Mutual Limited

Security with Performance
Investment Update - August 2024
MCF - Mutual Credit Fund

All figures as at 30 August 2024

Fund Performance

	3 months %	6 months %	12 months %	3 years %	Inception % p.a.
MCF (pre-fees)	2.04	4.32	9.25	5.29	4.70
MCF (post-fees)	1.92	4.07	8.75	4.79	4.21
BBerg AusBond Bank Bill Index	1.11	2.22	4.39	2.69	1.84
Relative Performance (Net)	0.81	1.85	4.36	2.10	2.37

Portfolio Manager
Mutual Limited

Inception
21 February 2020

Fund Size
$672.7 million

Month End Price
$1.040075

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
Lonsec
Zenith

Platforms
Asgard
BT Panorama
Centric
Colonial First State
Hub 24
Netwealth
Powerwrap

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.

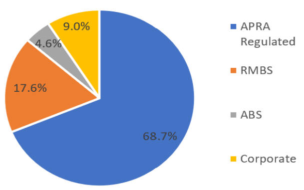
Portfolio

Liquidity
Up to 5 days

Fund Statistics

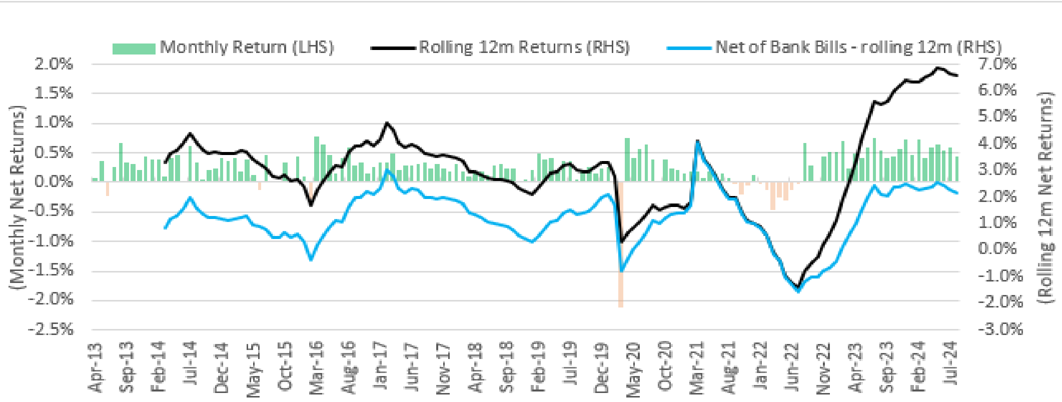
Running Yield:	7.24%
Yield to Maturity:	6.68%
Credit Duration (years):	2.32
Interest Duration (years):	0.09

Current Portfolio Diversification



Month in Review

Performance: MCF returned 0.52% (net) in August. The 6 month net return was 4.07% and the 12 month net return was 8.75% at the end of August. Over the past 12 months the fund has returned 4.36% (net) above the Ausbond Bank Bill Index, versus a target of +2.20%.



Overview: The RBA monetary policy decision from the August meeting was as expected, rates unchanged at 4.35% and despite market expectations, Governor Bullock signalled, no rate cuts this year. In the accompanying statement the board flagged continuing concerns as inflation remains elevated and persistent, commenting "quarterly underlying CPI inflation has fallen very little over the past year." The commentary also noted "the economic outlook is uncertain and recent data has demonstrated that the progress of returning inflation to target has been slow and bumpy." In keeping with recent RBA statements, anything is on the table, with getting inflation under control their primary objective. Accordingly, rate hikes cannot be completely discounted, supported by the RBA stating "policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably toward the target range."

Outlook

Consensus estimates are for rates to remain on hold for 2024, although there is a reasonable number of forecasters (8 out of 30) predicting at least one cut by year end. Market pricing of rate cuts before Christmas have retreated over the month, from a full rate cut priced in, to now only a fraction of a cut with December Cash Rate Futures at 4.17%. Consensus is for the first rate cut to occur toward the latter stages of the first quarter of 2025. This week we have the latest GDP data, which will be closely monitored, with consensus expecting just +0.2% QoQ and +0.9% YoY (vs +1.1% YoY prior). This could shift market

