REALM HIGH INCOME FUND

REALM INVESTMENT HOUSE

NOVEMBER 2021

FUND OBJECTIVE

The Realm High Income Fund is a fixed income strategy, that invests in domestic investment grade asset backed securities, bank-issued securities and corporate & government bonds. The objective of the Fund is to deliver investors a consistent return (net of fees and gross of franking) of 3% over the RBA cash rate through a market cycle.

FUND DETAILS

Distribution Frequency: Monthly
Liquidity: Daily
Buy/Sell: 0.05% / 0.05%
Inception Date: 26.9.2012
Fund size: AUD $1.35 billion
Management Fees (inc. GST):
Ordinary Units - 1.20%
Wholesale Units - 0.77%
Adviser Units - 0.77%
mFunds Units – 0.77%
Direct Minimum Investment:
Ordinary Units - $25,000
Wholesale Units - $1,000,000
Adviser Units - $25,000
mFund Units - $10,000

RECOMMENDED

NET PERFORMANCE

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	0.55%	0.57%	0.01%
3 Month	-0.06%	0.05%	0.02%
6 Months	1.15%	1.38%	0.05%
1 Year	2.63%	3.08%	0.10%
3 Years p.a	4.16%	4.60%	0.57%
5 Years p.a	3.63%	4.08%	0.94%
Since Inception p.a*	4.67%	4.66%	1.58%

* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	3.77%
Yield to Maturity	2.84%
Volatility†	1.15%
Interest rate duration	1.13
Credit duration	2.13
Average Credit Rating	BBB+
Number of positions	308
Average position exposure	0.33%
Worst Month*	-1.19%
Best Month*	1.22%
Sharpe ratio∂	3.02

PLATFORM AVAILABILITY

- Australian Money Market (Retail Units)
- BT Wrap
- BT Panorama
- Credit Suisse
- Crestone
- First Wrap
- Hub24
- Macquarie Wrap
- MLC Navigator/Wrap
- Netwealth
- Powerwrap
- Praemium
- uXchange
- Xplore Wealth
- mFund: RLM03

SECTOR ALLOCATION

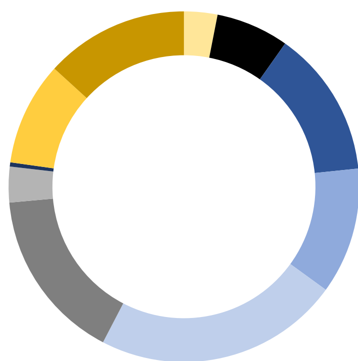
Sector	Asset Allocation Range	SAA Target
Cash	0% - 100%	10%
Government Bonds	0% - 100%	10%
Corporate Bonds	0% - 60%	10%
Corporate Hybrids	0% - 10%	5%
Bank Tier 1 Hybrids	0% - 25%	15%
Sub Debt Hybrids	0% - 25%	15%
RMBS	0% - 60%	30%
ABS	0% - 20%	5%

REALM HIGH INCOME FUND

REALM INVESTMENT HOUSE

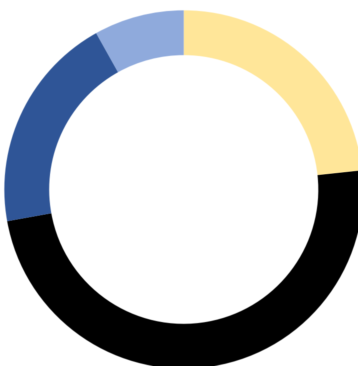
NOVEMBER 2021

PORTFOLIO COMPOSITION



- Cash (3.08%)
- Commercial Paper (6.71%)
- Government Bonds (13.55%)
- Bank T1 (11.66%)
- Corporate Bond (22.63%)
- Subordinated Debt (15.92%)
- ABS Public (3.29%)
- ABS Private (0.39%)
- RMBS Private (9.54%)
- RMBS Public (13.23%)

