REALM HIGH INCOME FUND

REALM INVESTMENT HOUSE

OCTOBER 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 $1.32 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

Zenith RECOMMENDED

NET PERFORMANCE

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	-0.66%	-0.62%	0.01%
3 Month	-0.43%	-0.31%	0.03%
6 Months	0.92%	1.15%	0.05%
1 Year	2.75%	3.20%	0.10%
3 Years p.a	3.89%	4.33%	0.61%
5 Years p.a	3.59%	4.04%	0.96%
Since Inception p.a*	4.65%	4.63%	1.59%

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

FUND STATISTICS

Running Yield	3.64%
Yield to Maturity	2.69%
Volatility†	1.11%
Interest rate duration	1.13
Credit duration	1.88
Average Credit Rating	BBB+
Number of positions	311
Average position exposure	0.31%
Worst Month*	-1.19%
Best Month*	1.22%
Sharpe ratio∂	3.00

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%

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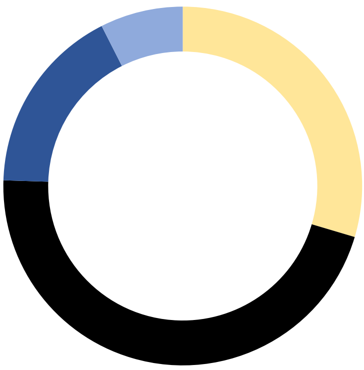
PORTFOLIO COMPOSITION

- Cash (8.24%)
- Commercial Paper (5.50%)
- Government Bonds (15.64%)
- Bank T1 (11.81%)
- Corporate Bond (18.78%)
- Subordinated Debt (13.04%)
- ABS Public (4.41%)
- ABS Private (0.31%)
- RMBS Private (9.23%)
- RMBS Public (13.06%)

MATURITY PROFILE



- At Call to 6 Months (29.59%)
- 6 Months to 3 Years (45.91%)
- 3 Years to 5 Years (17.03%)
- 5 Years to 10 Years (7.46%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ The allocation to cash, commercial paper and government bonds increased from 27.57% to 29.38%. Compositionally, the cash position declined from 22.57% to 8.24% as we materially increased our government bond holdings from 0% to 15.64%. This position was put on at month end following the aggressive rates sell off in Australia and has resulted in solid positive performance for the start of November.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate and sub debt increased from 30.96% to 31.82%. We continued to increase our allocation to AUD corporate bonds and reduced our exposure in sub debt. Credit markets weakened over the month as bond yields continued to rise globally, particularly in Australia. Concerns over contagion risk from the Chinese property sector subsided but continues to simmer in the background. Weak market sentiment meant domestic issuance was modest with the most notable a $865M 5-year senior bond from the Bendigo & Adelaide Bank. The bond priced with a significant new issue premium (discount) which resulted in the underperformance of not only existing regional bank senior bonds, but also repriced weaker major bank senior bonds and Tier 2 bonds.

Interest Rate Duration Position: ↑ IRD positioning increased from 0.80 to 1.13 years. Opportunity was presented in Australian 3-year futures as external market forces – NZ inflation print, foreign technical trading and the RBA failing to defend the 0.1% target, drove the futures to a level that was not consistent with fundamentals. The overly aggressive implied cash rate path led to us increasing our interest rate positioning from the short-end, which subsequently will be reduced as we take profits.

Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS decreased this month from 24.2% to 22.3%. Issuance over the month of October remained very strong with nine transactions pricing across several asset classes including regional banks, prime and non-conforming, and asset backed securities. Further strong issuance is expected by the market into year-end as lenders lock in funding requirements over the Christmas period. With respect to market pricing, senior tranches (AAA/AA rated) and higher rated mezzanine tranches (A rated) have continued to soften from their record tights as strong supply coupled with softer funding markets more generally. The remaining mezzanine (BBB rated) and sub investment grade rated tranches continue to be heavily sought after and still present very strong relative value in comparison to other sectors. We continue to look to skew the book towards private assets, which on our numbers display a strong relative value pickup over other assets. Market performance continues to be strong with the S&P arrears index (SPIN) for August improving a further 8bps to 0.81%, a level that we would deem to be benign.

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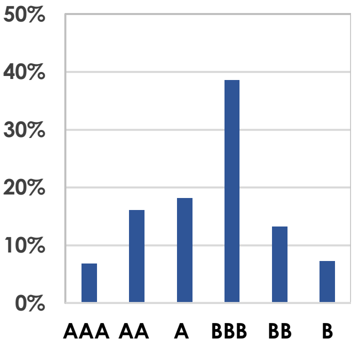
CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	4.84%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.22%	10%
Gambling	1.04%	10%

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 12.19% to 11.81%. While Australian bank senior and Tier 2 bonds weakened over the month, listed AT1 securities held firm which allowed us to take profits in AT1's with longer dated call dates. The supply/demand dynamics of the AT1 market continue to be supportive with no new issuance during the month.

