitical tensions and a higher oil price, Industrial stocks outperformed during the quarter thanks to the US sharemarket closing at near two year highs with the US S&P500 up 5.4%. Many emerging markets returns were subdued over the quarter on inflation concerns exacerbated by rising oil and food prices. The Australian economy grew by 0.7% in the December quarter although growth is expected to slow in the current quarter due to the impact of the Queensland floods. With Australian CPI inflation at 2.2%, investors are now assigning only a marginal probability of further rate rises during 2011, despite the RBA's ongoing concerns over capacity pressures. The Australian dollar finished at a record high of 103 US cents, despite trading as low as 97 US cents during the Japanese disaster.

The best performing sectors for the quarter were the Financials (+3.8%), REITs (+2.5%) and Industrials (+0.8%). Financials recovered from a weak December quarter as fears over regulatory risk eased. In corporate news, we saw many companies such as Wesfarmers, Asciano and Coca Cola Amatil adjust their earnings downwards to account for the impact of the floods around eastern Australia. Insurer IAG downgraded margin guidance on the back of the Christchurch earthquake and poor UK conditions, while QBE announced an estimate of $125m of net claims from the Japanese disaster. The reporting season saw many of the consumer related companies miss market expectations with soft trading conditions to blame. AGL was weaker over the quarter as investors were disappointed that the company had missed out on purchasing any of the NSW energy assets in the sale by the NSW state government while two key NBN bills passed through Parliament, paving the way for Telstra to hold a shareholder meeting in the second half of the year to approve the deal.

Portfolio Performance & Strategy

The Fund posted a 3.5% return for the quarter, which was in line with the benchmark's return of 3.5%. This was due to good performances from core holdings of the Fund such as Westpac, Amcor and Ansell while Amalgamated Holdings and Salmat had disappointing quarters.

Westpac rose almost 10% over the quarter, having lagged the recent rally. The rise in the share price was due to volatility in overseas markets as investors warmed to Westpac's domestic focus. The share price was also helped by the expectation that margins should show some improvement in its next result. Westpac also received a positive tax ruling relating to the St George Bank merger that will result in tax payable being reduced by $1.1bn for the 2011 to 2014 tax years. During the quarter Westpac also revealed its plan to re-launch the Bank of Melbourne brand in Victoria, providing an avenue to grow in Victoria.

Amcor performed strongly over the quarter in response to its half year result which included the earnings from its well timed Alcan Packaging acquisition from Rio Tinto. Earnings per share rose strongly for the December half and the company also confirmed its guidance of substantial Australian dollar synergies from the Alcan acquisition of between $200 and $250 million. Investors took the confirmation of this favourably, and given the appreciation of the Australian dollar, this represents an implicit local currency synergy upgrade of 25% given that the operations are primarily in the US and Europe. While the share price has risen strongly, we continue to hold Amcor as a core holding.

Amalgamated Holdings fell 8% over the quarter after the company announced a disappointing interim result as poor content and extreme weather negatively impacted the company's cinema operations. The company's other businesses, Rydges Hotels and Thredbo, achieved solid growth. IML remains comfortable with its position in Amalgamated with its strong management, a net cash balance sheet and durable businesses. The stock trades on 12x FY11 EPS and on a dividend yield of 6% fully franked.

The global outlook continues to look mixed. While the US economy continues to slowly recover from its recession, uncertainty remains as to how the US economy will perform after June when the Fed's current quantitative programme ceases. The strong rises in all commodities in the last twelve months are also causing inflationary concerns in many parts of the world and as a consequence of this we recently saw the central banks raise interest rate in China and Europe. The high Australian dollar is also causing issues for many Australian exporters as well as companies that compete with imports. We continue to position the portfolio towards companies that we believe have the capacity to continue to do well in the existing mixed economic conditions

Performance Update

Period	Fund Return*	Benchmark**
1 month	+0.9%	+0.0%
3 months	+3.5%	+3.5%
6 months	+5.2%	+4.4%
1 year	+2.9%	-0.5%
2 years^	+17.9%	+19.7%
3 years^	+1.8%	-0.5%
5 years^	+2.5%	+0.7%
Since Inception^	+7.6%	+6.1%

^ % 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
*** 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.