MATURITY PROFILE



- At Call to 6 Months (23.30%)
- 6 Months to 3 Years (48.87%)
- 3 Years to 5 Years (19.72%)
- 5 Years to 10 Years (8.12%)
- 10 Years + (0.00%)

FUND UPDATE

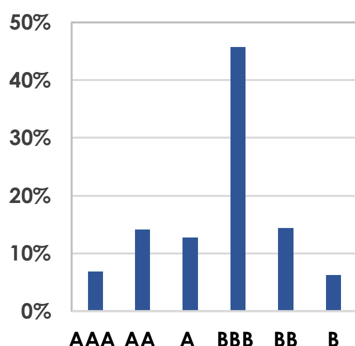
Cash and Short-Term Liquidity Weighting: ↓ The allocation to cash, commercial paper and government bonds decreased from 29.38% to 23.34%. Compositionally, the cash position declined from 8.24% to 3.08% and the government bond holdings declined from 15.64% to 13.55%. This was largely re-allocated to corporate bonds and sub debt.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate and sub debt increased from 31.82% to 38.55%. Credit markets remained weak over the month and sold-off towards month-end as the volatility in bond yields gave way to concerns over the new Covid Omicron variant. Despite the weak sentiment, primary issuance picked-up as issuers aimed to transact before the December holidays. As such, numerous deals priced with significant new issue premium (discount) and our defensive positioning allowed us to add risk opportunistically. Such deals include a US$300 million 10-year bond from the Port of Newcastle, a £250 million 12-year green bond from Lendlease, and a A$500 million 5.3-year call subordinated note from Ampol. Other notable deals include a A$400 million 5.5-year call tier 2 from the Bank of Queensland, which priced with a modest new issue premium and repriced both the outstanding regional and major bank tier 2 bonds wider (much like the Bendigo & Adelaide Bank senior deal last month).

Interest Rate Duration Position: → IRD positioning remained in line at 1.13 years. The external market drivers which presented distinct opportunities in the Australian 3-year futures over the previous month somewhat subsided, allowing us to partially take profits. It is still our view that the cash rate implied by the futures market is dislocated to fundamental expectations and as such, no significant changes were made in the interest rate positioning. Hawkish US commentary continued to contribute to Australian interest rate volatility.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS increased this month from 22.3% to 22.8%. While issuance in the period from June to October was one of the strongest on record, issuance for November was softer, with transactions beginning to slow into the Christmas period. There were 5 transactions pricing over the month, across prime and non-conforming loans, personal loans and small ticket commercial mortgage-backed securities. With respect to pricing, the senior and senior mezzanine (AAA/AA rated) parts of the capital structure have softened from their record tights due to a combination of very strong supply recently seen in market, and softer funding markets extending beyond structured credit. Mezzanine tranches (in particular BBB) and sub IG rated tranches continue to price with strong demand and present good relative value in comparison to other asset classes. The relative value of private assets continues to outweigh public assets, and the book continues to look to build weight to this sector. With respect to market performance, the S&P arrears index (SPIN) for September continued its improvement over the past few months, falling a further 2bps to 0.79% for prime loans, the lowest level recorded by the index since 2004.

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	7.99%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.21%	10%
Gambling	1.06%	10%

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 11.81% to 11.66% as we continued to take profits in AT1's with longer dated call dates. The supply/demand dynamics of the AT1 market was supportive with no new issuance during the month.

Asset Backed Securities (ABS): ↓ Our ABS allocation decreased from 4.72% last month to 3.68%, driven by a decrease in public exposures. Fund exposures continue to perform well, and assets continue to be well sought by market due to their shorter duration and competitive yields.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 0.92% to 0.97% as we reduced our cash holdings and increased credit duration. The fund remains compliant with the Portfolio ESG risk limits and we note the exposure to fossil fuels increased from 4.84% to 7.99% largely due to our participation in new primary deals from the Port of Newcastle and Ampol.

