



# RMC

## Enhanced Income Fund update

31 DECEMBER 2023

### Market commentary

The Reserve Bank of Australia (RBA) held the cash rate steady at 4.35% at its last meeting of the year. The RBA Governor said that "whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks."

The RBA Board will next meet in February 2024, moving to its new meeting schedule of eight meetings a year. Unless there is a significant upside surprise in the quarterly CPI data (released 31 January), the data point associated with recent rate increases, it is likely that the RBA will keep rates on hold.

A Bloomberg survey of 38 economists suggests that the RBA will hold interest rates steady until the fourth quarter of 2024 where a cut of 0.50% is expected according to the median forecast. Interestingly, eight of the survey respondents are predicting an increase to 4.60% at the February RBA meeting.

The financial markets are currently factoring in no probability of a February interest rate increase and are fully pricing in a 25 basis point interest rate cut in August and December.

The RBA released its semi-annual Financial Stability Review during October. It acknowledged that whilst pressure household budgets have increased over the past six months, most Australian households "remain well placed to manage the impact of high inflation and higher interest rates". They cited three main reasons for this:

1. Strong labour markets have supported household incomes.
2. Many households have been curtailing their spending.
3. Some households have been able to draw on savings buffers accumulated during the pandemic.

The RBA noted that "only a small share of borrowers are at risk of being unable to service their loan and very few of these are likely to result in losses to lenders".

Also released during December was the Australian Prudential Regulatory Authority's (APRA) September quarter property report. The data pointed to a continued resilience in households' ability to service higher mortgage costs.

CoreLogic's Australian Home Value Index recorded an 8.1% increase in 2023, a turnaround of the 2022 -4.9% decrease. The increases weren't uniform across geographies with the changes in housing values ranging from a 15% increase in Perth to a -1.6% fall across regional Victoria.

In a reversal of a COVID period trend, capital cities have generally recorded stronger growth conditions relative to regional areas. Across the combined capital cities index, dwelling values were up 9.3% in 2023, more than double the 4.4% rise recorded across the combined regional index.

2023 was a record-breaking year for the Australian securitisation market with just over \$52 billion in residential mortgage backed securities issued publicly across 77 individual transactions representing the busiest year for issuance post the global financial crisis. This volume eclipsed the \$43 billion placed in 2022 and surpassed the \$49 billion issued in 2021. Resimac continued to be among the largest issuers of RMBS in 2023.

### 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 cash rate. The distribution for the quarter ending 31 December 2023 was 2.42 cents per unit bringing the total for rolling twelve months to 8.31 cents per unit equating to a distribution return of 8.79% for the period.
- The Fund's growth return was 1.86% over the twelve month period due to the compression of the underlying RMBS margins. The Funds total return was 10.65% for the year to 31 December 2023, exceeding its target return by 2.76%
- The Manager remains focused 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 particularly in the non-conforming and asset backed securities in the sub-investment grade part of the capital stack. This will continue to drive performance.
- At current market levels, the Fund is well placed to exceed its 2023 distribution returns. The major variables will be the direction of credit spreads as well as the potential for interest rate cuts, with the financial market factoring in a 50 basis points of cuts in the second half of the year.

## Performance as at: 31 December 2023

	1 month %	3 months %	6 months %	1 year %	Inception% p.a.*
RMC Enhanced Income Fund	0.82%	2.57%	4.92%	10.65%	7.88%
Growth Return	-1.57%	0.14%	0.71%	1.86%	-0.09%
Distribution Return	2.39%	2.43%	4.21%	8.79%	7.96%
Bloomberg Ausbond Bank Bill Index	0.37%	1.06%	2.15%	3.89%	2.92%
Target Return	0.70%	2.06%	4.15%	7.89%	6.92%
Excess Return	0.11%	0.51%	0.78%	2.76%	0.96%

\* 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	\$15,263,243
Number of holdings	21
Interest rate duration	0.03 years
Credit spread duration	1.30 years
Effective maturity	2.2 years
30 Day Bank Bill Rate	4.31%
31 December distribution	2.42 cents per unit

## Portfolio composition

## LIQUIDITY:

Sector	Weight
Cash & equivalents	16%
Liquid securities	12%
Other securities	72%
<b>TOTAL</b>	<b>100%</b>

## ASSET RANGES:

Sector	Weight
RMBS Prime	21%
RMBS non-conforming	30%
Warehouse notes	10%
Credit Risk retention notes	23%
Cash & equivalents	16%
<b>TOTAL</b>	<b>100%</b>

## CREDIT EXPOSURE:

S&P Rating	Weight
AAA	2%
AA	0%
A	7%
BBB	3%
BB	5%
B	2%
Not rated	65%
A1+	13%
Cash	3%
<b>TOTAL</b>	<b>100%</b>

KEY RESIDENTIAL MORTGAGE LOAN STATISTICS:

	Total	Prime	Non-conforming	Warehouse
Number of Loans	12,923	6,878	5,020	1,025
Average Loan Balance	\$452,665	\$368,057	\$560,065	\$494,411
Total Current Loan Balances	\$5,849,794,117	\$2,531,495,341	\$2,811,527,683	\$506,771,093
Total Value of Properties	\$11,506,140,300	\$5,565,020,756	\$5,038,036,247	\$903,083,297
Weighted Average Current LVR	64%	61%	66%	68%
Weighted Average Seasoning	37 months	46 months	30 months	25 months
Weighted Average Interest Rate	7.35%	6.74%	8.01%	6.76%
Total Amount Available Redraw	\$1,066,170,115	\$641,627,166	\$359,741,814	\$64,801,135
90+ Days in arrears	0.87%	0.64%	1.06%	0.94%
% of Fixed Rate Loans	3.06%	5.96%	0.26%	4.14%
% Owner Occupier	64%	62%	68%	59%

Location	Weight
New South Wales	37%
Victoria	28%
Queensland	18%
ACT	2%
Western Australia	7%
South Australia	7%
Tasmania	1%
Northern Territory	0%
<b>TOTAL</b>	<b>100%</b>

Location	Weight
Inner City	2%
Metro	76%
Non-metro	22%
<b>TOTAL</b>	<b>100%</b>

## Disclosures / Disclaimers

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](http://resimac.com.au) or by request from [fundsmanagement@resimac.com.au](mailto: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.

All investments carry risks. There can be no assurance that the Fund will achieve its objectives and no guarantee against loss resulting from an investment in the Fund. Past fund performance is not indicative of future performance. Restrictions may apply to the amount and timing of withdrawal requests – refer to the IM for full details.