Mutual Limited

Security with Performance

Investment Update - September 2024

MCF - Mutual Credit Fund

All figures as at 30 September 2024

Fund Performance

	3 months %	6 months %	12 months %	3 years % p.a.	Inception % p.a.
MCF (pre-fees)	1.98	4.36	9.33	5.48	4.74
MCF (post-fees)	1.85	4.10	8.83	4.99	4.24
BBerg AusBond Bank Bill Index	1.11	2.21	4.41	2.82	1.88
Relative Performance (Net)	0.74	1.89	4.42	2.17	2.36

Investment Objective and Investment Strategy

Mutual's objective for the Mutual Credit Fund is to source and actively manage a portfolio of fixed interest credit assets across APRA regulated institutions, corporates and structured assets. Targeted portfolio construction is to hold assets with a shorter credit duration to ameliorate periods when risk assets sell-off.

Mutual manages interest rate risk by predominately investing in assets that reset their reference rate every 30 or 90 days.

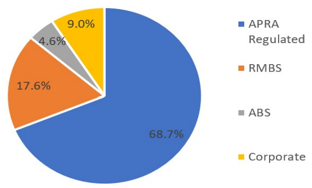
Portfolio

Liquidity
Up to 5 days

Fund Statistics

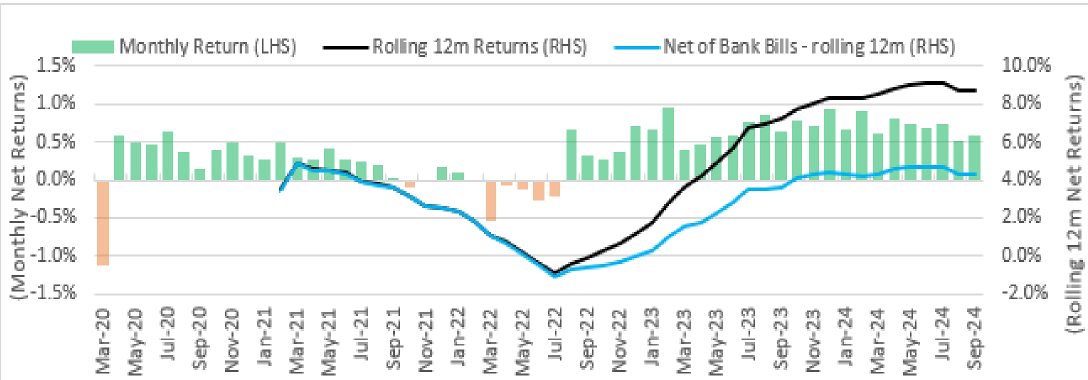
Running Yield:	7.19%
Yield to Maturity:	6.60%
Credit Duration (years):	2.40
Interest Duration (years):	0.12

Current Portfolio Diversification



Month in Review

Performance: MCF returned 0.59% (net) in September. The 6 month net return was 4.10% and the 12 month net return was 8.83% at the end of September. Over the past 12 months the fund has returned 4.42% (net) above the Ausbond Bank Bill Index, versus a target of +2.20%.



Overview: The September RBA policy meeting outcome met expectations, with the cash rate unchanged. The RBA stated *"while headline inflation will decline for a time, underlying inflation is more indicative of inflation momentum, and it remains too high."* On the surface the tone of the statement was softer than previous meetings, marginally less hawkish, but not yet dovish. The statement also focused on uncertainties, specifically the outlook for household consumption, geopolitical risks, and slowing Chinese growth and its impact on commodity prices. Policy settings will remain sufficiently restrictive until the board is confident inflation is sustainably under control.

Outlook

Consensus estimates are for rates to remain on hold for 2024, and there is a declining proportion of forecasters (4 out of 37) still predicting a cut by year end (previously 8 out of 30). The path of rates remains data dependent, although macro headwinds have been largely priced in. Any surprise to the positive side, for example better growth, lower inflation or lower unemployment, would likely trigger a further delay in the delivery of the first rate cut by the RBA. The next RBA meeting is November 4th, at which point the board is expected to leave rates unchanged at 4.35%. Our house view is rates will remain on hold over the next 6 months.

Portfolio Manager
Mutual Limited

Inception
21 February 2020

Fund Size
$666.9 million

Month End Price
$1.027325

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
0.4930% p.a. (inclusive of GST)

Buy / Sell Spread
Nil / Nil

APIR Code
PRM8256AU

ISIN
AU60PRM82564

Ratings
Lonsec
Zenith

Platforms
Asgard
BT Panorama
Centric
Colonial First State
Hub 24
Netwealth
Powerwrap

