Resimac Ltd

RMC Enhanced Income Fund update.

30 June 2024

Market commentary

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35% throughout the second quarter of 2024 reflecting their ongoing concerns about inflation. Although inflation has decreased from its peak in 2022, it has remained above the RBA's target range of 2% to 3%.

Expectations for a start to the rate cut cycle in 2024 have largely been extinguished as inflation data has remained persistently high. In its June monetary policy statement, the RBA noted that the pace of decline in inflation has slowed, suggesting that achieving the target will take longer than previously anticipated and that the RBA Board will do what is necessary to return inflation to its target levels.

The RBA's next meeting is scheduled for August 6 where further assessment of economic data will be made and decisions regarding rate decisions communicated.

The financial markets are currently factoring a chance of a rate increases in 2024 and pushed out expectations that rate reductions will now start to mid-2025.

CoreLogic's Australian Home Value Index recorded an 1.8% increase for the second quarter of 2024, bringing the growth rate for the last 12 months to 8.0%, down from the recent high of 9.6% for the 12 months to February 2024. Continued cost of living pressures are partially offsetting the positive momentum driven by the continued supply/demand imbalance.

With inflation remaining high and the potential for another interest rate increase or a prolonged period before potential future rate cuts, it is likely that mortgage stress and arrears will rise further. However, these risks are offset by:

- The level of capital gains experienced over the past four years mean that if a homeowner needs to sell, they will probably be able to clear their mortgage debt. The last RBA Financial Stability Review estimated only around 1% of home loans had a debt level higher than the asset value.
- The supply/demand imbalance is unlikely to be addressed in the near term as building approvals continue to be below average levels and construction costs (materials and labour) remain elevated.

The Australian securitisation market continued to experience a high level of transactions in the second quarter of 2024 with around $27 billion of securities issued bringing the year to date total to nearly $44 billion. This makes the level of issuance for the second quarter and first half of 2024, the largest since 2007.

Despite the elevated supply, demand for residential mortgage backed and asset backed securities issuance has remained strong with substantial investor interest pushing issuance margins tighter particularly in the mezzanine tranches.

Fund commentary

- The Fund's income distributions remain the key contributor to returns with its investments continuing to collect a solid yield premium above the bank bill cash rate. The distribution for the quarter ending 30 June was 2.47 cents per unit bringing the total for rolling twelve months to 9.01 cents per unit equating to a distribution return of 9.46% for the period.
- The Fund's growth return was 1.99% over the twelve month period due to the compression of the underlying RMBS margins. The Funds total return was 11.46% for the year to 30 June 2024, exceeding its target return by 3.08%.
- The pool of mortgages underlying the Fund's RMBS investments appear to be in robust condition for the following reasons:

Fund commentary (cont'd)

- In total they form a well-seasoned and diversified portfolio of residential mortgage loans.
- The value of properties and current LVR indicate healthy valuation protection.
- A large redraw cushion.
- A low level of arrears that continues to be closely monitored.

- 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 changes in the second half of 2024.

Performance as at 30 June 2024

Compound average returns

	1 month %	3 months %	6 months %	1 year %	2 years %	Inception % p.a.*
RMC Enhanced Income Fund	0.96%	2.62%	6.22%	11.46%	9.40%	8.96%
Growth Return	-1.45%	0.17%	1.27%	1.99%	0.50%	0.49%
Distribution Return	2.41%	2.45%	4.96%	9.46%	8.90%	8.47%
Bloomberg Ausbond Bank Bill Index	0.35%	1.08%	2.18%	4.37%	3.63%	3.25%
Target Return	0.68%	2.08%	4.18%	8.37%	7.63%	7.25%
Excess Return	0.28%	0.54%	2.05%	3.08%	1.77%	1.71%

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	$15,459,216
Number of holdings	18
Interest rate duration	0.03 years
Credit spread duration	1.22 years
Effective maturity	2.1 years
30-day Bank Bill Rate	4.30%
30 June 2024 distribution	2.47 cents per unit

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Portfolio composition

Liquidity

Sector	Weight
Cash & cash equivalents	6%
Liquid securities	23%
Other securities	71%
TOTAL	**100%**

Asset ranges

Sector	Weight
RMBS Prime	20%
RMBS Non-conforming	34%
Warehouse notes	19%
Credit Risk retention notes	15%
Asset backed securities	6%
Cash & equivalents	6%
TOTAL	**100%**

Credit exposure

S&P rating	Weight
AAA	7%
AA	0%
A	13%
BBB	3%
BB	5%
B	2%
Not rated	64%
A1+	6%
TOTAL	**100%**

Key residential mortgage loan statistics

	Total	Prime	Non-conforming	Warehouse
Number of loans	11,338	6,047	4,350	941
Average loan balance	$464,230	$356,392	$600,984	$525,028
Total current loan balances	$5,263,436,245	$2,155,105,057	$2,614,279,453	$494,051,736
Total value of properties	$10,432,823,640	$4,883,821,448	$4,622,908,187	$926,094,005
Weighted average current LVR	64%	60%	66%	66%
Weighted average seasoning	38 months	52 months	29 months	19 months
Weighted average interest rate	7.28%	6.77%	7.81%	6.66%
Total amount available redraw	$951,649,624	$579,514,960	$297,457,612	$74,677,052
90+ days in arrears	0.78%	0.55%	1.03%	0.48%
% of fixed rate loans	1.99%	5.17%	0.16%	3.81%
% owner occupier	64%	62%	67%	55%

Key residential mortgage loan statistics (cont'd)

Location	Weight
NSW	38%
VIC	28%
QLD	17%
ACT	3%
WA	8%
SA	5%
TAS	1%
NT	0%
TOTAL	**100%**

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

Disclaimer

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