Security with Performance
Investment Update - May 2024
MIF - Mutual Income Fund

Mutual Limited

All figures as at 31 May 2024

Fund Performance

	3 months %	6 months %	12 months %	3 years % p.a.	5 years % p.a.	Inception % p.a.
MIF (pre-fees)	1.75	3.77	7.37	3.60	3.05	3.21
MIF (post-fees)	1.65	3.58	6.98	3.21	2.66	2.79
BBerg AusBond Bank Bill Index	1.10	2.20	4.32	2.32	1.59	1.94
Relative Performance (Net)	0.55	1.38	2.66	0.89	1.07	0.85

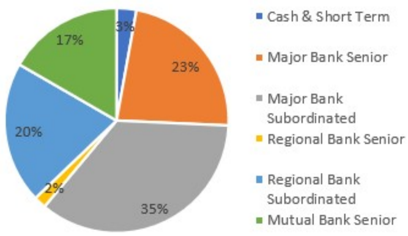
Investment Objective and Investment Strategy

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

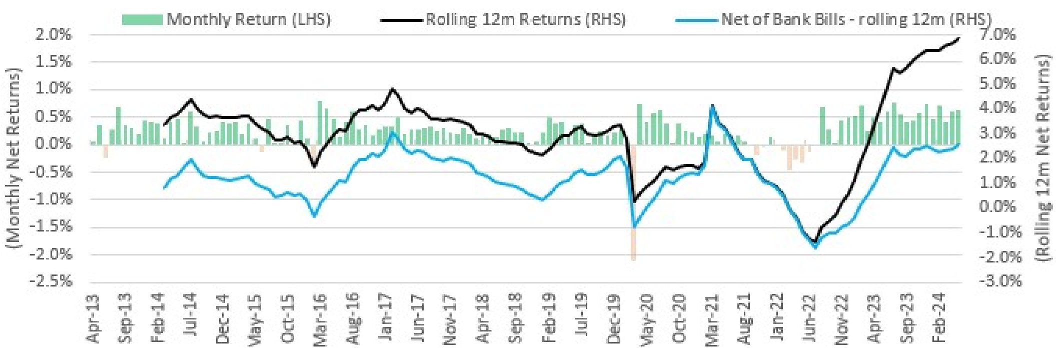
Liquidity	**Authorised Investments**	
Up to 5 days	Debt Instruments with Australian ADI	
	Minimum 60% exposure to Big 4 Banks	
	Yield	
	Running Yield	5.73%
	YTM	5.53%
Fund Statistics		
	Senior ADI Risk	45%
	Subordinated ADI Risk	55%
	Interest Duration	0.13
	Credit Duration	2.35
	Investment Grade	100%

Current Portfolio Diversification



Month in Review

Performance: MIF returned 0.64% (net) in May. The 6 month net return lifted to 3.58% and the 12 month net return was 6.98% at the end of May. Over the past 12 months the fund has returned 2.66% above the Ausbond Bank Bill Index, versus a target of 1.20%.



Overview: Core themes evolved a touch over May with ebb and flow in markets around macro data prints and corresponding central bank policy expectations. Locally, inflation is moderating, but doubts are building on whether it is moderating fast enough. Consequently, RBA signalling – via meeting statements and minutes – took a hawkish turn in recent weeks.

Domestic labour market conditions are cooling. The unemployment rate ticked up to 4.1% from 3.8%, a surprise versus consensus estimates, which expected a more modest increase to 3.9%. Nevertheless, the unemployment rate remains well below post GFC averages (5.6%) and well into expansionary territory. The monthly annual CPI data series surprised to the high side, +3.6% YoY vs +3.4% YoY consensus, and up on the prior reading of +3.5%. Trending in the wrong direction and presenting a headwind to investor hopes of RBA rate cuts this year. Rent, finance, education and insurance costs remain core headwinds. Beyond these core data series, Home Loan values rose +3.1% YoY vs +1.5% YoY prior, with Investor Loans +3.8% YoY vs +1.2% YoY prior. Building Approvals (-0.3% MoM) again weaker than consensus (+1.8% MoM) and down on the prior month (+2.7% MoM), but the series is notoriously volatile. On a net basis, there are insufficient dwellings being built to meet demand, which is causing upward pressure on house prices. Retail sales (+0.1% MoM) remain subdued, while credit growth advanced a touch (+0.5% MoM vs +0.4% MoM prior).

