



Mutual Limited

Security with Performance Investment Update - August 2020 MHYF - Mutual High Yield Fund

All figures as at 31 August 2020

Fund Performance

	3 months %	6 months %	1 year % p.a.	Since Inception % p.a.
MHYF (post-fees)	1.47	-0.74	1.51	3.73
Bloomberg AusBond Bank Bill Index	0.03	0.18	0.66	1.05
Relative Performance (Net)	1.44	0.92	0.85	2.68

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, however with fast money looking to flip transactions a number transactions traded wider after the price was set. We expect owing to the strong technical backdrop, with corporate bond maturities far exceeding supply for the remainder of the calendar year, credit will continue to perform strongly.

The Mutual High Yield Fund (the Fund) delivered a positive net return of 0.29% for August. For the remainder of the calendar year, we expect gains across sub-investment grade and residential mortgage backed securities which continue to lag the performance of investment grade credit. The "hunt-for-yield" which characterised the market pre-Covid, will return and accelerate, as both wholesale and retail investors seek higher yielding opportunities than is currently afforded by highly liquid investment grade credit. The outperformance of bank listed hybrid securities illustrates investors are seeking out investments with higher income. The Fund with its higher yielding securities will benefit from the rotation into junior rated credit.

Fund Strategy/Outlook

We remain constructive on credit and generally expect further tightening of 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 to 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. In terms of RMBS, they continue to trade wider than pre-Covid levels, but with the technical backdrop of limited supply of bonds relative to redemptions, capital will likely naturally flow into structured credit with its superior relative value.

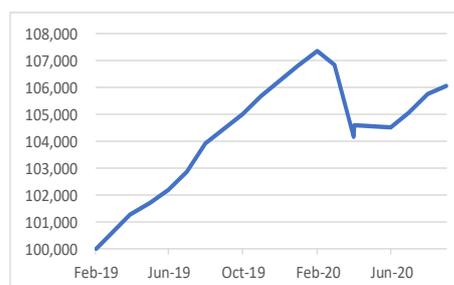
Liquidity

Minimum 21 days

Fund Statistics

Running Yield:	4.89%
Yield to Maturity :	4.86%
Credit Duration (years):	2.85
Interest Rate Duration (days):	43

Value of \$100,000 invested since inception *



* \$100,000 investment at inception has grown to \$106,069 net of fees and assuming income reinvestment.

Portfolio Manager

Mutual Limited

Inception

1 February 2019

Month End Price

\$1.003077

Benchmark

Bloomberg AusBond Bank Bill Index

Distribution Frequency

Quarterly

Minimum Investment

\$20,000

Minimum Investment Term

6 months (suggested)

Management Fees

1.00% p.a. (exclusive of GST)

Buy / Sell Spread

Nil / 1.00%

APIR Code

PRM8798AU

ISIN

AU60PRM87985

Platforms:

Powerwrap

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