Mutual Limited

Security with Performance
Investment Update - October 2024
MHYF - Mutual High Yield Fund

All figures as at 31 October 2024

Fund Performance

	3 months %	6 months %	12 months %	3 years % p.a.	5 years % p.a.	Inception % p.a.
MHYF (pre-fees)	3.27	6.18	12.81	8.50	7.15	7.20
MHYF (post-fees)	3.01	5.67	11.78	7.48	6.13	6.17
BBerg AusBond Bank Bill Index	1.12	2.23	4.45	2.94	1.87	1.83
Relative Performance (Net)	1.89	3.44	7.33	4.54	4.26	4.34

Investment Objective and Investment Strategy

Mutual's objective for the Mutual High Yield Fund is to source and actively manage a portfolio of fixed interest credit assets with a core focus on structured credit. Targeted portfolio construction is to hold assets with a shorter credit duration to limit capital movements during periods of market volatility.

Mutual manages interest rate risk by predominately investing in assets that reset their reference rate every 30 days.

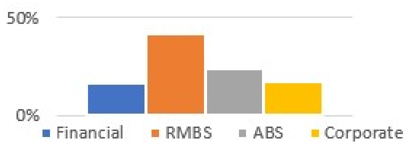
Portfolio

Liquidity
Up to 21 days

Fund Statistics

Running Yield:	9.41%
Yield to Maturity:	8.70%
Credit Duration (years):	2.48
Interest Duration (years):	0.08

Current Portfolio Diversification

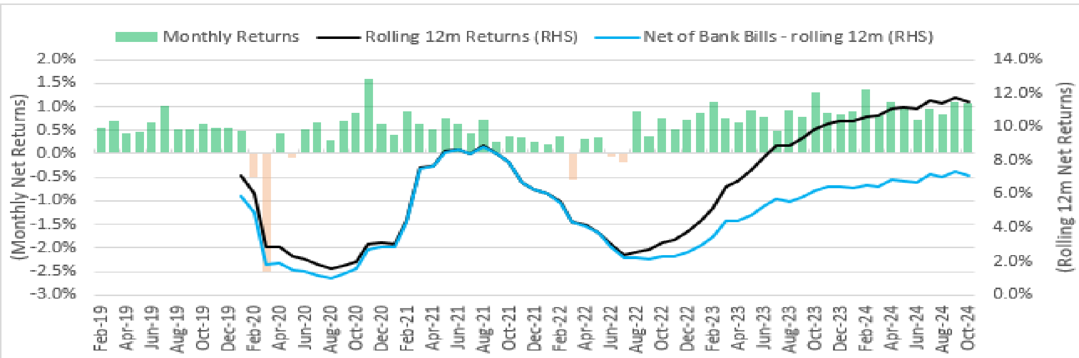


Month in Review

Performance: MHYF returned 1.07% (net) in October. The 6 month net return was 5.67% and the 12 month net return was 11.78% at the end of October. Over the past 12 months the fund has returned 7.33% (net) above the Ausbond Bank Bill Index, versus a target of +4.50%.

We're thrilled to announce that Lonsec has rated all Mutual Limited Funds as 'Recommended'.

The Mutual Income Fund, Mutual Credit Fund and Mutual High Yield Fund each received ratings upgrades, joining the Mutual Cash Fund, which retained its "Recommended" rating. This recognition highlights the strengths of our Funds and the dedication of our team.



Overview: Towards the end of the month the markets focus narrowed to key events due in the first week of November – the RBA decision, US election result and the US Fed decision. Within this backdrop, despite a down-month in equities, stocks continued to hover around their all-time highs, with questionable ability to absorb disappointment over the near to medium term. Add to the mix major ongoing global conflicts – Israel vs Iran and Russia vs Ukraine, and the potential for escalation, and there are plenty of downside triggers ahead for risk assets.

Outlook

On the first Tuesday in November, the other key event was the RBA interest rate decision. The market went into the meeting not expecting any change in rates, with conjecture now reserved for when the first move lower will occur. The accompanying statement with the no change result highlighted the RBA Board remains concerned that underlying inflation is still above target and quarterly outcomes are declining only slowly. The language on remaining vigilant to upside inflation risks and not ruling anything in or out was maintained. We do not think this points to any risk of rates being raised but does add to the risk the first rate cut will be pushed further into 2025.

Portfolio Manager
Mutual Limited

Inception
1 February 2019

Fund Size
$130.5m

Month End Price
$1.084495

Benchmark
Bloomberg AusBond Bank Bill Index

Distribution Frequency
Quarterly

Minimum Investment
$20,000

Minimum Investment Term
6 months
(suggested)

Management Fees
1.0260% p.a. (inclusive of GST)

