REALM High Income Fund

JUNE 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.

NET PERFORMANCE

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	0.56%	0.59%	0.01%
3 Month	1.39%	1.50%	0.02%
6 Months	1.62%	1.83%	0.05%
1 Year	4.18%	4.63%	0.15%
3 Years p.a	4.24%	4.68%	0.76%
5 Years p.a	4.08%	4.53%	1.06%
Since Inception p.a*	4.83%	4.81%	1.65%

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

FUND STATISTICS

Running Yield	3.56%
Yield to Maturity	2.94%
Volatility†	1.27%
Interest rate duration	1.23
Credit duration	2.21
Average Credit Rating	BBB
Number of positions	278
Average position exposure	0.30%
Worst Month*	-1.19%
Best Month*	1.22%
Sharpe ratio∂	3.15

Calculated on Ordinary Units unless otherwise stated. *Since Inception 26 September 2012. †Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

FUND DETAILS

Distribution Frequency: Monthly
Liquidity: Daily
Buy/Sell: 0.05% / 0.05%
Inception Date: 26.9.2012
Fund size: AUD $1.15 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

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ The allocation to cash, commercial paper and government bonds decreased from 23.46% to 19.73%. The fund experienced solid net inflows during the month and we increased allocations to subordinated debt, RMBS private and ABS private.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate and sub debt increased from 27.67% to 32.51%. Credit markets firmed slightly over the month with a more constructive tone observed in offshore credit markets. We took this opportunity to reduce credit duration in the corporate book by taking profits on USD corporate bonds with longer dated maturities and reinvesting into Tier 2's with relatively shorter call dates, such as Regional Bank T2's in AUD and Major Bank T2's in USD. This resulted in a higher allocation to sub debt while the corporate bond allocation declined slightly after taking into account the participation in various new transactions. There was an interesting array of new deals in June, including the debut of Australian sustainability linked bonds (SLB) with Worley issuing in the EUR market followed by Wesfarmers issuing in the AUD market. We also saw high yield issuance by Avanti and Emeco in the AUD market. Given the strong demand and performance of these deals, we anticipate more SLB and high yield issuance in the AUD market.

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Interest Rate Duration Position: ↓ IRD positioning decreased from 1.29 to 1.23 years. Interest rate exposure within the portfolio is optimised to compliment the fund's core credit exposure. Stability in the rates market prevailed over the month, however, our objective of limiting portfolio risk attributable to interest rate duration has motivated us to maintain our reduced exposure.

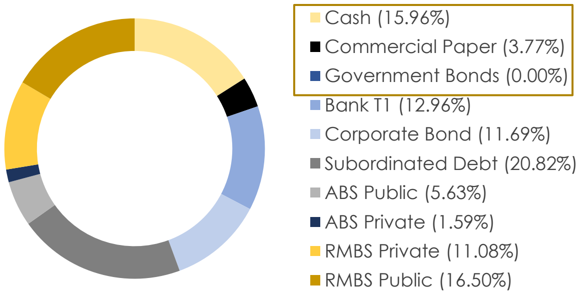
Residential Mortgage-Backed Securities (RMBS): ↓ RMBS allocation decreased over the month from 28.2% to 27.58%. This was driven by public securities, which were optimised within the portfolio while private securities increased from last month's allocation. This is due to the strong relative value opportunity they present to the portfolio over other sectors. In addition, the substantial demand for public securities continued to provide a tailwind for pricing, driving yields tighter over the month. This was in the context of relatively strong issuance into financial year end, with four transactions pricing including a regional transaction from AMP, a non-resident transaction and two personal loan transactions. Each of these transactions were again highly sought-after with demand forcing transactions to close to new orders days earlier than anticipated, in what has developed into a consistent theme in securitisation markets as investors compete to secure issuance. Securitised assets continue to present good value on a relative basis against other sectors. With respect to market performance, the S&P arrears index (SPIN) for April remained in line with March at 0.94%, having reduced from the April 2020 high of 1.22%, which is a strong result by historical standards.

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 13.79% to 12.96%. The average time to call in the AT1 book continues to reduce as we took profits in USD AT1's with longer call dates and rotated into AUD AT1's with shorter call dates. The supply/demand dynamics of the AT1 market softened at the start of the month as ANZ issued its Capital Notes 6. We participated in the notes which offered attractive relative value and priced at a discount to the secondary AT1 market. However, this also resulted in the underperformance of outstanding AT1's with longer call dates in the AUD market.

