Security with Performance

Investment Update - June 2024

MIF - Mutual Income Fund

Mutual Limited

All figures as at 30 June 2024

Fund Performance

	3 months %	6 months %	12 months %	3 years % p.a.	5 years % p.a.	Inception % p.a.
MIF (pre-fees)	1.89	3.60	7.30	3.74	3.09	3.23
MIF (post-fees)	1.79	3.41	6.91	3.35	2.70	2.81
BBerg AusBond Bank Bill Index	1.08	2.18	4.37	2.44	1.64	1.95
Relative Performance (Net)	0.71	1.23	2.54	0.91	1.06	0.86

Investment Objective and Investment Strategy

Mutual's objective is to source and actively manage a portfolio of debt instruments offered by Australian ADIs, with a minimum of 60% invested in the major Banks. Mutual manage the Fund to provide investors a high level of capital preservation and to outperform the Bloomberg AusBond Bank Bill Index, generating net returns to investors in excess of cash alternatives.

Portfolio

Liquidity
Up to 5 days

Authorised Investments
Debt Instruments with Australian ADI
Minimum 60% exposure to Big 4 Banks

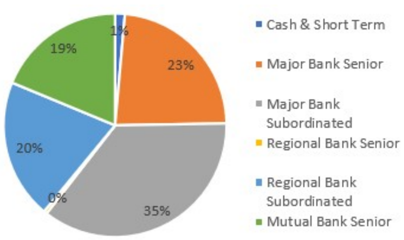
Yield

Running Yield	5.77%
YTM	5.54%

Fund Statistics

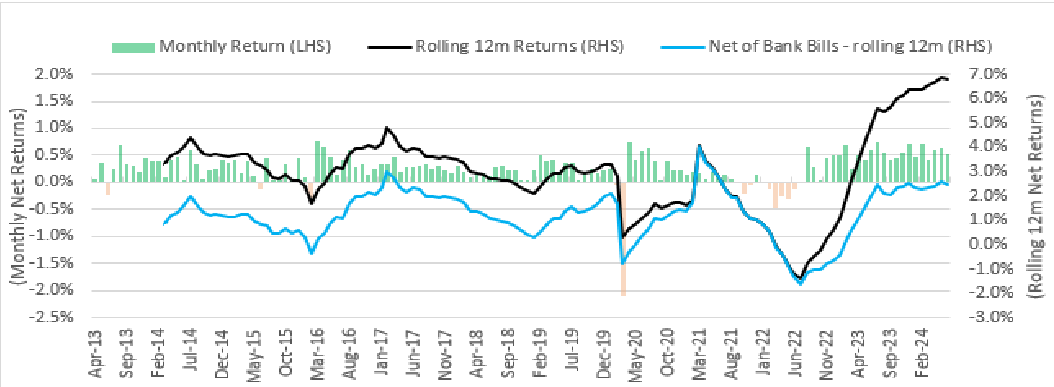
Senior ADI Risk	45%
Subordinated ADI Risk	55%
Interest Duration	0.14
Credit Duration	2.42
Investment Grade	100%

Current Portfolio Diversification



Month in Review

Performance: MIF returned 0.53% (net) in June. The 6 month net return lifted to 3.41% and the 12 month net return was 6.91% at the end of June. Over the past 12 months the fund has returned 2.54% above the Ausbond Bank Bill Index, versus a target of 1.20%.



Overview: Macro growth and inflation trajectories, combined with the path of monetary policy settings remain the core dominating themes for markets, with geopolitical risk re-emerging as a factor through the month. While geopolitical risk escalated, the market impact was brief, and largely limited to French securities – bonds, stocks and credit, a result of the snap election called by Macron that risks the far right taking a majority control of the government. Locally, interest rates are back centre stage following the monthly CPI print in June that showed inflation accelerating to +4.0% YoY, up from +3.6% YoY a month earlier and well ahead of the consensus at +3.8% YoY. This surprise to the upside added to the RBA's hawkish commentary following the decision in early June to leave the cash rate unchanged at 4.35%. The RBA board left all options on the table and reiterated their absolute focus on containing inflation. They are traversing a narrow and perilous path, hike here and risk a recession, or hold rates and eventually cut and risk inflation re-accelerating.