Asset Backed Securities (ABS): ↓ Our ABS allocation deceased slightly from 5.06% last month to 4.72%, driven by a small decease in public exposures. The high yields and shorter duration offered by these assets continue to make them well sought after.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 0.85% to 0.92% on the back of reduced cash holdings, increased government bond holdings and higher interest rate duration. The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Strong earnings outcomes helped developed equity markets to defy expectations of poor returns as bond yields surged over the month. The non-transitory inflation narrative took a firmer grip and proved especially potent in Australia where shorter dated bond yields rose well beyond the reach of fundamental justifications. Ongoing issues with energy supply affected commodity markets more broadly. The effect of tight LNG markets spilled into coal which, in turn, drove up prices for industrial metals. Yet energy and credit rationing in China drove iron ore prices lower. The Australian dollar appreciated. The domestic credit market was weaker as demand for bank senior paper fell away and this sentiment was also apparent in the senior tranches of structured debt. Nonetheless, the mezzanine tranches remained well supported despite significant primary market activity. Although volatility was elevated in the bond market, VIX fell over the month.

As economies continued to accelerate out of the Delta wave, ongoing supply chain issues led central bankers to acknowledge that their effects would be longer lasting and more significant than hoped earlier. An increasingly hawkish rhetoric arose from the Fed and BoE and stirred a particularly strong reaction in the Australian bond market, especially in the front end of the term structure. Although the fundamental rationale for the non-transitory inflation risks in Australia is far less compelling than for the US or the UK, and the RBA repeatedly emphasised that its criteria for the first rate rise would not likely be met until 2024, the Australian market found its way to price it as early as March next year. Along the way, the interest rate swaps market became detached from the bond market and the RBA's anchoring of the April 2024 bond, which was briefly defended, was swept aside after a higher than expected CPI reading. As the borrowing costs for banks are strongly influenced by swap market prices, fixed rate mortgages have started to rise and will exert a much stronger influence on housing than APRA's recent increase to the precautionary buffer for affordability.

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/

Australia's vaccination coverage has exceeded expectations and has brought forward the projected economic recovery. This will be met with a labour force which is much diminished by the reduced foreign student population and lack of net inwards migration since borders were first closed in early 2020. Whilst this will place upwards pressure on wages and prices for a time, we expect that Australia's migration patterns will result in a population level which converges towards its pre-covid trajectory over a period like 3 years. In the absence of a new, potent, variant which meaningfully escapes the vaccination efficacy, it is likely that there will be a significant normalisation of movement within Australia and across borders by the first half of next year. This will probably avert the establishment of a durable wage-price spiral which is an important ingredient for inflation to become entrenched and require precautionary rate rises in the near term.

The world was reminded of China's financial system risks when deliberate efforts to reduce speculative excess put strain on Evergrande, a major developer. This drained confidence from lenders and property buyers, and other developers soon came under strain. Additionally, a combination of emissions budgets and supply chain difficulties relating to the transportation of thermal coal resulted in a series of rolling power shortages which affected businesses. Another outbreak of covid is presently being addressed in accordance with China's ongoing zero covid policy.

The Biden stimulus packages continued to be tied down with internal debate within the Democratic party. Whilst the infrastructure package has cleared Congress, the outlook for the Families' Plan remains uncertain and recent developments are somewhat puzzling. There is a risk that the outcome might be even smaller than the $1.75tr price tag currently being communicated, which has already been significantly pared back from an opening figure of $3tr.

We believe the extent of detachment from fundamentals in the Australian swap and government bond market is extreme and has been materially driven by hedging demand at a time where supply of risk capital was impaired due to high volatility levels and lower than usual liquidity. A speculative element was also clearly apparent. This will eventually pass and we expect shorter dated bonds to rally. The outlook for credit remains less attractive in general and we remain defensively postured, with a preference for shorter dated bank and corporate exposures. Mezzanine tranches of structured debt remain our preference at this time.

We progressively increased the risk allocation to government bonds as the markets sold off, by adding to our semi-government debt exposures and via futures. At the most dislocated point, we also introduced spread trades between Australian bonds and US bonds (positioning for Australian bonds to outperform). The heightened volatility in the bond market requires that these exposures remain measured despite the inherent value which is apparent. Given risks relating to China's GDP, we also added hedges against adverse outcomes via AUDUSD and VIX term structure trades when favourable levels presented themselves. Our risk focused considerations ensured that we entered the month with lower than usual risk exposure and added exposures in a controlled fashion as opportunities became increasingly apparent.

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