Resimac Ltd

RMC Enhanced Income Fund update.

31 March 2024

Market commentary

The cash rate was unchanged at 4.35% for the first quarter of 2024, and while the Reserve Bank of Australia (RBA) at its meeting in late March gave no clear indication of where it was headed next, saying it was "not ruling anything in or out" and noting that "while there are encouraging signs that inflation is moderating, the economic outlook remains uncertain" and the "Board needs to be confident that inflation is moving sustainably towards the target range" before their next interest rate move.

A survey of 38 economists conducted by Bloomberg suggests that the RBA will hold interest rates steady until the fourth quarter of 2024 where a cut of 0.25% is expected (down from expectations of a 0.50% reduction in the December survey) with a further 0.25% in the first quarter of 2025.

By early April the financial markets have lowered expectations of rate reductions in 2024 and are now pricing in two 25 basis point interest rate reductions in the first half of 2025.

This illustrates the tendency of forecasts to be pushed out as fresh data comes to light. A year earlier, the same financial market participants thought the RBA would have started cutting rates by now, with economists in the April 2023 survey forecasting a rate cut in February 2024 and no November 2023 rate increase.

In its March 2024 Financial Stability review the RBA concluded that "nearly all borrowers are expected to be able to continue servicing their debts even if budget pressures remain elevated for an extended period" and the "the cumulative effect of moderating inflation, higher real wages and a lower cash rate over the next two years will help to ease pressure on borrowers with stretched finances".

As with its October 2023 report, the RBA determined that the Australian borrowers' resilience was due to several factors, including:

1. The strong labour market.
2. Many households have adjusted their spending.
3. Most households entered this period in a relatively strong financial position with larger savings buffers than before the pandemic.

CoreLogic's Australian Home Value Index recorded an 1.6% increase for the first quarter of 2024, a slight increase on the 1.4% increased recorded in the last quarter of 2023 but below the June 2023 3.3% increase. Interest rate increases and cost of living pressures are partially offsetting the positive momentum driven by the continued supply/demand imbalance.

2023 was a record-breaking year for the Australian securitisation market with just over $52 billion in residential mortgage backed securities issued. This momentum has continued in the 1st quarter of 2024 where over $14 billion was issued up from $8 billion in the previous corresponding period. This is the highest level of issuance since the global financial crisis. Investor demand has remained strong for these transactions.

Fund commentary

- The Fund's income distributions remain a key contributor to returns with its investments continuing to collect a solid yield premium above the bank bill rate. The distribution for the quarter ending 31 March 2024 was 2.41 cents per unit bringing the total for rolling twelve months to 8.52 cents per unit equating to a distribution return of 9.00% for the period.
- The Fund's growth return was 2.22% over the twelve month period due to the compression of the underlying RMBS margins. The Funds total return was 11.22% for the year to 31 March 2024, exceeding its target return by 3.03%.

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Fund commentary (cont'd)

- During the quarter the Fund participated in an issue by Resimac of asset backed securities gaining exposure to a pool of over 5,300 Australian fixed rate first charge auto and equipment loans. This asset has a relatively short weighted average life and was heavily bid for by market participants.

- The Manager continues to concentrate on identifying and investing in attractively priced issues. Notwithstanding the rally in margins over the recent months, we continue to see investment opportunities that suit the Fund's investment profile.

- Based on its current settings and market environment, the Fund is well placed for its distribution return to continue to exceed its target returns in the foreseeable future. The major variables to the absolute level of returns will be potential tightening of credit margins as well as the potential for interest rate cuts in 2024/2025.

Performance as at 31 March 2024

Compound average returns

	1 month %	3 months %	6 months %	1 year %	Inception % p.a.*
RMC Enhanced Income Fund	1.04%	3.51%	6.16%	11.22%	8.72%
Growth Return	-1.31%	1.09%	1.23%	2.22%	0.47%
Distribution Return	2.36%	2.42%	4.93%	9.00%	8.25%
Bloomberg Ausbond Bank Bill Index	0.37%	1.09%	2.15%	4.19%	3.11%
Target Return	0.70%	2.09%	4.15%	8.19%	7.11%
Excess Return	0.34%	1.42%	2.01%	3.03%	1.61%

**Inception 31 March 2022.*

- Past performance is not an indicator of future performance. Returns are calculated net of fees and assume the reinvestment of income. No allowance for taxation is made.
- Growth return is the change in ex-distribution prices.
- Distribution return is the difference between growth return and total return.
- Target Return is the Index Return plus 4% over rolling three year periods.
- Excess return is the difference between the Fund's net return and its target return.
- Return data greater than one year is annualised.

Portfolio statistics

Fund size	$15,424,129
Number of holdings	20
Interest rate duration	0.04 years
Credit spread duration	1.30 years
Effective maturity	2.3 years
30-day Bank Bill Rate	4.30%
31 March distribution	2.41 cents per unit

Portfolio composition

Liquidity

Sector	Weight
Cash & cash equivalents	10%
Liquid securities	18%
Other securities	72%
TOTAL	**100%**

Asset ranges

Sector	Weight
RMBS Prime	21%
RMBS Non-conforming	29%
Warehouse notes	14%
Credit Risk retention notes	19%
Asset backed securities	7%
Cash & equivalents	10%
TOTAL	**100%**

Credit exposure

S&P rating	Weight
AAA	8%
AA	0%
A	7%
BBB	3%
BB	5%
B	2%
Not rated	64%
A1+	10%
Cash	1%
TOTAL	**100%**

Key residential mortgage loan statistics

	Total	Prime	Non-conforming	Warehouse
Number of loans	11,574	6,474	4,047	1,053
Average loan balance	$448,904	$363,047	$576,672	$485,715
Total current loan balances	$5,195,617,187	$2,350,368,399	$2,333,790,405	$511,458,383
Total value of properties	$10,323,413,203	$5,231,144,952	$4,163,646,379	$928,621,872
Weighted average current LVR	64%	60%	66%	68%
Weighted average seasoning	38 months	49 months	29 months	29 months
Weighted average interest rate	7.27%	6.74%	7.92%	6.73%
Total amount available redraw	$971,462,984	$612,589,278	$288,305,103	$70,568,603
90+ days in arrears	0.88%	0.50%	1.19%	1.22%
% of fixed rate loans	2.79%	5.17%	0.16%	3.81%
% owner occupier	64%	62%	68%	58%

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Key residential mortgage loan statistics (cont'd)

Location	Weight
NSW	37%
VIC	28%
QLD	18%
ACT	2%
WA	7%
SA	7%
TAS	1%
NT	0%
TOTAL	**100%**

Location	Weight
Inner city	2%
Metro	76%
Non-metro	22%
TOTAL	**100%**

Disclaimer

This information is provided by Resimac Limited ACN 002 997 935 AFSL 247283 (Resimac) in relation to the RMC Enhanced Income Fund (Fund). Evolution Trustees Limited ACN 611 839 519 AFSL 486217 (Evolution) is the trustee and the issuer of the units in the Fund.

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You should also consider the Information Memorandum (IM) for the Fund dated 19 January 2023 which is available via resimac.com.au or by request from fundsmanagement@resimac.com.au, or by phoning +61 2 8267 2000.

Resimac Limited may receive management fees from the Fund, details of which are also set out in the current IM. Each of Resimac Limited and the trustee, their affiliates and associates accept no liability for any inaccurate, incomplete, or omitted information of any kind or any losses caused by using this information.

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