Realm Capital Series 2018-1

July 2018

Fund Strategy

The Realm Capital Series 2018-1 (**Fund**) will invest in balance sheet funding and syndicated bank warehousing facilities. Realm Investment House (**RIH**) will partner with the major banks and best of breed non-bank corporate lenders to acquire exposures in these newly capitalised facilities. RIH's assessment of the opportunities will generate good risk adjusted income returns, particularly when compared to the 'public term out market' for the same level of risk. Diversification within the Fund will be achieved by diversity of banking partners, facility sponsors and the number of individual facilities. RIH's risk management and assessment overlay are used in assessing eligible exposures. RIH will actively manage & monitor the risk of each funding facility exposure during the term of the fund.

Fund Objective

The strategy targets a return of 4.75% p.a over the RBA cash rate over the life of the strategy. The Fund may suit investors seeking a high yield return with a moderate to high risk tolerance.

Fund Features

Quarterly application windows are available to accept new monies into the Fund. Please note whilst application forms can be received at anytime, due to anti-money laundering requirements monies can only be received 30 days prior to the opening of an application window. While the termination and return of investor funds is available on the 5th anniversary (22.6.23) the manager will help facilitate off market transfers (Application Liquidity) as new applications are received.

Fund details

Distribution Frequency: Quarterly
Applications: Quarterly Application Windows
(2 business days prior to last business day of the calendar quarter)
Transfers: Units can be transferred to an existing/new investor upon the completion of required documentation as per the PDS (Section 4.5)
Pricing & Reporting Frequency: Quarterly
Minimum Investment: $25,000
Minimum Investment Timeframe: 5 years (22.6.23)
Inception Date: 22.6.2018
Fund size: AUD $23 million
Benchmark: RBA Cash Rate
Buy/Sell: Nil
APIR Codes: OMF8680AU
Management Fees: 1.25% plus GST
Responsible Entity: One Managed Investment Funds Ltd
Custodian: Mainstream Funds Services Pty Ltd
Unit Pricing and Unit Price History:
www.realminvestments.com.au/media/4

Fund Statistics

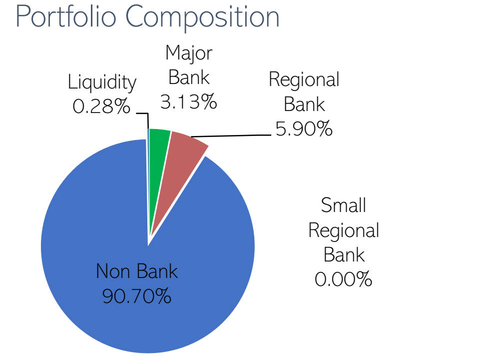
Running Yield	8.55%
Normalised Modelled Running Yield	7.50%
Credit Duration	2.27
Average Credit Rating	BBB-
Number of positions	17