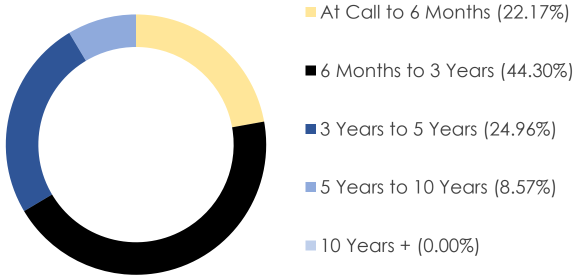
Asset Backed Securities (ABS): ↑ Our ABS allocation increased from 6.41% last month to 7.22%. This was driven predominantly by our exposure to private assets which continue to present strong relative value over public markets. Exposures within pools continue to perform well, and due to the shorter nature and higher yields offered by the assets in comparison to other sectors, are currently very well bid.

Targeted risk across the Fund: ↓ Targeted portfolio risk decreased from 1.33% to 1.21% as we continued to reduce credit duration. The fund remains compliant with the Portfolio ESG risk limits.

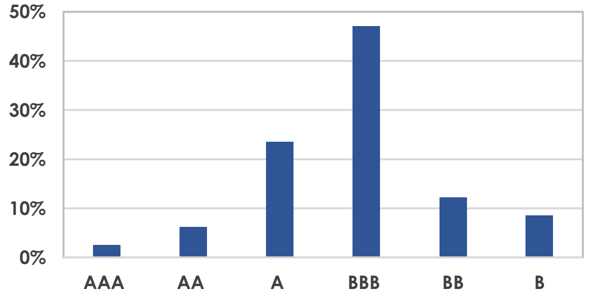
PORTFOLIO COMPOSITION



MATURITY PROFILE



CREDIT QUALITY



Zenith RECOMMENDED

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MARKET OUTLOOK

Bond and equity markets generally recorded positive results in June as confidence in the economic outlook continued to strengthen. Commodities were mixed with copper slightly weaker, but iron ore prices remained elevated. Gold fell on the announcement that several more Fed officials envisaged multiple rate rises would be required by 2023. The market remained uncertain about whether near term, largely supply side, inflation would become endemic. Nonetheless, the VIX continued to trend lower and has reached pre-covid levels. Credit markets meandered.

The heightened challenge of dealing with the Delta variant was demonstrated with new restrictions implemented in Australia and delays to re-opening in the UK. The CDC genomic testing of Covid strains clearly showed this variant displacing all others at an alarming pace. Fortunately, this variant remains within the reach of existing vaccine regimens, but the risk of vaccine escape from another variety is ever present. The program of vaccinations continues to roll out and plans are increasingly being made for a future where lock-downs will no longer be the strategy of choice.

The Biden Presidency continues to roll-out its agenda by securing an agreement from a bipartisan group in the Senate for its Infrastructure bill. A distinctive change of tone from the Trump Administration was laid out at in a meeting with Russian President Putin where cyber risk was a key topic of discussion. More generally, an in-principle agreement has also been reached to limit the ability of global corporations to evade taxes and address the competitive power of large tech firms.

Although markets gained greater confidence in the ultimate recovery of major economies, bond yields remained lower than generally expected in the US. Capital was drawn in from elsewhere, attracted by the steeper yield curve on offer and, in some cases, favourable conditions in the FX hedging market. Despite strong commitments from the Fed and RBA that cash rates will not rise for some time, markets continue to price that their hands will be forced. Nonetheless, cash rates are only expected to match inflation around eight years from now despite exceptional economic trajectories in store. Markets continue to expect that the Fed will taper in Q1 2022 and the RBA has announced the rate of bond purchases will be scaled back later this year.

Australian housing markets remain robust. Although recent auction volumes have been affected by covid restrictions, housing credit data is notable for the decline in funds raised by first home buyers and an increase in participation by investors. Household interest to income levels are low and distress remains very low in the circumstances, but increased household leverage in the last five years have led some parts of the market to infer that only modest rate rises will be necessary as the economy rebalances.

We see value in the shorter dated parts of the bank capital market and also in mezzanine RMBS. These assets were relatively less affected by very accommodative monetary policy and should prove most resilient in the period to come.

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%

PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	1.81%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.36%	10%
Gambling	1.09%	10%

OTHER FUND DETAILS

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

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

DISCLAIMERS ON FOLLOWING PAGE

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