Security with Performance

Investment Update - August 2024

MHYF - Mutual High Yield Fund

Mutual Limited

All figures as at 30 August 2024

Fund Performance

	3 months %	6 months %	12 months %	3 years % p.a.	5 years % p.a.	Inception % p.a.
MHYF (pre-fees)	2.74	5.95	12.63	7.98	6.98	7.07
MHYF (post-fees)	2.49	5.43	11.60	6.96	5.96	6.05
BBerg AusBond Bank Bill Index	1.11	2.22	4.39	2.69	1.75	1.75
Relative Performance (Net)	1.38	3.21	7.21	4.27	4.21	4.30

Investment Objective and Investment Strategy

Mutual's objective for the Mutual High Yield Fund is to source and actively manage a portfolio of fixed interest credit assets with a core focus on structured credit. Targeted portfolio construction is to hold assets with a shorter credit duration to limit capital movements during periods of market volatility.

Mutual manages interest rate risk by predominately investing in assets that reset their reference rate every 30 days.

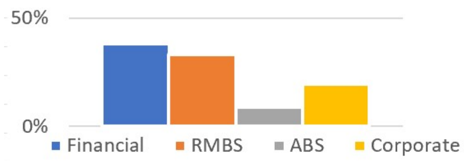
Portfolio

Liquidity
Up to 21 days

Fund Statistics

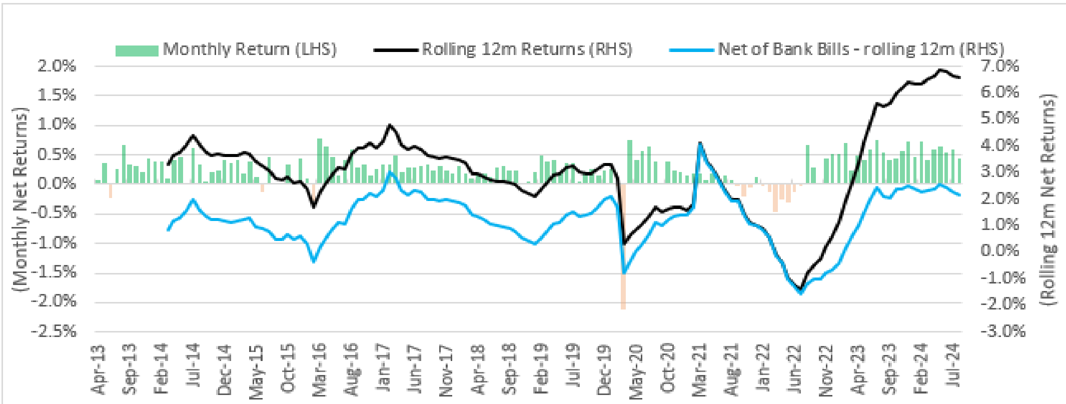
Running Yield:	8.79%
Yield to Maturity:	8.39%
Credit Duration (years):	2.64
Interest Duration (years):	0.06

Current Portfolio Diversification



Month in Review

Performance: MHYF returned 0.83% (net) in August. The 6 month net return was 5.43% and the 12 month net return was 11.60% at the end of August. Over the past 12 months the fund has returned 7.21% (net) above the Ausbond Bank Bill Index, versus a target of +4.50%.



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 process 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

Portfolio Manager
Mutual Limited

Inception
1 February 2019

Fund Size
$139.1m

Month End Price
$1.083489

Benchmark
Bloomberg AusBond Bank Bill Index

Distribution Frequency
Quarterly

Minimum Investment
$20,000

Minimum Investment Term
6 months
(suggested)

Management Fees
1.0260% p.a. (inclusive of GST)