Portfolio Update

Fund start date	1 May 2002
Fund size	$238.2 million
Application	$1.2376
Redemption	$1.2314
December 2010 distribution	2.0cents

	IMIS	Benchmark
Price/Earnings 2011	12.6	12.7
Dividend Yield 2011	5.9%	5.5%

Level of Franking* (%)			
FY June 10	FY June 09	FY June 08	FY June 07
84.3%	73.2%	68.3%	40.2%

*As per IFSA Standard

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'We are a true to label Australian equities value manager'

Why IML - 'What you should expect from a Value Manager'

- ☑ Resilience in falling markets
- ☑ Reasonable capital growth in rising markets
- ☑ Consistent dividend income
- ☑ Low volatility
- ☑ Tax effective

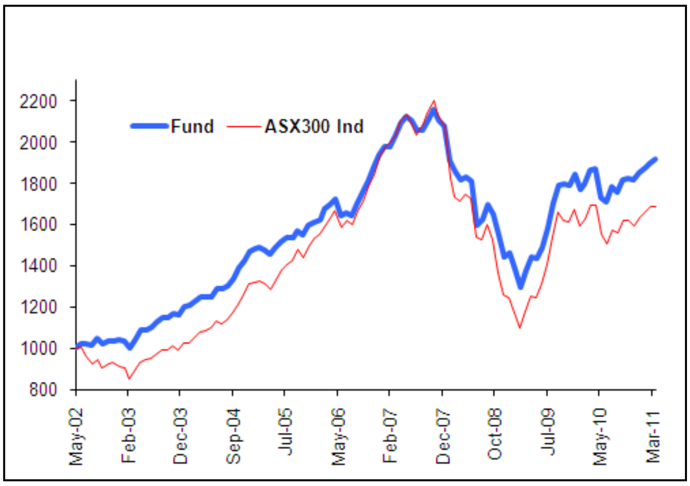
Sector Weights

Sector Name	Fund Weight %	Index Weight %	Active %
Materials	7.42%	4.71%	2.71%
Industrials	5.48%	10.23%	-4.75%
Consumer Discretionary	10.98%	5.98%	5.00%
Consumer Staple	11.49%	11.91%	-0.42%
Health Care	7.05%	5.05%	2.00%
Financials Ex. LPT	36.13%	46.20%	-10.07%
Listed Property Trusts	1.42%	8.77%	-7.35%
Information Technology	0.00%	1.04%	-1.04%
Telecom Services	7.60%	4.28%	3.32%
Utilities	2.95%	1.83%	1.12%
Other	0.00%	0.00%	0.00%
Cash	9.48%	0.00%	9.48%

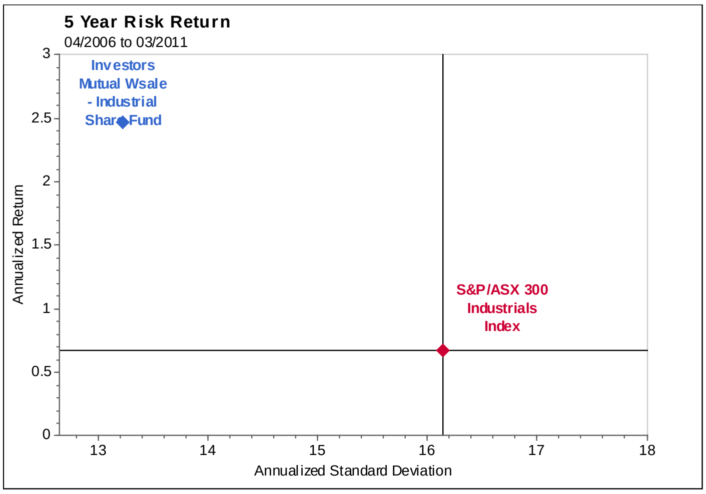
10 Top Holdings

Stocks	P/E 2011	Yield 2011
Westpac	12.0	5.8%
CBA	11.9	6.1%
Telstra	10.5	9.9%
NAB	11.2	6.3%
Woolworths	14.7	4.4%
CSL	18.8	2.4%
Amcor	12.1	5.4%
Amalgamated Holdings	10.4	6.3%
Sky City	14.9	4.8%
Metcash	11.2	7.2%

IMIS vs S&P/ASX 300 Industrials Accumulation Index



5 Year Risk Return – IMIS vs Index March 2011



1300 551 132
www.iml.com.au
mail@iml.com.au