Realm Strategic Income Fund 2018-1 Units
July 2020

R∴ALM investment house

Fund Strategy

The Realm Strategic Income Fund 2018-1 Units (Fund) (Formerly known as the Realm Capital Series Fund 2018-1 Units) has invested in balance sheet funding, secured corporate loans 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.

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

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) on a case by case basis.

Net Performance

Period	2018-1 Units	RBA Cash Rate Return
1 Month	0.49%	0.02%
3 Month	1.42%	0.06%
6 Month	2.84%	0.18%
1 Year	6.37%	0.60%
2 Year	7.22%	1.02%
Since Inception*	7.36%	1.04%

Gross Running Yield* 7.30%

*Past performance is not indicative of future performance. The Gross Running Yield is the pre-fee income attributable to the portfolio, total return will be a function of this yield minus the fee. Please note the unit price can also experience modest variance as pay out of distributions sit at 95%. All outstanding amounts will be paid at the 30th of June.

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Fund Details

Distribution Frequency: Quarterly
Applications: Closed
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 Timeframe: 5 years (22.6.23)
Inception Date: 22.6.2018
Fund size: AUD $30 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:
https://www.realminvestments.com.au/our-products/realm-strategic-income-fund-2018-1-units/

Fund Statistics

Running Yield	7.30%
Volatility†	0.47%
Interest rate duration	0.08
Credit duration	1.75
Average Credit Rating	BB+
Number of positions	22
Average position exposure	4.49%
Worst Month*	0.14%
Best Month*	1.16%
Sharpe ratio∂	8.40
Information Ratio∂	8.55

Fund Structure

The fund is structured to take advantage of the premium in complexity, aversion and liquidity in the bank facility and secured loan market. A key feature of the funds design is to match these return attributes with assets that would present no more credit risk in the market, if they traded over the counter (OTC).

We purposely designed the investment period so we can confidently extract these premiums from the market, and in times of high volatility protect investors capital from those investors try to access liquidity from these asset – when liquidity in the market in general is trading at a super-premium. If it was possible to redeem from the fund, we would be selling assets into a market where we should be deploying our capital to capture these return premiums.

In the next 6 months we will see some of the bank facilities roll over and it is our expectation to be able to reprice these assets with a higher rate of return.

The Realm Strategic Income Fund – Enduring units is a follow-on strategy of this fund, where it has monthly applications and a limited monthly withdrawal feature. We intend to open liquidity windows of at up to 10% of the fund's liquid assets (at call Cash). The recommended time horizon to fully extract the return profile is at least 5 years. Please see our website for the Product Disclosure Statement. Please seek advice as to the appropriateness of this strategy to suit your needs and goals.

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Fund Update

The portfolio is invested across a range of Secured Corporate Facilities backed by loans (29.54%), Structured Mortgage facilities (54.53%), as well as Over The Counter Residential Mortgage Backed Securities (14.72%). The weighted average credit rating of the portfolio sits at BB+, with a short-weighted credit duration of 1.75 years and a pre fee running yield of 7.30%. In the coming months we expect to rebalance the portfolio and remove term holdings that fall past the redemption date. We are endeavouring to replace these with new asset that will have a similar yield and risk profile.

Portfolio Risk Analysis

Australian economic health remained steady through July. While system risk has bounced slightly given the volatility in recent weeks, it remains significantly below its highs.

The Banks' ability to access cheap funding via the Term Funding Facility (TFF), set by the Reserve Bank of Australia (RBA) to allow banks to reduce funding costs and reinforce the benefits of a lower cash rate, has resulted in increased mortgage competition. Highly competitive fixed rate mortgages continue to be offered out of the big banks and regional banks. We expect this will drive an increase in refinancing activity out of the non-bank financials issuing prime mortgages in competition with the banks. This is creating an increase in repayments for this sector.