MARKET OUTLOOK

Risk aversion asserted itself over the month as reflationary sentiment slowed and the arrival of Omicron provided a reminder of the challenge ahead as we adjust to living with covid. Risk assets were weaker with equities, the AUD and credit trading lower. Commodities were mixed with LNG and thermal coal prices remaining elevated although coking coal and oil traded lower. Bonds yields fell, partly reversing movements of the prior month.

Whilst the themes relating to tight labour markets and supply chain difficulties remained in place, the idea that the most acute phase of the inflationary impulse may be nearing is gaining some airtime. Whilst frictions may remain, if they become less troublesome with time, the rate of inflation declines. Break-even inflation rates in the US and Australia finished the month well off their peak as Omicron concerns gained traction.

The RBA retired its Yield Curve Control policy as the bond and swap market (which is more relevant for bank borrowing costs) became fragmented. Economic developments increased the plausibility that cash rates would be raised before the maturity of the April 2024 bond, which was the anchor point of the strategy, and the swap market became increasingly detached as risk capital was drained following large reported losses by hedge funds and a reduction in risk bearing capacity due to heightened volatility. Maintaining the policy was no longer viable after the September qtr CPI result was released. The various central banks have highly divergent outlooks for their policy rates in the coming year with the Fed now on an accelerated path and the ECB unlikely to move. Balance sheet activities are generally being wound back.

OTHER FUND DETAILS

Responsible Entity: One Managed Investment Funds Ltd
Custodian: JP Morgan
Unit Pricing and Unit Price History: https://www.realminvestments.com.au/ourproducts/Realm-high-income-fund/

The AUD swap market priced up to four rate rises in 2022. However, we would not characterise this as an expectation given the current dysfunction in this market. Mainstream economists expect the first rate rise to be between late 2022 and mid 2023 with the position in the range largely dependent on the outlook for wage growth and beliefs regarding the importance the RBA will place on this before declaring that inflation will sustainably be within the target band. The near end of these expectations is more consistent with the pricing of the bond market. However, it is still well before the central case expectations communicated by the RBA of around 2024. Australian bonds remain very attractive to many foreign investors relative to their domestic alternatives.

Reports of the Omicron variant created a risk-off event as markets sought to avoid uncertainty. The transmissibility appears to be much higher than Delta, but the severity of infection appeared to be lower. A great deal hangs off the effectiveness of existing vaccines to slow the spread and manage severity and some results shall be provided in the coming week. Nonetheless, as the better-than-expected Australian September quarter GDP release showed, economies are becoming more resilient against the restrictions required to manage covid.

Although the Biden Infrastructure Plan was finally passed, the passage of the larger Families Plan remained mired in internal rivalry within the Democratic Party. The debt ceiling concerns remain an issue, but the threat of shut down has been deferred to February. The Chinese property market ructions continue, but the market appears confident that this will be within the capacity of the government to manage.

Domestic bank credit weakened as the prospect of re-financing the proceeds of the Term Funding Facility together with the resumption of ongoing regular issuance became more evident. Bank subordinated debt also traded more tenuously. Overall, the corporate and bank capital market was fickle over the month, with longer maturities trading weaker. Issuance activity in the structured credit market provided more evidence that senior tranches are now receiving less support given tight pricing. Junior mezzanine remains well supported and continues to provide the best value.

The outlook for credit markets remains weaker than average as a period of extraordinary monetary policy support moves further towards normalisation. With this theme in mind, our outlook is consistent with reducing our emphasis on parts of the market which benefited most greatly, and we are generally defensively postured. Nonetheless, we are finding selective value in some parts of the subordinated debt market and our pipeline of private debt assets remains robust and at acceptable margins.

In an environment of generally tight spreads, we are seeking to generate favourable risk adjusted returns by deploying liquidity into shorter dated, high-quality assets rather than holding high cash balances. We are selectively investing into regional and insurance sub-ordinated debt and supporting issuance where the market has been unusually weak. We also increased our exposure to semi-government bonds, which offered good value due to their relationship to the dysfunctional swap market.

