Security with Performance

Investment Update - July 2024

MHYF - Mutual High Yield Fund

Mutual Limited

All figures as at 31 July 2024

Fund Performance

	3 months %	6 months %	12 months %	3 years % p.a.	5 years	Inception
MHYF (pre-fees)	2.90	6.51	12.78	7.99	6.96	7.04
MHYF (post-fees)	2.64	6.00	11.75	6.97	5.93	6.02
BBerg AusBond Bank Bill Index	1.10	2.18	4.37	2.56	1.69	1.70
Relative Performance (Net)	1.54	3.82	7.38	4.41	4.24	4.32

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.

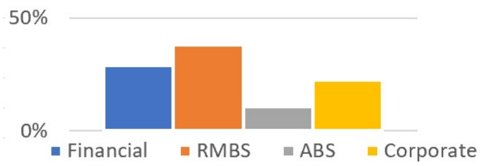
Portfolio

Liquidity
Up to 21 days

Fund Statistics

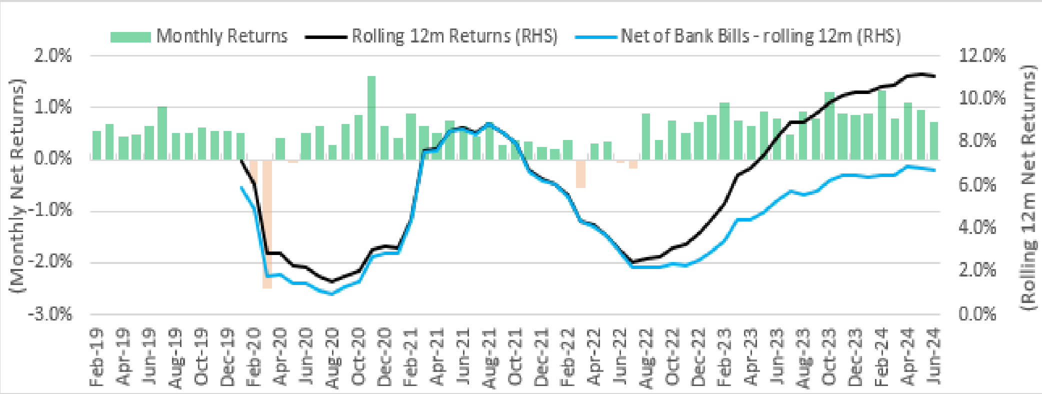
Running Yield:	9.26%
Yield to Maturity:	8.86%
Credit Duration (years):	2.57
Interest Duration (years):	0.09

Current Portfolio Diversification



Month in Review

Performance: MHYF returned 0.96% (net) in July. The 6 month net return was 6.00% and the 12 month net return was 11.75% at the end of July. Over the past 12 months the fund has returned 7.38% (net) above the Ausbond Bank Bill Index, versus a target of +4.50%.



Overview: The key data point in July was the June quarter CPI figures, and the outcome showed inflation is moderating. AU Q2 CPI printed in-line with consensus on the quarter, +1.0% QoQ (flat to Q1), but higher annually as expected, +3.8% YoY (+20 bps to Q1). Trimmed mean was more encouraging, and that's the figure the RBA is more focused on for policy setting, moderating to +0.8% QoQ vs +1.0% QoQ last (+1.0% QoQ consensus). The annual trimmed mean run rate eased to +3.9% YoY vs +4.0% YoY last (+4.0% YoY consensus).

While inflation is a key data series at this stage of the cycle, labour data is almost as equally important – from an RBA policy perspective. To this end the Australian unemployment rate rose to 4.1% from 4.0%, in line with consensus.

Outlook

Post the CPI outcome consensus estimates quickly moved to rates remaining on hold for 2024, although there is a reasonable number of forecasters (8/30) predicting at least one cut by year end. Market pricing also indicates the possibility of a cut, but no full rate cut is priced in until February 2025. CBA make a strong argument for the first rate cut to come in November. Their forecasts have a material fall in the annual rate of headline inflation in Q3 2024 to sit within the RBAs target band, paving the way for a 25bps cut at the November meeting.

