



Mutual Limited

Security with Performance

Investment Update - May 2022

MCF - Mutual Credit Fund

All figures as at 31 May 2022

Fund Performance

	3 month %	6 months %	1 year %	2 year %	Inception % p.a.
MCF (pre-fees)	-0.60	-0.21	0.66	2.84	2.44
MCF (post-fees)	-0.72	-0.45	0.17	2.35	1.95
BBerg AusBond Bank Bill Index	0.02	0.04	0.05	0.06	0.29
Relative Performance (Net)	-0.74	-0.49	0.12	2.29	1.66

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

Heightened inflationary risk and resulting monetary policy consequences remained central themes through May. Equity markets are volatile as traders grapple with the question of when inflation will peak for the current cycle, while bond markets are starting to look fully priced for the ongoing central bank policy action. The Australian Federal election came and went during the month, with the change in government a non-event for markets. The first rate hike from the RBA since 2009 was a slightly different story, with the +25 bps move above the expected +15 bps change, sending government bond yields and swap rates sharply higher. Another hike was expected at the June meeting, and the RBA delivered with a +50 bps increase. Money markets continue to price in a sharply higher cash rate by year end. RBA OIS is approaching 3.00% for December 2022, versus 3m BBSW around 1.25% and an official cash rate of 0.85%. The range on the terminal cash rate from the 4 major bank economics teams is a low of 1.60% to a high of 3.00%, highlighting how uncertain the path is for the official cash rate. Credit spreads continued to trend wider globally, although the pace of widening eased through May vs April. Domestically, bank credit spreads were materially wider on the back of continued issuance from the majors. While it was well flagged by the banks that they would be returning to a more 'normal' issuance program, the increase in issuance has come at a time when markets are fragile, resulting in spread widening at a faster pace than we expected. At month end, credit spreads are above historical averages and look to be consolidating around these levels.

Outlook

It was a busy month for issuance domestically and offshore by Australian ADIs. ANZ priced 5 year AUD senior in early May at +97 bps, which was repriced wider by Westpac issuing at +105 bps later in May. At the end of the month, NAB joined in pricing 3 year AUD senior at +90 bps, which repriced the secondary senior curve wider again. The volume of issuance has been absorbed so far, however a break from new deals is needed before we see any meaningful performance in credit spreads. In T2, Macquarie Bank issued in the 10NC5 year tenor, finalising pricing at +270 bps. In this new issue, the demand for fixed rate assets was a highlight. With a coupon available to investors above 6%, the fixed rate printed a larger tranche than the floating rate (\$500m v \$350m). By the end of the month 5 year major bank senior was trading around +100 bps, and we expect a new major bank 10NC5 year T2 would need to print in the mid +200 bps to attract demand. For structured credit, it was the return of ADI RMBS that made up a large portion of the \$5.5bn of deals priced. Bendigo, HSBC and AMP all priced deals, and Suncorp through the Apollo RMBS program was in market at the end of the month. Pricing remains elevated for the AAA tranches, however continues to clear with the support of JLM bids. The mezzanine tranches are also finding support from regular investors at current pricing levels. Credit spreads are trading above long run averages, and with both 1m and 3m BBSW moving higher, the outright yields available are looking positive for returns going forward.

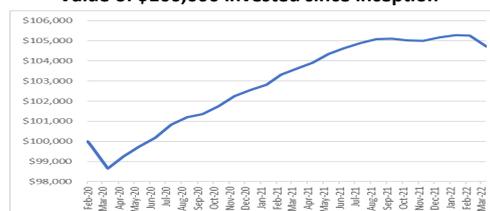
Liquidity

Up to 5 days

Fund Statistics

Running Yield:	3.34%
Yield to Maturity:	2.99%
Credit Duration (years):	2.27
Interest Duration (years):	0.12

Value of \$100,000 invested since inception *



* \$100,000 investment at inception has grown to \$105,085 net of fees and assuming income reinvestment.

Portfolio Manager

Mutual Limited

Inception

21 February 2020

Fund Size

\$596.9 million

Month End Price

\$1.002390

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

Zenith

Platforms

Colonial First State
HUB24

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