RMC
Enhanced Income Fund update

30 SEPTEMBER 2023

Market commentary

The recently appointed Reserve Bank of Australia (RBA) Governor Michelle Bullock held the cash rate steady at 4.1% in October, making the September quarter the first without an increase since the tightening cycle commenced in May 2022. The Board noted that "some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend on the data and the evolving assessment of risks."

The release of the 3rd quarter Consumer Price Index data in late October, whilst showing inflation is declining, is not decreasing as fast as the RBA has been anticipating. This combined with the continued resilience of the household sector to rising rates, capacity constraints, strong population growth as well as a rebound in increasing housing prices have led the financial markets to factor an 80% probability of additional 0.25% increase in the official cash rate by December 2023, with a possibility that it may occur in November.

The RBA release 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".

CoreLogic's Australian Home Value Index recorded a 0.8% increase in September and 2.2% for the quarter. Since recent low in January 2023, the Index has recovered 6.6% and overall is 1.3% below record highs recorded in April 2022.

On balance, the outlook for house prices remains positive albeit not without some risk. The positive view continues to be driven by record levels of net overseas migration, continued housing undersupply, tight rental markets, and expectations that unemployment will remain below long run averages.

Fund commentary

- During the quarter, the Fund made investments in three RMBS issues and continued to build its warehouse notes holding. Some cash has been invested in short term non-callable deposits prior to investment. These investments have added to the Fund's diversification and expanded its maturity profile.
- The distribution for the quarter ending 30 September 2023 was 1.71 cents per unit bringing the total for rolling twelve months to 7.84 cents per unit equating to a distribution return of 8.39% for the period.
- The Fund's growth return was 2.74% over the twelve month period due to the compression of the underlying RMBS margins. The Funds total return was 11.14% for the year to 30 September 2023, exceeding its target return by 3.57%
- Over the quarter structured credit spreads continued to tighten. Carrying over from the previous quarter, the tightening of spreads continued in the senior tranches. The mezzanine spreads have now begun tightening on the back of healthy competition for issuance.
- Nevertheless, we continue to see attractive high yielding investment opportunities particularly in the non-conforming RMBS and ABS space in the sub-investment grade part of the capital stack.

The fundamentals of the RMBS issues that the Fund has holdings in continue to be robust and they remain suitable investments to achieve the Fund's investment objectives for the following reasons:

- A well-seasoned, diversified portfolio of loans to predominantly owner occupiers.
- The value of properties and current LVR indicates healthy valuation protection if required.
- A large, stable redraw cushion. As of 30 September 2023, over the total Resimac loan book, borrower prepayments are 30 months ahead for Prime and 15 months ahead for non-conforming loans.
- Only a small exposure to fixed rate loans.
- Main exposure to metropolitan areas in the larger east coast property markets.
- Recent bank result announcements have indicated their home loan borrowers are proving resilient to increases in rates with home loans arrears remaining low and strong repayment and savings buffers in place.
- Expectations are that arrears peak in 2nd half of 2023, coinciding with the peak of the Reserve Bank of Australia's ("RBA") rates-rising cycle.

We will continue to watch the situation closely, adjusting the portfolio as required and continue to analyse any potential opportunities.

Performance as at: 30 September 2023

Compound Average Returns

	1 month %	3 months %	6 months %	1 year %	Inception% p.a.*
RMC Enhanced Income Fund	0.69%	2.30%	4.77%	11.14%	7.43%
Growth Return	-1.00%	0.58%	0.98%	2.74%	-0.19%
Distribution Return	1.70%	1.72%	3.78%	8.39%	7.62%
Bloomberg Ausbond Bank Bill Index	0.34%	1.08%	1.99%	3.56%	2.70%
Target Return	0.67%	2.08%	3.99%	7.56%	6.70%
Excess Return	0.02%	0.22%	0.77%	3.57%	0.74%

* 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	$15,135,490
Number of holdings	21
Interest rate duration	0.03 years
Credit spread duration	1.47 years
Effective maturity	2.5 years
30 Day Bank Bill Rate	4.05%
30 September distribution	1.71 cents per unit

Portfolio composition

LIQUIDITY:

Sector	Weight
Cash & equivalents	14%
Liquid securities	12%
Other securities	74%
TOTAL	**100%**

ASSET RANGES:

Sector	Weight
RMBS Prime	21%
RMBS non-conforming	30%
Warehouse notes	11%
Credit Risk retention notes	24%
Cash & equivalents	14%
TOTAL	**100%**

CREDIT EXPOSURE:

S&P Rating	Weight
AAA	2%
AA	0%
A	7%
BBB	3%
BB	5%
B	3%
Not rated	66%
A1+	14%
TOTAL	**100%**

KEY RESIDENTIAL MORTGAGE LOAN STATISTICS:

	Total	Prime	Non-conforming	Warehouse
Number of Loans	14,016	7,380	5,590	1,046
Average Loan Balance	460,160	$375,871	$569,165	$472,313
Total Current Loan Balance	$6,449,599,751	$2,773,929,810	$3,181,630,549	$494,039,392
Total Value of Properties	$12,447,730,837	$5,951,942,230	$5,625,643,810	$870,144,797
Weighted Average Current LVR	64%	61%	66%	69%
Weighted Average Seasoning	34 months	34 months	43 months	27 months
Weighted Average Interest Rate	7.16%	6.51%	7.82%	6.58%
Total Amount Available for Redraw	$1,101,843,129	$649,507,043	$389,913,348	$62,422,739
90+ Days in Arrears	0.49%	0.35%	0.61%	0.50%
% Fixed Rate Loans	3.48%	6.90%	0.27%	4.91%
% Owner Occupier	64%	61%	68%	58%

Location	Weight
New South Wales	38%
Victoria	27%
Queensland	18%
ACT	3%
Western Australia	8%
South Australia	5%
Tasmania	1%
Northern Territory	0%
TOTAL	**100%**

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

Disclosures / Disclaimers

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