Buy / Sell Spread
Nil / 0.25%

APIR Code
PRM8798AU

ISIN
AU60PRM87985

Ratings
Lonsec

Platforms:
Centric
Netwealth
Powerwrap
Praemium

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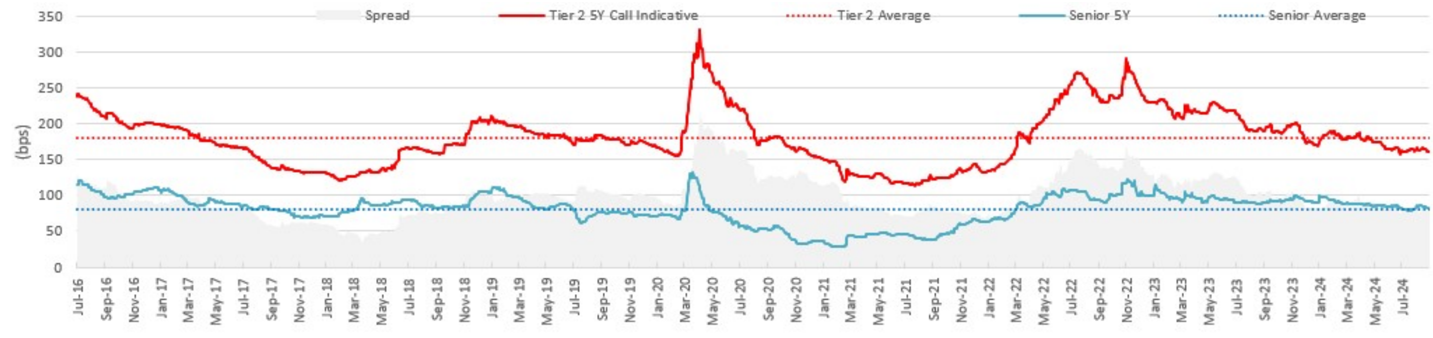
shift market focus from sticky inflation to slow growth reality. The next RBA meeting is September 24th, at which point the board is expected to leave rates unchanged, at 4.35%. The house view is rates will remain on hold over the next 9 - 12 months.

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.

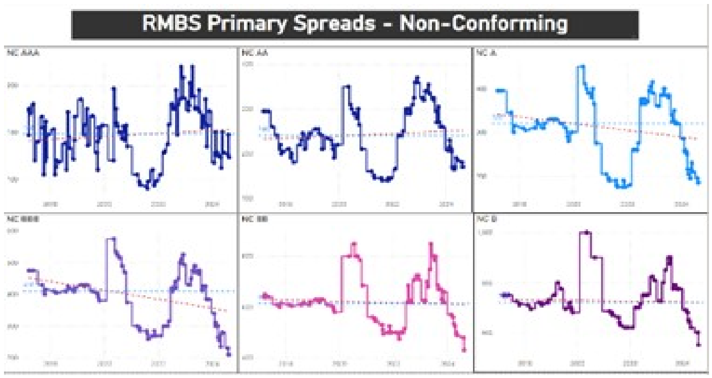
Structured credit was busy in August after a slow start to the 2H in July. The total issuance in August was >A$7bn, including 3 RMBS trades of A$1bn and above from non-bank lenders. Demand remains robust, in particular for the sub investment grade mezzanine tranches. The below chart shows spreads are 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.

Credit Spreads – Senior and Subordinated



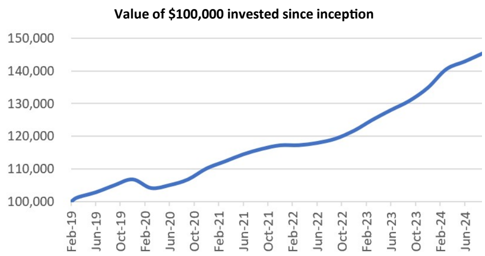
Source: Bloomberg, Mutual Limited

Structured credit took the usual break in July with no new deals added to the fund. By the end of the month, multiple mandates were in market with issuers happy to meet investor demand locally and take a small risk European investors may sit out given summer holidays. Early indications show spreads are holding near recent lows. The BB and B notes down the bottom of the capital stack are an exception, with spreads looking like they are catching up to the compression seen in A and BBB rated notes. Despite the spread compression we still see value given the underlying performance of the loan pools.



Underlying asset prices support the story around spread compression. The latest figures from CoreLogic showed Australian capital-city dwelling prices increased +0.5% in August, taking gains to +7.1% for the year. Perth led the gains, posting +2.0% growth month on month while Melbourne posted a small decline at -0.2%. For the second month in a row, rents were flat, now growing at the slowest pace annually since 2021. Forecasts for 2025 generally show further modest growth for dwelling prices, which supports the underlying credit quality of the RMBS assets owned by the fund.

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 MHYF please visit www.mutualltd.com.au or contact Mutual on + 61 3 8681 1900