



Mutual Limited

Security with Performance

Investment Update - March 2024

MCF - Mutual Credit Fund

All figures as at 28 March 2024

Fund Performance

| | 3 months % | 6 months % | 12 months % | 3 years % p.a. | Inception % p.a. |
|--------------------------------------|------------|------------|-------------|----------------|------------------|
| MCF (pre-fees) | 2.32 | 4.91 | 9.10 | 4.68 | 4.38 |
| MCF (post-fees) | 2.20 | 4.67 | 8.61 | 4.19 | 3.89 |
| BBerg AusBond Bank Bill Index | 1.09 | 2.15 | 4.19 | 2.08 | 1.57 |
| Relative Performance (Net) | 1.11 | 2.52 | 4.42 | 2.11 | 2.32 |

Investment Objective and Investment Strategy

Mutual's objective for the Mutual Credit Fund is to source and actively manage a portfolio of fixed interest credit assets across APRA regulated institutions, corporates and structured assets. 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.

Portfolio

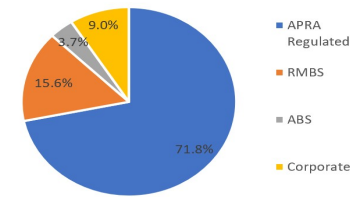
Liquidity

Up to 5 days

Fund Statistics

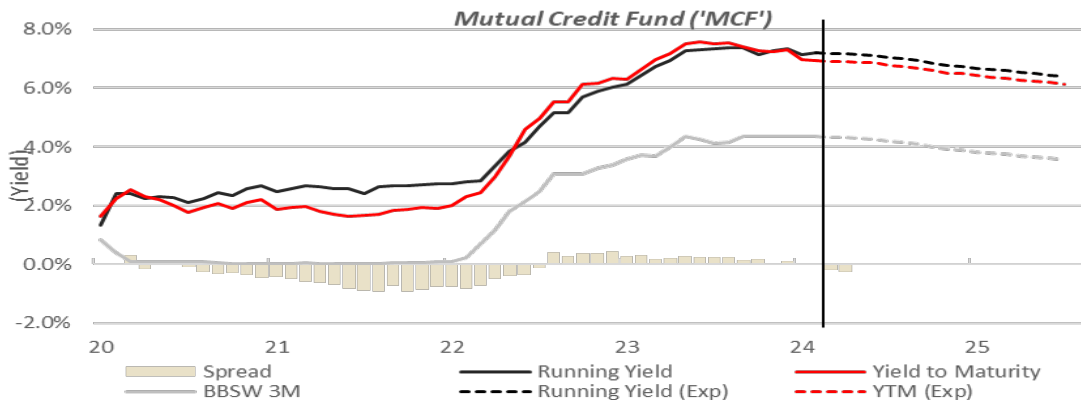
| | |
|----------------------------|-------|
| Running Yield: | 7.21% |
| Yield to Maturity: | 6.94% |
| Credit Duration (years): | 2.44 |
| Interest Duration (years): | 0.13 |

Current Portfolio Diversification



Month in Review

Performance: MCF returned 0.60% (net) in March, a more subdued result following a period of strong returns. The return for the past quarter was 2.20% (net) and for the past 12 months 8.61% (net), comfortably above the fund target of the bank bill index plus 2.20% (net).



Overview:

A solid month of gains across markets globally, with stocks, bonds and credit all advancing. Data was varied, with evidence the economy is losing momentum, consumer confidence continues to wane, but countering these weaknesses we have resilience in labour markets. On the inflation front, there is persistent evidence of price stickiness. Similar themes were observed across key offshore markets. Geopolitical risk persists, with the situations in Gaza and Ukraine far from improving. Add to this the US Presidential Election later in the year, and there remains fertile ground for some shocks.

Looking at key data prints, domestic GDP (Q4'2023) printed at +0.2% QoQ and +1.5% YoY, well down on Q3'2023, which printed at +2.1% YoY. Consensus expects further loss of momentum in coming quarters, with growth bottoming out at +1.0% YoY in Q2'2024 before recovering to +1.6% YoY by Q4'2024 and then +2.2% YoY by mid-2025. The other main print for the month was labour data, which staged a stronger than expected recovery from an anaemic January. Jobs grew +116.5k through February, almost three-times consensus expectations, which saw the unemployment rate drop to 3.7% from 4.1%, well under consensus estimates of 4.0%. Labour data has been choppy, but trend data has generally remained constructive.

Portfolio Manager
Mutual Limited

Inception
21 February 2020

Fund Size
\$659.2 million

Month End Price
\$1.022847

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
0.4930% p.a. (inclusive of GST)

Buy / Sell Spread
Nil / Nil

APIR Code
PRM8256AU

ISIN
AU60PRM82564

Ratings
Zenith
Lonsec

Platforms
Asgard
BT Panorama
Colonial First State
Centric
HUB24
Netwealth
Powerwrap

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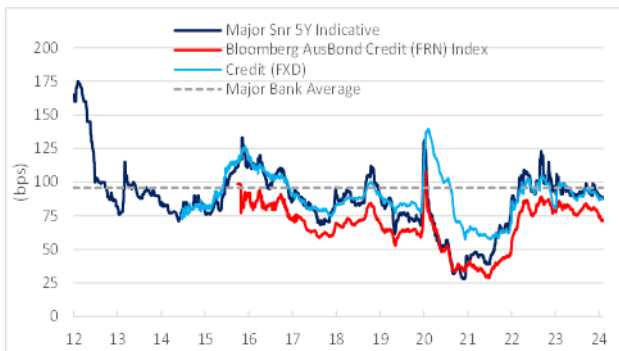
Outlook

