



Mutual Limited

# Security with Performance

## Investment Update - August 2020

### MCF - Mutual Credit Fund

All figures as at 31 August 2020

#### Fund Performance

	1 month %	3 months %	6 months %	Since Inception %
<b>MCF (post-fees)</b>	0.36	1.47	1.41	1.20
<b>Bloomberg AusBond Bank Bill Index</b>	0.01	0.03	0.18	0.21
<b>Relative Performance (Net)</b>	0.35	1.44	1.23	0.99

#### 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

August was a tale of two halves. The first half followed the theme from prior months with tightening credit spreads while in the second half, primary issuance took focus away from the secondary market with spreads flat to modestly wider. The subdued second half owes to corporate reporting season opening the window to new issuance with a total of ~\$3.9bn issued across financial and non-financial names. Notwithstanding August's primary activity, real money accounts are holding ample liquidity which saw strong participation in transactions. Further, new deals are a helpful source to meaningfully boost portfolio weights than through secondary market purchases, which currently can be challenging.

For August, the Mutual Credit Fund (the Fund), delivered a net positive return of 0.36%. The largest attribution of returns over August was the move tighter from tier 2 bonds, while bank senior unsecured bonds moved around ~2 bps wider, and residential mortgage backed securities (RMBS) were on balance flat. Notwithstanding the recent strength in tier 2 notes we remain constructive on their continued outperformance. Underscoring the expected outperformance from bank subordinated paper is the fact that with BBSW at 0.09%, wholesale and retail investors are, and will likely continue to gravitate to paper with greater outright credit spreads. Putting this into context, senior major bank January 2025 is providing a yield of 0.54% versus major bank August 2024 subordinated debt of 1.80%.

#### Fund Strategy/ Outlook

We remain constructive on credit and generally expect further tightening across financial and non-financial credit spreads over the course of 2020. Our positive outlook is underscored by the technical backdrop of ~\$19.6bn of AUD redemptions across financial and non-financial names over the remainder of the year, and the expected absence of banks from the senior unsecured market over the next 18 months owing the RBA's term funding facility.

In terms of "carry" we believe major bank subordinated debt and residential mortgage backed securities (RMBS) provides superior relative value and expect out-performance of this sub-class of credit relative to major bank senior. In terms of RMBS, the Fund is transitioning from super senior AAA rated RMBS to AA and A. While RMBS are not expected to provide returns from spread compression they benefit the Fund from superior "carry" relative to equivalent corporate rated paper. Underlining this point, 3.7 year AA rated RMBS provides yield of BBSW+2.80% versus 4.25 year major bank senior unsecured paper of BBSW +0.45%.

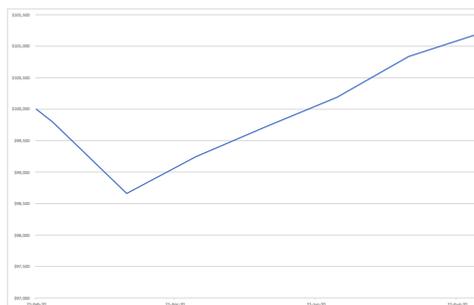
#### Liquidity

Up to 5 days

#### Fund Statistics

Running Yield:	2.10%
Yield to Maturity:	1.78%
Credit Duration (years):	2.25
Interest Duration (years):	0.23

#### Value of \$100,000 invested since inception \*



\* \$100,000 investment at inception has grown to \$101,205 net of fees and assuming income reinvestment.

**Portfolio Manager**  
Mutual Limited

**Inception**  
21 February 2020

**Fund Size**  
\$405 million

**Month End Price**  
\$1.009045

**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. (exclusive of GST)

**Buy / Sell Spread**  
Nil / Nil

**APIR Code**  
PRM8256AU

**ISIN**  
AU60PRM82564

**Ratings**  
SQM Research

**Platforms**  
Colonial First State  
HUB24

**Mutual Limited**  
ABN 42 010 338 324

AFSL No. 230347

Level 12, 15 William Street

Melbourne VIC 3000

P: +61 3 8681 1900

F: +61 3 9670 6446

E: [mutual@mutualld.com.au](mailto:mutual@mutualld.com.au)

W: [www.mutualld.com.au](http://www.mutualld.com.au)

If you would like more information on MCF please visit [www.mutualld.com.au](http://www.mutualld.com.au) or contact Mutual on + 61 3 8681 1900

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