Portfolio Manager
Mutual Limited

Inception
23 April 2013

Fund Size
$565.6 million

Month End Price
$1.058499

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
Powerwrap
Praemium

Mutual Limited
ABN 42 010 338 324
AFSL No. 230347
Level 17, 447 Collins Street
Melbourne VIC 3000
P: +61 3 8681 1900
E: mutual@mutualltd.com.au
W:www.mutualltd.com.au

Mutual Limited

Security with Performance
Investment Update - May 2024
MIF - Mutual Income Fund

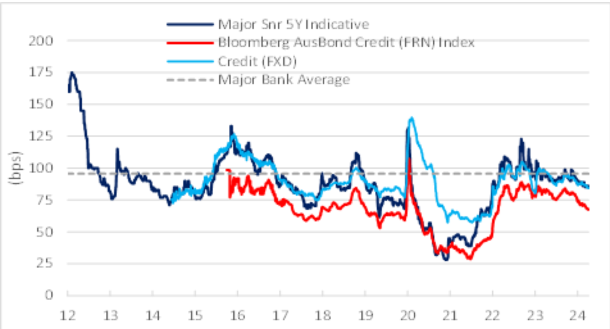
All figures as at 31 May 2024

Outlook

Market pricing for the end of year cash rate was largely unchanged through May, with no rate cuts priced in until well into 2025, likely around mid-year at this stage. The recent inflation data has further cemented the growing belief that rate cuts are not imminent. While markets are not pricing in rate cuts for 2024, median consensus expectations are for one cut by year end, either at the November or December meeting. However, confidence in this view is not high. Of the 36 economists surveyed by Bloomberg, 42% expect a cut (at least one) by year end, while 36% expect no cuts. A smaller 22% expect at least two cuts by year end.

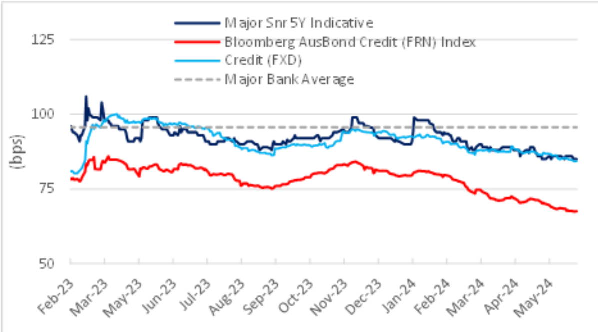
The RBA's next meeting is June 17 - 18th, at which point the board is expected to leave the cash rate unchanged, at 4.35%. Our expectations around the timing and scale of rate cuts this year varies to consensus. We expect no rate cuts this calendar year, whereas consensus expect one in Q4. Markets are more in line with our thinking, with no full rate cut priced in until June 2025. We see risk of a rate hike as being very minor, but not zero.

Credit Spreads – long run history



Source: Bloomberg, Mutual Limited

Credit Spreads – short run history



Source: Bloomberg, Mutual Limited

A$ credit remained strong in May with both senior and subordinated spreads at the 5 year tenor now trading inside long run averages. This is in part due to the technical backdrop where all 4 of the majors have ventured overseas to raise new funding, giving domestic markets a break from new issuance. NAB did buck this trend with a 15NC10 year fixed rate tranche only Tier 2 priced during the month. In a sign of accelerating private client type demand for anything yielding above 6%, the book build topped $3.5bn. NAB issued $1.25bn, which left plenty of unmet demand, driving a strong performance of this bond on the break. In MIF we do not buy fixed rate assets, and 10 years to call is challenging to fit into our overall credit duration limit of 2.5 years. Pricing was also tight compared to a 10NC5 bond, offering only around 5bps a year payable from 5 to 10 years versus the 15bps per annum payable from 2 to 5 years. That being said, the performance of the 15NC10 year was exceptionally strong, highlighting underlying demand for any higher yielding AUD credit.

Tier 2 has been on a remarkable run lately, taking us back to the performance of this asset class seen during COVID. The shortest dated calls traded as low as +60bps during 2021. Today, the short calls are now in the low +80bps region. The 2025 calls are now around +100bps and the early 2026 calls around +110bps. All these levels are 50bps tighter than 1Q24. With the additional issuance of Tier 2 by the major banks to achieve APRAs targets now largely complete, supply is expected to normalise and be more predictable. With global markets also attractive to Bank Treasurers, the mega A$ deals seen over the past 12 months may not be repeated. This gives us confidence to hold Tier 2 towards the top of the fund limits, allowing the additional yield to help drive fund returns.

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