Realm Strategic Income Fund 2018-1 Units
June 2020

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	0.55%	0.02%
3 Month	1.53%	0.06%
6 Month	2.94%	0.22%
1 Year	6.85%	0.66%
2 Year	7.41%	1.07%
Since Inception*	7.42%	1.08%

Gross Running Yield* 7.23%

*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	7.23%
Volatility†	0.62%
Interest rate duration	0.03
Credit duration	1.67
Average Credit Rating	BB+
Number of positions	22
Average position exposure	4.44%
Worst Month*	0.14%
Best Month*	1.16%
Sharpe ratio∂	8.34
Information Ratio∂	8.48

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.

In the next 6 to 9 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. See maturity profile over the page.

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 least 5% of the funds assets (Cash) and applications to all the investors. 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 advise as to the appropriates of this strategy to suit your needs and goals.

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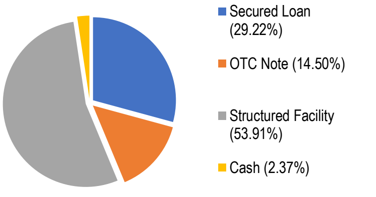
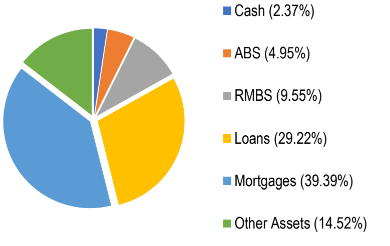
Fund Update

The portfolio is invested across a range of Corporate facilities backed by loans (29.22%), structured mortgage facilities (39.39%), structured asset backed faculties (14.52%), as well as over the counter residential mortgage backed securities (RMBS) transactions (9.55%). The weighted average credit rating of the portfolio sits at BB+, with a short weighted credit duration of 1.67 years and a running yield of 7.23%.

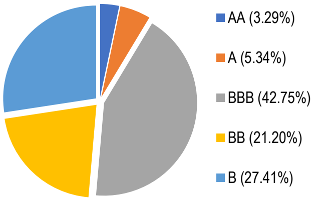
Portfolio Composition



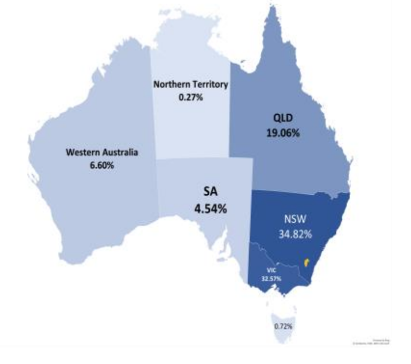
Collateral Type



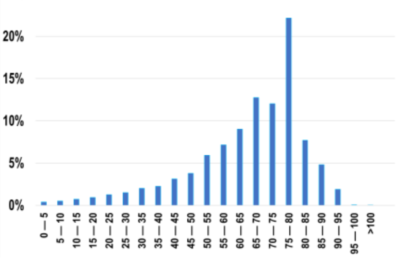
Credit Quality



Geographic Exposure



Weighted Average Portfolio LVR



Portfolio Risk Analysis

Australian economic health remained steady through June. Volatility remains heightened as investors continue to seek protection while employment levels continue to trend lower. While system risk has bounced slightly given the volatility in recent weeks, it remains significantly below its highs.

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. This is evident in the highly competitive fixed rate product currently being offered to consumers from several banks (see Macquarie and ING offering 2.19% fixed rate mortgages). We expect to see an increase in refinancing activity as a result of this, which may buffer the hardship extensions.

Housing activity continues to perform better than expected, with auction clearance rates having rebounded strongly from their April lows of around 30% to around 60% and 65% in both Melbourne and Sydney. Housing prices remain steady which has been supported by record refinancing experienced by the major banks, and a functioning non-bank lending sector supported by the government.

Migration remains low, a function of the closed borders from the COVID-19 pandemic, with specific postcode and interstate lockdowns beginning to affect Melbourne. Changes in employment continue to exclude the underbelly of structural unemployment. The JobSeeker program does not require you to be actively seeking employment to retain it, and by some measure, individuals are receiving an income that does not provide them an incentive to go an seek gainful employment. Changes in employment for both full and part time workers continued to trend significantly lower, in line with skilled vacancies as employers were unable to retain skilled workers. The JobKeeper program has kept employees attached to their employer and will buffer long term structural employment.

Housing Arrears & Portfolio Performance

Portfolio arrears improved 37bps to 0.73% over the month driven by our structured facility exposures. Market arrears as shown by the S&P arrears index reported prime arrears for the month of April weakening slightly to 1.10%, while non-conforming arrears weakened to 5.10%. The portfolio continues to be managed according to our internal risk return criteria.

Transactions & Market Flow

The Governments $15bn Structured Finance Support Fund (SFSF) has continued to allocate to non-bank financiers, having supported Bluestones inaugural Sapphire transaction (non-conforming) with stronger than expected coverage ratios across the entirety of the capital structure. This follows Resimac and La Trobe financials transactions in May and continues to bring colour to the RMBS market. We also note this colour brings further secondary market activity, with larger secondary market makers re-entering the market with confidence to price assets more effectively. Deal flow looks set to continue as further transactions from Metro (ABS), Firstmac (prime RMBS) and other issuers launch deals to re-tap term markets in the near future. 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 not widened as fast as the public spreads, specifically as a function of the liquidity trade offs. Secondary cash liquidity trades continue to present good value, given the spread between private and public markets has contracted.

Disclaimers on Following Page

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