We have utilised equity, currency and VIX related derivatives to help manage portfolio downside exposure. Our interest rate duration remains modest but is still influential on performance given recent volatility in the outlook for inflation and the lower levels of credit risk in the portfolio more generally.

Australia's inflation outlook is materially different to that which confronts the US and elsewhere. Whilst inflation may rise in the near term, the path will be declining towards the end of next year and wage rises will be contained by a combination of behavioural factors and the earlier than expected return of international migration which, whilst also seeing some talent depart offshore, will restock the supply of lower skilled labour via student intake and allow businesses to recruit more readily for specialised skills. The immediate outlook for housing and employment appears robust. For us, this implies a cash path where the first rate rise is approximately mid 2023 but our allocation to interest rate risk is tempered by the ongoing close association of shorter dated bonds with the US despite divergent circumstances and the lack of an immediate catalyst for economic forecasters to give more weight to the RBA central case.

REALM INVESTMENT HOUSE CONTACTS

A: LEVEL 17, 500 Collins street
Melbourne VIC 3000

DISTRIBUTION

Broc McCauley
T: 0433 169 668
E: broc.m@realminvestments .com.au

Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

DISCLAIMER

Realm Investment Management Pty Ltd ACN 158 876 807, a corporate authorised representative (number 424705) of Realm Pty Ltd ACN 155 984 955 AFSL 421336 (Realm) is the investment manager of the Realm High Income Fund (ARSN 159 673 533) (Fund). One Managed Investment Funds Limited (ABN 47 117 400 987) (AFSL 297042) is the responsibility entity of the Fund (OMIFL). The information contained in this document was not prepared by OMIFL but was prepared by other parties. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information contained therein cannot be warranted or guaranteed. Anyone reading this report must obtain and rely upon their own independent advice and inquiries. Investors should carefully consider each of the Product Disclosure Statement for the Ordinary Units, mFund Units and Wholesale Units dated 12 November 2018 or the Product Disclosure Statement Adviser Units dated 12 November 2018 (together with the Additional Information Booklet dated 12 November 2018) (PDS) and Target Market Determination (TMD) issued by OMIFL before making any decision about whether to acquire, or continue to hold, an interest in the Fund. Applications for units in the Fund can only be made pursuant to the application form relevant to the Fund. A copy of the PDS for the Ordinary Units, mFund Units and Wholesale Units dated 12 November 2018 and the PDS for the Adviser Units dated 12 November 2018, TMD dated 1 October 2021, continuous disclosure notices and relevant application form may be obtained from https://www.oneinvestment.com.au/realm/ or https://www.realminvestments.com.au/our-products/realm-high-income-fund/. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. Realm believes that the information contained in this document is accurate when issued. Realm does not warrant that such information or advice is accurate, reliable, complete or up-to-date, and to the fullest extent permitted by law, disclaims all liability of Realm and its associates. This document should be regarded as general information only rather than advice. In preparing this document, Realm did not take into account the investment objectives, financial situation and particular needs of any individual person. The information contained in this document must not be copied or disclosed in whole or in part without the prior written consent of Realm, and Realm accept no liability whatsoever for the actions of third parties in this respect. It is presented for informational purposes only and is not to be construed as a solicitation or an offer or recommendation to buy or sell any securities. Any opinions expressed in this document may be subject to change. Realm is not obliged to update the information. The information must not be used by recipients as a substitute for the exercise of their own judgment and investigation. Neither Realm nor any of their directors, employees or agents accept any liability for any loss or damage arising out of the use of all or part of, or any omission, inadequacy or inaccuracy in, this document. OMIFL and Realm do not guarantee the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither OMIFL nor Realm, including their directors, senior executives, employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Realm only provides services to wholesale clients, as defined in section 761G of the Corporations Act. Past performance is not indicative of future performance. Information in this document is current as at 30 November 2021.

ZENITH DISCLAIMER

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned June 2021 referred to in this document is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at http://www.zenithpartners.com.au/RegulatoryGuidelines