REALM High Income Fund

JULY 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	0.47%	0.51%	0.01%
3 Month	1.35%	1.46%	0.03%
6 Months	1.98%	2.18%	0.05%
1 Year	4.45%	4.91%	0.14%
3 Years p.a	4.24%	4.69%	0.72%
5 Years p.a	4.03%	4.48%	1.03%
Since Inception p.a*	4.84%	4.83%	1.63%

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

FUND STATISTICS

Running Yield	3.48%
Yield to Maturity	2.80%
Volatility†	1.18%
Interest rate duration	0.96
Credit duration	2.13
Average Credit Rating	BBB
Number of positions	285
Average position exposure	0.28%
Worst Month*	-1.19%
Best Month*	1.22%
Sharpe ratio∂	3.13

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 $1.21 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 increased slightly from 19.73% to 20.12%. The fund experienced another month of solid net inflows and we increased allocations to corporate bonds, bank T1 and RMBS private.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate and sub debt increased from 32.51% to 34.32%. Credit markets were modestly weaker over the month partly due to renewed concerns over COVID-19 and the spread of the Delta variant. In contrast, the domestic tier 2 sector held firm and we took this opportunity to reduce our subordinated debt exposure, particularly to tier 2 bonds with longer call dates; this was reinvested into corporate bonds with maturities of less than 4 years. Domestic new issue volumes were low with the most notable from diversified A-REIT Dexus Wholesale Property Fund (DWPF) whose dual-tranche 7 and 11-year deal was more than 2x over-subscribed. We also saw very strong demand for shorter dated paper with CNH Industrial Capital Australia's 3-year deal more than 4x over-subscribed. There was also a pick-up in M&A activity/speculation which we anticipate will be a recurring theme for the remainder of 2021. Notable deals include Sydney Airport, Santos and Woodside.

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Interest Rate Duration Position: ↓ IRD positioning decreased from 1.23 to 0.96 years. A significant rally in the Australian 10-year government bond yield, from 1.49% to 1.17%, along with the upside risks posed by inflation expectations and imminent QE tapering contributed to the reduced IRD positioning.

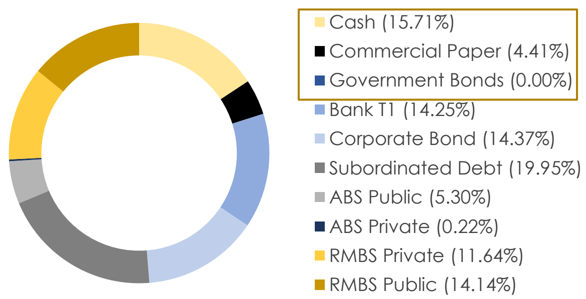
Residential Mortgage-Backed Securities (RMBS): ↓ Our RMBS allocation decreased over the month from 27.6% to 25.6%. This was driven by a reduction in public securities, at the same time there was a slight increase in portfolio exposure to private securities vs last month's allocation. Over the month, there was a significant amount of issuance with 12 new transactions coming to market. This comes as issuers take full advantage of the tight market levels available in the public market. The issuance spanned multiple asset classes both domestically and in New Zealand, with a regional transaction, multiple prime and nonconforming transactions, several consumer loan programs and an auto program. The supply was met with significant demand, with deals continuing to close days earlier than anticipated and investors receiving a fraction of their bids as coverage rates sat in the 3X and 4X range for most tranches. The strength in demand saw markets continue to tighten materially over the month, pushing certain parts of the RMBS complex into what we would view to be expensive territory. We continue to see a strong relative value opportunity within private securitised assets versus public markets and will look to skew the portfolio in this direction over coming months. With respect to market performance, the S&P arrears index (SPIN) for May weakened by 1bp to 0.95%, a level that we would deem to be benign.

Additional Tier 1 (AT1) Exposures: ↑ AT1 exposure increased from 12.96% to 14.25%. The average time to call in the AT1 book continues to reduce as we reduced holdings in AT1's with longer call dates and rotated into AUD AT1's with shorter call dates. The supply/demand dynamics of the AT1 market were supportive over the month with no new issuance.