Portfolio Manager
Mutual Limited

Inception
1 February 2019

Fund Size
$118.8m

Month End Price
$1.074561

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:
Centric
Netwealth
Powerwrap
Praemium

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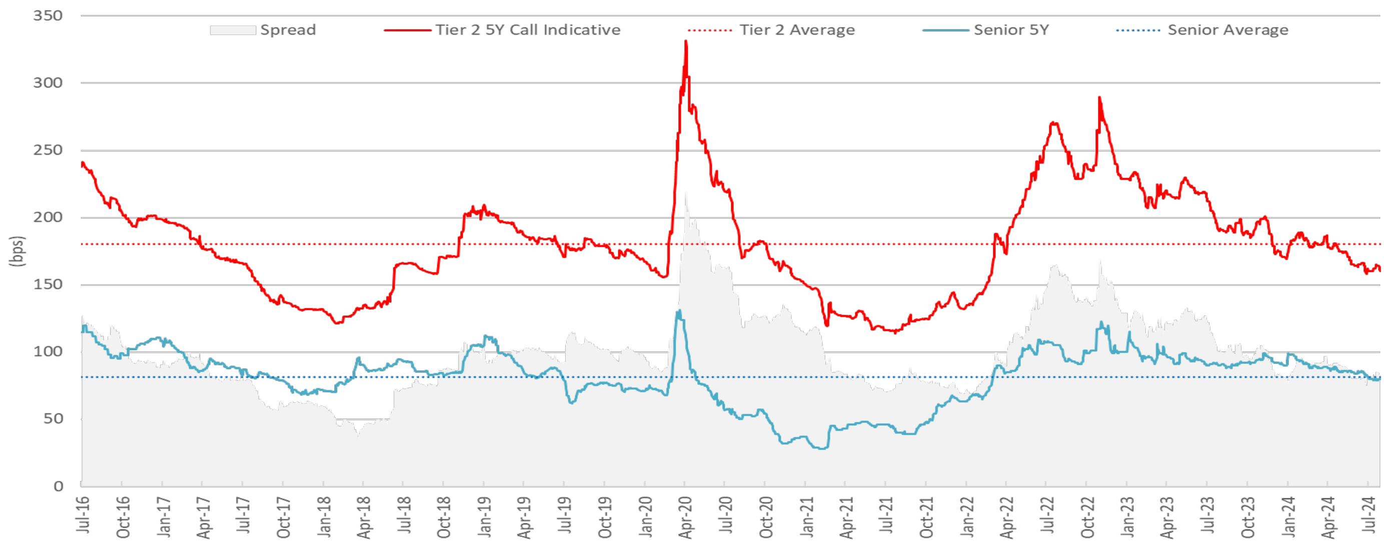
The next RBA meeting is August 5 - 6th, at which point the board is expected to leave rates unchanged at 4.35%. What will be of interest is the tone of the statement given the last two meetings have produced increasingly hawkish statements. Markets will now be looking for a hint of dovishness from the RBA, but we think it remains way too early for the RBA to declare the battle with inflation as over.

Credit in July was characterised by the ongoing tailwind to spreads provided by subdued A$ financial issuance. Outside a 1 year senior deal from NAB late in the month, there was little action from the domestic banks. This resulted in July being only the second month in 2024 after April which has seen negative net supply. August shapes as a large maturity month in A$ for senior, including over A$5bn from the four major banks. CBA will release their full year results on August 14th and it is expected they come to market with a multi tranche senior deal, likely in A$ given the recent underperformance of offshore markets.

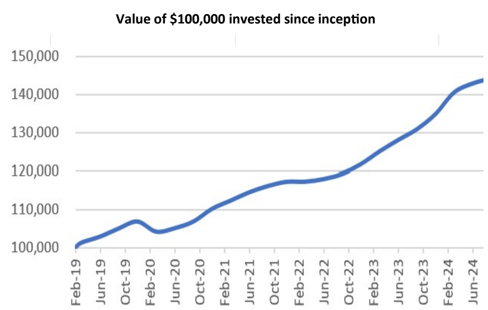
For subordinated debt there was an outcome for a new deal we haven't seen in quite a long time, that being a widening of the credit spread after pricing. This occurred with the ANZ 15NC10 FXD transaction priced at +183bps during the month. While the book size was well over $4bn, the higher than expected print of $1.9bn caught the market by surprise. This resulted in the bond underperforming on the break, trading as wide as +10bps over the initial margin. For the fund, we do not buy fixed rate assets so were able to avoid the short term losses. The other major bank issuance in July was WSTP with another 10NC5 year fixed and floating rate tier 2. The deal priced at +167bps, a little over +10bps wider to where Westpac's April 10NC5 was trading at the end of June. We had made room in the fund for a new deal, so were able to take advantage of the new issue concession on the deal.

Credit Spreads – Senior and Subordinated



Structured credit took the usual break in July with no new deals added to the fund. By the end of the month, multiple mandates were in market with issuers happy to meet investor demand locally and take a small risk European investors may sit out given summer holidays. Early indications show spreads are holding near recent lows. The BB and B notes down the bottom of the capital stack are an exception, with spreads looking like they are catching up to the compression seen in A and BBB rated notes. Despite the spread compression we still see value given the underlying performance of the loan pools.

Across A$ credit spreads remain well bid with the market generally of the view any supply will be easily absorbed. There remains the possibility of global geopolitical risks spiking or the remarkable strength in US equities finally reversing. Outside of a significant risk off event though, we expect A$ credit to continue to perform.



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