Platform Availability

Managed Accounts   Mason Stevens

Gross Running Yield*

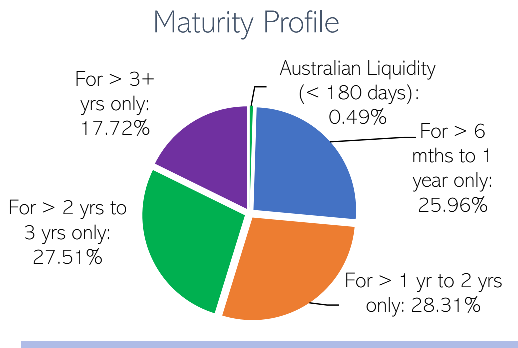
8.55%

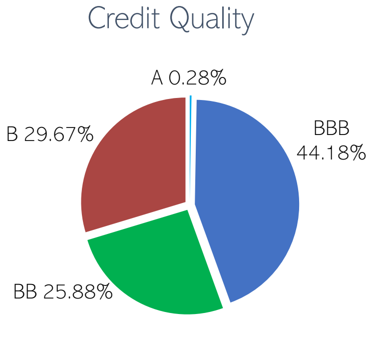


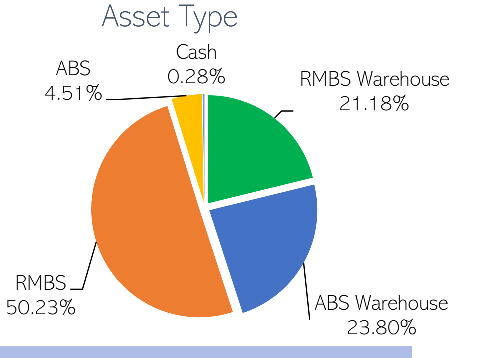
Net Performance

Period	2018-1 Units	RBA Cash Rate Return
1 Month	0.58%	0.12%

* Past performance is not indicative of future performance.







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Fund Update – Ramp Up

The portfolio has been seeded across 9 issuers and 13 distinct asset pools. The syndicated bank warehouse pipeline is solid with several new facilities currently under consideration, including one existing bank and two non bank lenders. Ramp up is targeted to be completed by the end of September.

Credit Fundamentals explained

The Fund invests in syndicated bank warehouse facilities (Facilities). These Facilities are lines of credit which major banks provide senior funding to and the Fund invests alongside or in a junior position to the bank as the senior funder. In all cases these Facilities also have equity capital that is funded by the Originator or Sponsor, “skin in the game”. These Facilities have an number of term features which help mitigate risk that can exist when investing in warehouse syndication. These terms can vary from deal to deal and can include:-

- underlying assets (the mortgages) are security against the drawdown of the facility
- increased level of equity enhancement when compared to securities that trade in the over the counter market
- favourable intercreditor rights
- short credit terms
- additional covenants
- in many instances originator balance sheet cover to make good losses and Non-Performing Loans (NPL)
- higher financing rate of return due to the structure, and the inability of the Facility to be traded quickly

Furthermore, a NPL is generally managed within the collateral backing of these Syndicated Warehouse Facilities where the total number of NPLs breach a arrears covenant limit, the originator is required to add additional capital to the amount of the breach as equity financing. If there is a default and a loss on any loan, this is charged off against the excess income or capital of the originator in the facility. The originator must make this loss good and maintain a minimum capital balance NPL’s can be removed from the facility, back onto the originators balance sheet.

Domestic Economic Performance & System Risk

The Realm Investment Team’s (Team) top down macro screen continues to point to a domestic economy that is growing modestly above trend. This is despite stagnant wage growth and softer private sector investment. The economy could be characterised as stable, not withstanding the impact of macro-prudential and regulatory headwinds. Despite this the Team view the regulatory developments as a net positive for the system and note that the changes are in many ways a necessary action which seeks to pre-emptively stop the formation of risk concentration within the Australian housing market. The Team’s Australian system risk monitor which tracks build ups in systemic risk has declined back towards zero, this speaks to the moderation of said systemic risk. This has been driven by a decline in investor, interest only and personal lending as well as weakness in the momentum of household leverage. Despite this, absolute leverage does remain elevated in absolute terms. However, equally the system remains stable and underwriting rigour is improving which mitigates any immediate concerns.

Housing arrears & portfolio performance

The Team saw an increase in arrears across product class over the quarter ending 30 June 2018, as Prime arrears rose to 1.37% from 1.07%. Meanwhile non-conforming mortgage arrears rose to 4.19% from 4.08%. The increase in prime arrears is broad based. The Team believe the major contributing factor has been driven the transition of accounts from interest only to principal and interest. Anecdotally it seems that borrowers that transition from IO to P&I are experiencing elevated levels of arrears. This is an adjustment of sorts which the Team expect will play out over the coming quarters. After this time the Team expect that the focus of institutions on serviceability requirements will lead to asset performance of both 2018 and 2017 vintages improving and will see a moderation in the rise in arrears which are at an elevated level on a historical basis.

Outside of asset performance the Team have observed prepayment rates have moderate also, as banks tighten the ability to refinance will likely slow repayment rates. Prepayment of prime pools has declined from 20.36% to 17.72% according to S&P while non-conforming paydowns moderated from 30.52% to 25.99%,

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