Mutual Limited

Security with Performance
Investment Update - June 2020
MCF - Mutual Credit Fund

All figures as at 30 June 2020

Fund Performance

	1 month %	3 months %	Since Inception % p.a.
MCF (post-fees)	0.46	1.55	0.19
Bloomberg AusBond Bank Bill Index	0.01	0.06	0.19
Relative Performance (Net)	0.45	1.49	0.00

Investment Objective and Investment Strategy

Mutual's objective is to source and actively manage a portfolio of fixed interest credit assets across, ADIs, corporates and structured finance. 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.

Performance

Buoyed by synchronised support from global central banks, which does not look likely to be withdrawn in the short-to-medium term, and optimism of a Covid-19 vaccine, most financial assets strengthened in June. The ASX200 accumulation index increased 2.60% and the AusBond Credit FRN index tightened 4 bps. For June, the Mutual Credit Fund (the Fund), delivered a net positive return of 0.46%. With ~$14.4bn of bond redemptions over the remainder of 2020 and the RBA providing a cheap funding facility (discussed below) for eligible ADIs, supply of new bonds is expected to be limited. Accordingly, the Fund is invested with a credit duration of 2.38 years close to its 2.50 year maximum guideline.

The RBA's Term Funding Facility (TFF) lending to ADIs up to 3 years at 0.25% has been increasingly drawn over the quarter, with total take up to date of just over $A12bn out of a total funding allowance of $A135bn. The TFF started out with an initial allowance of $A90bn, which has grown as banks extend credit to businesses. We expect the TFF will be drawn in greater volumes ahead of the initial September deadline to replace maturing debt.

Fund Strategy/ Outlook

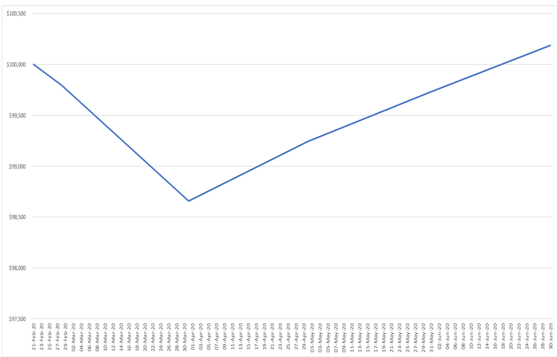
With the unprecedented measures taken by the government and the RBA we are constructive on credit and expect further tightening across financial and non-financial credit spreads over the course of 2020. In terms of "carry" we believe major bank subordinated debt and residential mortgage backed securities (RMBS) provides superior relative value. With BBSW at 0.10%, wholesale and retail investors are likely to gravitate to paper with greater outright credit spreads, therefore we view major bank subordinated paper and RMBS as being attractive. Subordinated paper is trading on a historically high subordinated/senior ratio of ~3.5x, we expect this ratio to tighten over the course of 2020. In terms of RMBS, the Fund over the course of June bought super senior AAA rated RMBS. These RMBS benefit the metrics of the Fund by reducing market risks (reduce credit duration) and increases the Fund's yield. To give context, the AAA rated notes provided a yield of BBSW +1.20% with a 1 year duration versus major bank 4.5 year duration providing a yield of BBSW +0.60%.

Liquidity

Up to 5 days

Fund Statistics

Running Yield: 2.30%
Yield to Maturity: 2.21%
Credit Duration (years): 2.38
Interest Duration (years): 0.29



Portfolio Manager
Mutual Limited

Inception
21 February 2020

Fund Size
$321 million

Month End Price
$1.001881

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
0.48% p.a. (inclusive of GST)

Buy / Sell Spread
Nil / Nil

APIR Code
PRM8256AU

ISIN
AU60PRM82564

Ratings
SQM Research

Platforms
Colonial First State
HUB24

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

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