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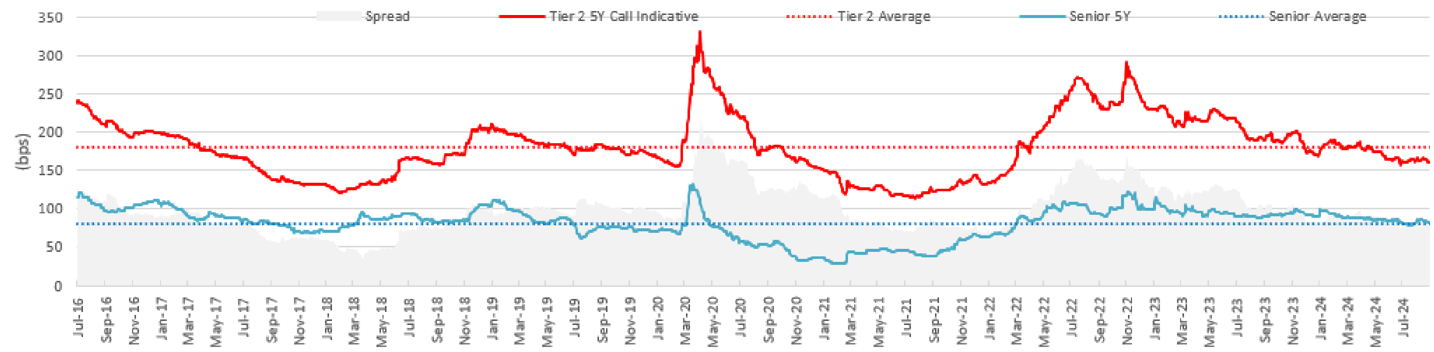
focus from sticky inflation to slow growth reality. The next RBA meeting is September 24th, at which point the board is expected to leave rates unchanged, at 4.35%. The house view is rates will remain on hold over the next 9 - 12 months.

For senior credit spreads, the technical backdrop continues to be the dominant theme despite mid month volatility in risk assets. July and August combined had a total Senior/Covered redemption profile from the banks of $18.5bn. According to data from Westpac, net supply fell in the same period by A$4.5bn. Year to date, net supply is running at circa 60% of last year's run rate for Senior and Covered credit, hence supply is diminished. The latest reporting from CBA and the regional banks highlighted ongoing strong funding inflows from deposits. CBA lifted deposit funding to 77%, and in their latest results presentation chose to compare this to 2008 and 2019, where deposit funding was 55% and 69% respectively. There appears no end to the growth in deposit funding for the banks, suggesting the wholesale funding task is not a pressure point bank boards will need to be thinking about.

Credit Spreads – Senior and Subordinated

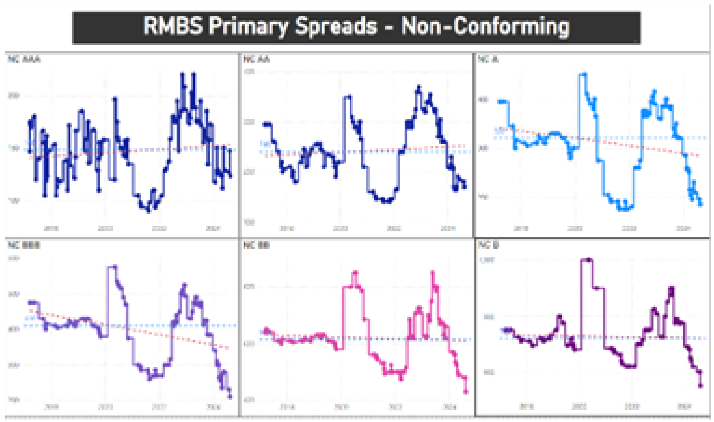


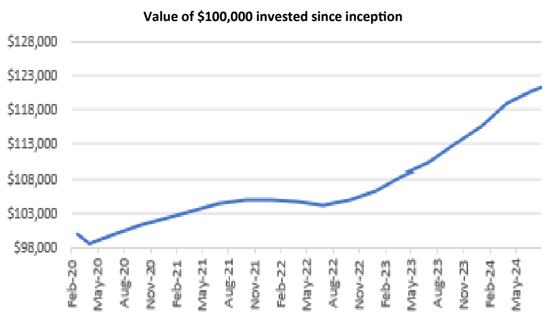
Source: Bloomberg, Mutual Limited

In Tier 2 it was a busy month with 3 new deals pricing, one from Macquarie and two more Kanga A$ Tier 2 deals from BNP and Lloyds. The issuance did lead to some spread widening across the complex while the issuance volume was absorbed. Once the issuance was digested and equity markets recovered from the mid-month volatility, credit spreads trended back towards the levels seen in mid-July prior to the Westpac A$ Tier 2 deal. Looking forward to the rest of calendar year 2024, the only meaningful bank issuance we expect is from CBA. They could defer this issuance into 2025, however we favour the view they will come to the market for a modest sized standard 10NC5 in 2024.

Structured credit was busy in August after a slow start to the 2H in July. The total issuance in August was >A$7bn, including 3 RMBS trades of A$1bn and above from non-bank lenders. Demand remains robust, in particular for the sub investment grade mezzanine tranches. The below chart shows spreads are now below pre-COVID levels, mirroring the spread compression seen in subordinated and hybrid securities. We continue to see support for structured credit around these levels.

5-year major bank senior spreads, the barometer for A$ credit, are trading below long run averages however are not making much headway inside +80bps. We expect further credit spread performance to be limited, and a period of consolidation. This will support fund returns into year end.





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