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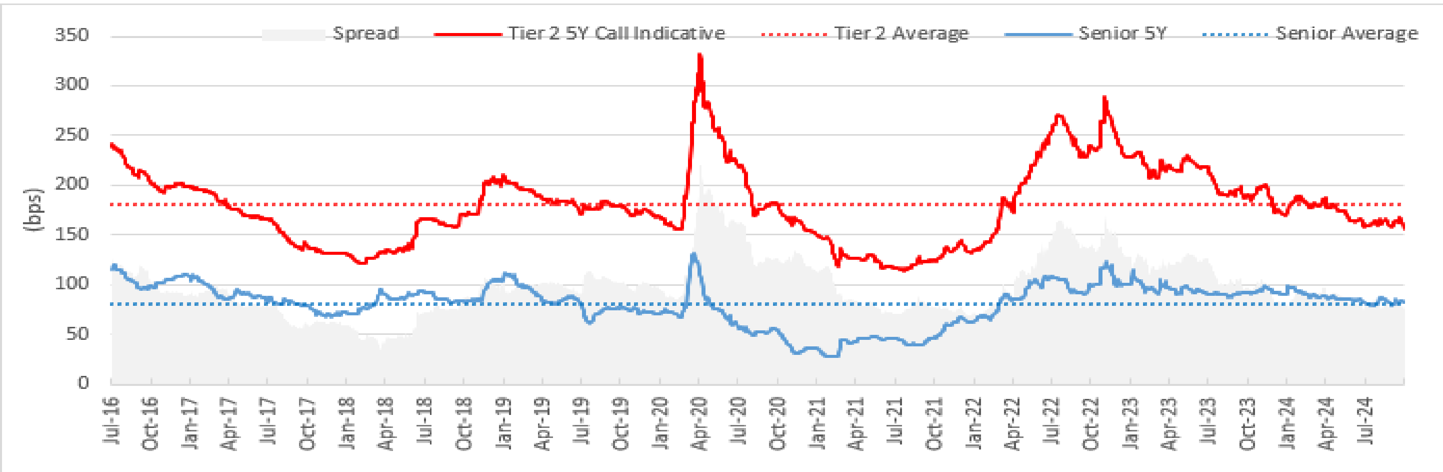
In senior it was a relatively quiet month in primary with a handful of banks issuing predominately in the 5-year bucket. Westpac printed a 5Y senior deal at +85bps, with a large FRN tranche of $2.5bn and a small FXD tranche of $200m. With the purchase of SunCorp Metway by ANZ complete, the bank previously categorised as a regional was able to issue an inaugural senior deal using their upgraded AA- credit rating. There was strong demand for both the 3 and 5 year securities with final pricing comfortably above the major bank curve but tighter than regional. By month end, indicative major bank 5Y senior spreads closed the month at +83 bps (+3 bps CoM), now -4 bps inside the long run average (+87 bps).

The major news in Tier 2 markets was the APRA announcement to phase out AT1 securities as part of bank capital structures. For advanced banks (4 majors, Macquarie, ING) the replacement will be 1.25% Tier 2 and 0.25% CET1. For the remaining banks it is to be fully replaced with Tier 2. There is A$41bn in ASX-listed AT1 on issue, and the banks have a long runway until 2032 to replace the capital. The initial reaction to the news was benign, then slightly negative as additional supply was taken into account. By the end of the month, a strong bid tone had re-emerged and year to date low points in spreads were being revisited. Over time, it will be interesting how retail investors redeploy the proceeds from maturing AT1s. Another watch will be future pricing on Tier 2 as the layer of AT1 that would provide protection to Tier 2 investors if a bank ran into difficulty disappears, although this does not currently seem to be a concern for investors.

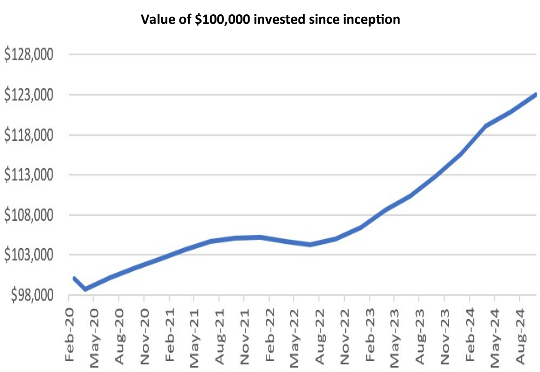
Credit Spreads – Senior and Subordinated



Source: Bloomberg, Mutual Limited

It was another busy month in structured credit with thirteen deals pricing across ABS and RMBS, taking YTD issuance to A$59.4bn (source: Westpac). Demand remains robust across the capital stack and pricing continues to compress. Mezzanine notes (sub investment grade) remain in demand, where pricing has compressed to a level where we are starting to see coverage ratios reduce. For the fund we are typically an investor around the BBB part of the capital stack where pricing on new issues is setting around +200bps. At this pricing we are cautious on allocating to new structured deals, preferring APRA regulated issuance such as insurance subordinated debt.

There are emerging global risks that credit markets appear to be comfortable with. Added to this is the weight of new money into credit that is overwhelming any selling and until this abates the march tighter in spreads continues, albeit at a slower pace simply due to the amount of compression we have seen so far. With credit spreads approaching COVID levels in Tier 2, we prefer to be more passive in positioning.



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