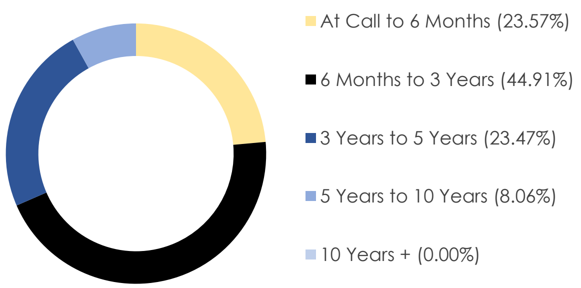
Asset Backed Securities (ABS): ↓ Our ABS allocation decreased from 7.22% last month to 5.52%. This was driven by the refinancing of one of our private transactions, reducing its exposure to the portfolio as the assets are termed into the public market. This exposure is expected to increase again over the next few months. Exposures within pools continue to perform very well against expectations, and due to the shorter nature and higher yields offered by the assets in comparison to other sectors, continue to be highly sought after by market.

Targeted risk across the Fund: ↓ Targeted portfolio risk decreased from 1.21% to 1.0% as we continued to reduce credit duration and interest rate duration. The fund remains compliant with the Portfolio ESG risk limits.

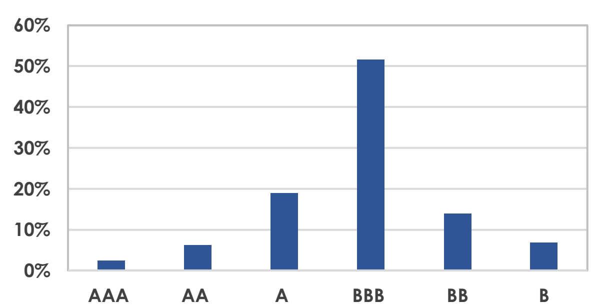
PORTFOLIO COMPOSITION



MATURITY PROFILE



CREDIT QUALITY



Zenith RECOMMENDED

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MARKET OUTLOOK

Bond and developed market equities performed well during the month. China's interventions in commercial education and tech drained optimism from emerging markets exposures. Commodities were mixed with gold rallying along with bonds whilst China's efforts to reduce steel production significantly impacted the price of iron ore. Bank issuance performed well whilst corporate debt was mixed. Mezzanine tranches of structured securities continued to trade tighter.

The rapidly rising case count for the Delta variant was associated with a significant fall in bond yields. Markets appeared to have lowered their expectations for growth because of the outbreak and real bond yields in Australia reverted to levels which were like that in 2020, when the outlook was poor and risk aversion was extreme, despite concerns for inflation now being generally skewed towards a non-transitory perspective. Central bankers in the US, UK and Australia continued to outline plans for an eventual reduction in quantitative stimulus whilst the cycle has already commenced in Canada, NZ and official rates have already been lifted in some emerging markets where inflation has become problematic. The concerns over near-term supply-side driven inflation becoming more endemic in developed markets appear to be fading a little as core readings remain weak and prices for commodities like lumber and the expected near-term price of shipping, both indicators of supply side frictions, are now reverting quickly towards historical norms. Nonetheless, difficulty of hiring suitable labour remains a key constraint and incentives have been increased but are not expected to be sustained as conditions improve.

A notable change of behaviour has emerged where the mobility of populations is now far less affected by a rise in case counts, in the absence of government interventions, in the US, Europe and UK. In part, this may be because the rate of hospitalisations and deaths is now proportionately lower given the presence of vaccinations. Whilst much of Australia is now locked down again, it appears that vaccine supply will be sufficient to vaccinate the population by the end of the year, possibly reaching the critical 80% threshold in November. Policy makers and corporations in the US and Europe are increasingly using somewhat innovative and coercive methods to accelerate the rate of vaccination and we believe this trend will find a firm footing in Australia and help drive vaccinations to the levels required to complete and sustainably maintain a full economic rebound within 12 months. The RBA's recent projections align with our perspective. Whilst vaccine escape is possible, the development and deployment of boosters will be more efficient than the initial roll-out.

We remain positively disposed to structured credit given the very supportive fiscal and monetary environment which will support employment and credit quality. A successful vaccination program will assist further. Nonetheless, we have become more selective given developments in pricing. Shorter dated bank capital continues to provide value although we are opportunistic elsewhere, particularly in USD issuance and some corporate exposures.

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	2.88%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.34%	10%
Gambling	1.11%	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

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