Buy / Sell Spread
Nil / 0.25%

APIR Code
PRM8798AU

ISIN
AU60PRM87985

Ratings
Lonsec

Platforms:
BT Panorama
Centric
Hub 24
Mason Stevens
Netwealth
Powerwrap
Praemium

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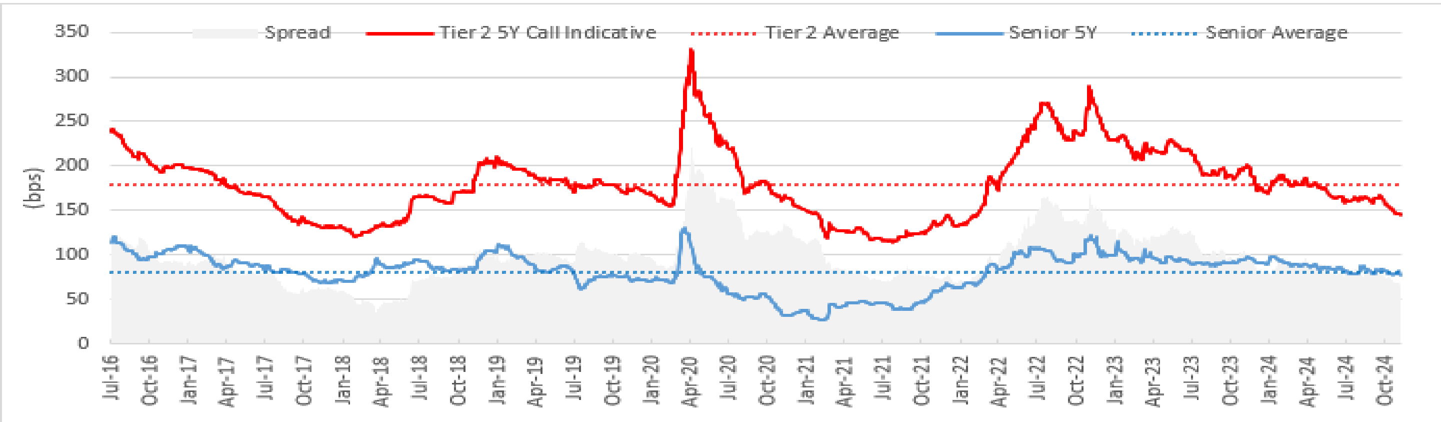
Despite rising uncertainty within stock and bond markets, credit spreads tightened strongly, with a relatively busy issuance period also met with minimal headwinds. All deals were well supported, with books comfortably over-subscribed. The regional banks were busy with Bendigo & Adelaide Bank printing senior and Bank of Queensland printing a subordinated deal. NAB was the only major to issue in AUD, printing a 3 year security at +70bps. This continued a recent trend of the major banks coming to market with single tenor transactions versus the standard 3 and 5 year trades coupled together.

In tier 2 we spent the month waiting for CBA to come to the AUD market but ended up disappointed. Now we are in November and of the three major banks reporting only ANZ has tested appetite in Tier 2. However, for diversification they elected to go to the SGD market for a benchmark 10NC5 year trade. This left just Bank of Queensland issuing Tier 2 at +183bps, just +20bps back from the major bank curve. The book was 8x oversubscribed, highlighting the current excess demand for higher yielding assets. Looking back at October, given the lack of issuance from the majors since July, major bank 10NC5 year FRNs closed the month 17bps tighter at +150bps. This level is approaching the lows since COVID, which is tempting to sell in to, but given the technical backdrop of excess demand versus limited supply despite the proposed changes to AT1 issuance, our recent positioning to shift Tier 2 holdings higher has delivered solid returns.

Credit Spreads – Senior and Subordinated



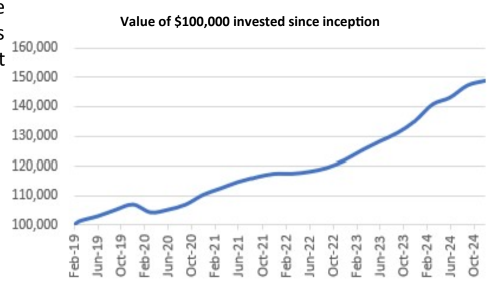
Source: Bloomberg, Mutual Limited

Further highlighting the demand for yield, in mid 2023 Judo Bank just captured enough interest to issue $65m of 10NC5 year subordinated debt. They returned to the market in October, printing a $125m trade at +335bps for the same tenor. In June 2023, their deal priced at +500bps. While the Judo story has evolved since then, the sheer volume of interest in fixed income is represented in both the latest price point and the fact the bookbuild for the October trade topped $1bn.

Structured credit was a little quieter in October following a frantic period of issuance. Pricing remains around recent levels for the lower mezzanine traches, with BB pricing holding +400bps and B holding +500bps for a typical non-conforming deal.

Property prices had a brief moment in the tabloid press given the latest CoreLogic data showed home prices rose by just 0.2% across the eight capital cities in October. This was the slowest lift in prices since January 2023. In Sydney, it was the first decline for this cycle with a drop of 0.1%/mnth. Melbourne continued its run of price declines, with the 7th consecutive drop, taking falls this cycle to 1.9%, a very modest fall given the time period.

Last month we wrote there are emerging global risks that credit markets appear to be comfortable with. The election was a key risk, which for now the result has been comfortably absorbed by the market. With term rates trending higher again, demand for fixed interest looks set to continue, and for now there appears no trigger that will reverse the recent trend.



If you would like more information on MHYF please visit www.mutualltd.com.au or contact Mutual on + 61 3 8681 1900