While housing activity continues to be unexpectedly high, with auction clearance rates having rebounded strongly from their April lows (around 30%) to above 60% in both Melbourne and Sydney albeit on lower volumes, housing prices have begun to roll over, with the market consensus estimating headwinds are to be expected for the short to medium term.

Migration remains low, a key driver of long-term house demand, a function of the closed borders from the COVID-19 pandemic. Australian building approvals are slow which is a positive for housing supply in the weak market. With employment gains showing through in all states except Victoria, due to the recent Stage 4 lockdowns. A positive across the whole of the economy was the extension of the JobKeeper program. This is an important program that, not only supports the mortgage belt, but keep employees attached to their employer and buffering long term structural employment to an extent.

Housing Arrears & Portfolio Performance

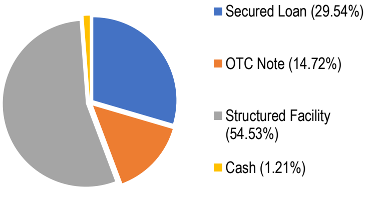
Portfolio arrears improved 5bps to 0.68% over the month driven by the reduction in weight to Over The Counter Residential Mortgage Backed Securities, which were sold back to market as part of risk rebalance.

Transactions & Market Flow

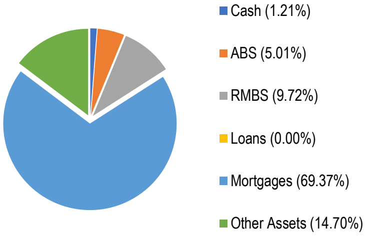
The Governments $15bn Structured Finance Support Fund has continued support non-bank financiers, remaining as a backstop for issuers if the market does not clear any particular notes. However, this has not been utilised since mid-June with market strength clearing all primary transactions launched this month without any need for support from the AOFM. Issuance across both prime (Firstmac and AFG) and non-conforming (Resimac Bastille) was seen this month and was well supported by markets with strong bidding noted in all transactions. This has driven spreads tighter with significant market interest returning to the asset class, back towards pre-COVID levels although still elevated. Secondary markets continue to use the strength and colour of primary market transactions allowing market makers the confidence to price assets more effectively. Deal flow looks set to continue with further transactions from Pepper (Non-conforming RMBS) as they sounded another transaction to re-tap term markets. We continue to see increased enquiries of private funding requests which is providing a healthy deal flow for the strategy to pick through. Private funding spreads have remained relatively stable as compared to public spreads, specifically as a function of the liquidity trade-offs during this volatile period.

Disclaimers on Following Page

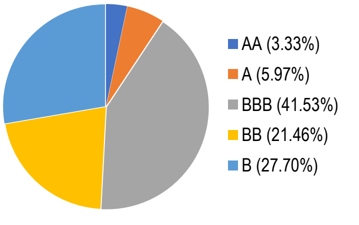
Portfolio Composition



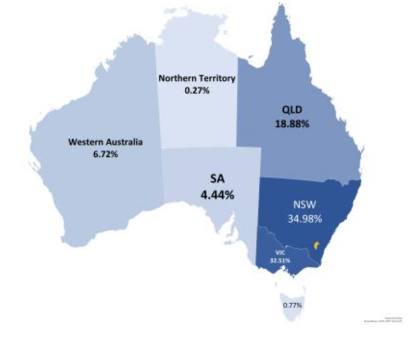
Collateral Type



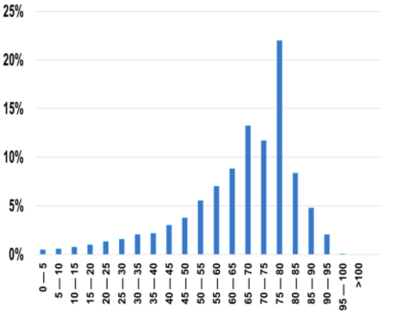
Credit Quality



Geographic Exposure



Weighted Average Portfolio LVR



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