March was another busy month for new issuance, the third month in a row where markets have absorbed relatively heavy volumes with minimal spread indigestion. As opposed to January and February, where financial issuance performed very well on the break, March was more orderly pricing close to issue immediately after in the secondary. Westpac priced a \$1.25bn dual tranche fixed and floating 10NC5 year Tier 2 late in the month. Despite the order book topping \$4.3bn, performance post pricing was subdued with the bid only 1bps inside reoffer at month end. Given total A\$ Tier 2 supply for 2024 so far is over A\$8bn, the largest quarter ever, a month of consolidation is no surprise.

In the senior space there was just the one A\$ benchmark transaction from NAB, pricing a \$3.5bn dual tranche transaction at just the 5 year tenor and a spread of +90 bps. A couple of major banks were active in shorter tenors, appearing to respond to reverse enquiry printing new deals around 1 year. ING Bank Australia returned to markets with a 3 year deal, pricing at +95 bps which looked attractive versus the major bank curve. Overall senior spreads remain within longer term ranges, although now tracking towards the lower end, so if we see a period of quieter issuance we could be in for a break lower in credit spreads.

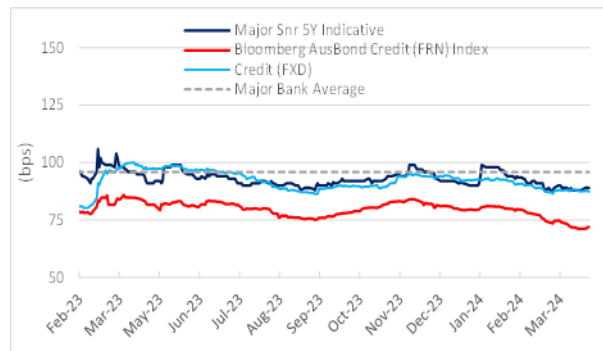
At time of writing, it is worth noting S&P upgraded Australia's Banking Industry Country Risk Assessment (BICRA) from 3 to 2 (10 to 1 scale). This resulted in an upgrade to S&P's baseline ratings and thus standalone credit profiles for all Australian banks. For the MCF portfolio, the largest impact was the one notch upgrade for major bank Tier 2 securities from BBB+ to A-. The upgrade drove a 10+ bps compression in Tier 2 spreads, with the market looking primed for more performance from here.

Credit Spreads – long run history



Source: Bloomberg, Mutual Limited

Credit Spreads – short run history



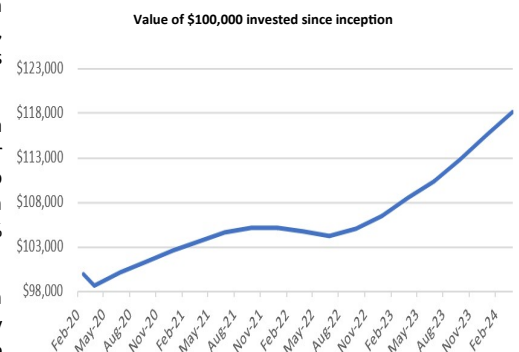
Source: Bloomberg, Mutual Limited

Issuers remain active in Structured credit with more transactions printing at ever tighter levels. To put the move in pricing into context, particularly for the mezzanine notes, La Trobe opened the market in February pricing a non-conforming RMBS transaction. The AAA tranche priced at +140bps and the BBB priced at +340bps. Think Tank have a deal in market at the beginning of April with indicative pricing for the AAA tranche at +130bps and the BBB tranche pricing at a range of +255 to +265bps. The BBB pricing is now well below the levels pre-Covid and starting to look tight against long-term averages. Despite the move tighter in credit spreads, coverage ratios remain very strong with the last RMBS deal having almost 5 times the bid of available bonds for the BBB notes.

Underlying asset performance continues to track to expectations with arrears rates moving higher from historical lows. The S&P data for January showed non-conforming arrears increasing by +41 bps to 4.43%, well down on the long run average of 8.18% (range of 2.01% to 23.25%). For the universe of investments held by Mutual Limited, arrears are tracking lower at 3.43%.

Looking at pre-payment rates, which reflects loans being repaid and removed from a pool and is usually a result of a borrower refinancing, there has been a noticeable slowdown. As at the end of February 2024, for the Mutual held pools prime CPR is down 0.7% MoM to 21.8% and non-conforming is down 8.9% MoM to 24%. This may be a reflection of increasing pressure on borrowers. Generally credit growth is subdued with the latest APRA data for February showing housing credit was flat at +0.4% MoM, and remains low at +4.2% YoY.

Overall A\$ credit has enjoyed strong support across the board, which is evident in spread performance in the face of record issuance. The second half of the year will likely bring potential risk catalysts, mainly global in nature with the US election, the persistent conflicts in Gaza and Ukraine – and of course the expected trough in the growth cycle, all potential risks to overshoot on the downside. For now, short of a major sell-off in risk assets broadly, spreads should remain range bound supporting returns for the fund.



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

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