Portfolio Manager
Mutual Limited

Inception
23 April 2013

Fund Size
$429.5 million

Month End Price
$1.042949

Benchmark
Bloomberg AusBond Bank Bill Index

Distribution Frequency
Quarterly

Minimum Investment
$1 through IDPS
$20,000 for Retail & Wholesale Investors

Minimum Investment Term
Longer than 5 days (suggested)

Management Fees
0.3905% p.a. (inclusive of GST)

Buy / Sell Spread
Nil / Nil

APIR Code
PRM0015AU

ISIN
AU60PRM00152

Ratings
Lonsec
Zenith

Platforms
AMP MyNorth
Asgard
BT Panorama
Centric
Colonial First State
Hub 24
Macquarie
Mason Stevens
Netwealth
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Praemium

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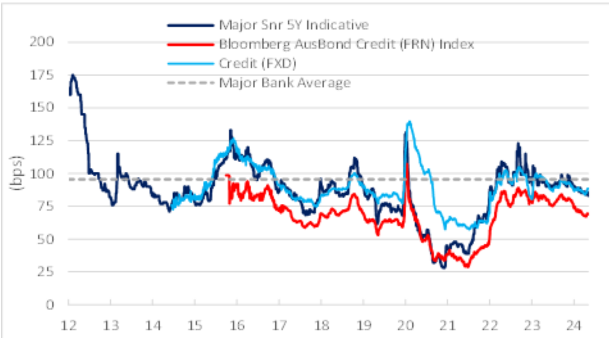
Outlook

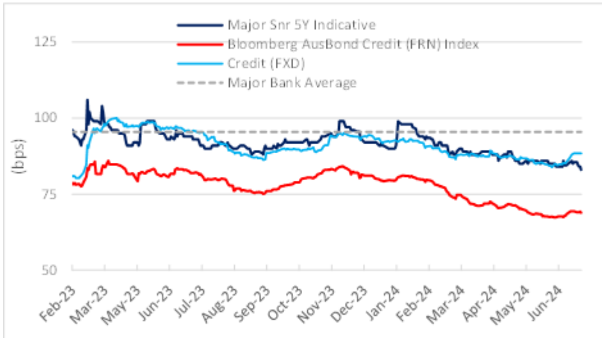
We were going into the second half of the calendar year thinking the cash rate was firmly on hold. Now, another hike is a real possibility. Market pricing has moved this way, pricing in +10bps of a hike at the August meeting and +17bps at the December meeting. In percentage terms, this means the market thinks a +25bps hike in August is about a 40% chance and a +25bps hike by December is a better than 50:50 chance. Economists are more divided, but generally have shifted towards the possibility of another hike. At Westpac, they side with rates being on hold, citing the RBA's desire to maintain the gains in employment coming out of COVID. They do caveat this with a view that a strong June quarter CPI release together with strong labour market data could tip the balance and force a rate hike. At Citi, they are of the view the quarterly inflation figure will print 0.3% higher than the RBA's forecast for Q2, and in order to maintain credibility around its inflation target the RBA Board needs to hike at least once more. July will be a month of speculation with interest rate pricing the centre of attention.

Credit Spreads – long run history



Source: Bloomberg, Mutual Limited

Credit Spreads – short run history



Source: Bloomberg, Mutual Limited

In credit, there was a slower pace of $A Financial supply following an active May where NAB and Westpac priced A$6.1bn of senior and A$1.25bn of T2. In June just ANZ issued in AUD printing A$4.25bn senior across 3 and 5 year tenors at +70bps and +80bps respectively. By the end of the month the 5 year had found support and traded at +83bps, a few points inside the long run average of +87bps. There is a consensus view the major banks have front loaded their issuance into the first half of the year, a strategy designed to avoid any potential risks from the US election in November. A slower supply pipeline should support credit spreads, although it is unlikely we will see further sharp compression given Westpac issued the first senior of the year at +100bps in January and is now trading around +80bps.

It was a quieter second quarter in Tier 2 with just two deals in June. NAB priced a A$1.25bn 15NC10 year trade at +200bps and Heartland Bank debuted a A$50m transaction. Across the quarter, there was no benchmark 10NC5 year transaction from any Australian Bank. This followed a bumper Q1 where A$8bn of A$ Tier 2 was issued, being the largest quarter of issuance ever. At the time of writing, the drought of supply has broken with Westpac delivering a dual tranche 10NC5 year trade at +167bps. The deal opened for IOIs at +177bps, compressing 10bps at pricing with total demand of almost 3 times the A$1.5bn print size. Westpac were only in the market in April for the same tenor transaction, so there was some surprise they returned so quickly. All the major banks have now met the January 2026 deadline for 6.5% of risk weighted assets in Tier 2, so it makes sense they are moving to the next stage of managing this part of the capital stack after spending the last few years building this buffer. Westpac announced the new deal on the same day as advising APRA had approved the call of their August 2024 security, maybe a trend we will see more regularly going forward.

Credit spreads are now below long run averages for both senior and subordinated. Usually we would be looking to reduce exposure, but while the technical backdrop is the key driver of performance there is little incentive to materially change the portfolio parameters. We are alert to risks, including the geopolitical landscape and the chance of further rate hikes in Australia. Short of a systemic shock, any widening in credit spreads is likely to be measured and gradual, providing further opportunity to reinvest income.

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