REALM GLOBAL HIGH INCOME FUND AUD

DECEMBER 2023

REALM INVESTMENT HOUSE

FUND OBJECTIVE

The Realm Global High Income Fund AUD is a fixed income strategy, that invests in global asset backed securities, bank-issued securities and corporate bonds. The objective of the Fund is to deliver investors a consistent return (net of fees and gross of franking) of 2.5 - 3.5% over the RBA cash rate through a market cycle.

FUND DETAILS

Distribution Frequency: Monthly
Liquidity: Daily
Buy/Sell: 0.05% / 0.05%
Inception Date: 16.11.2023
Management Fees (Net of GST): 0.7175%
Direct Minimum Investment: Ordinary Units - $25,000

NET PERFORMANCE

Period	Global High Income Fund AUD	RBA Cash Rate Return
1 Month	2.22%	0.36%
Since Inception	3.91%	0.53%

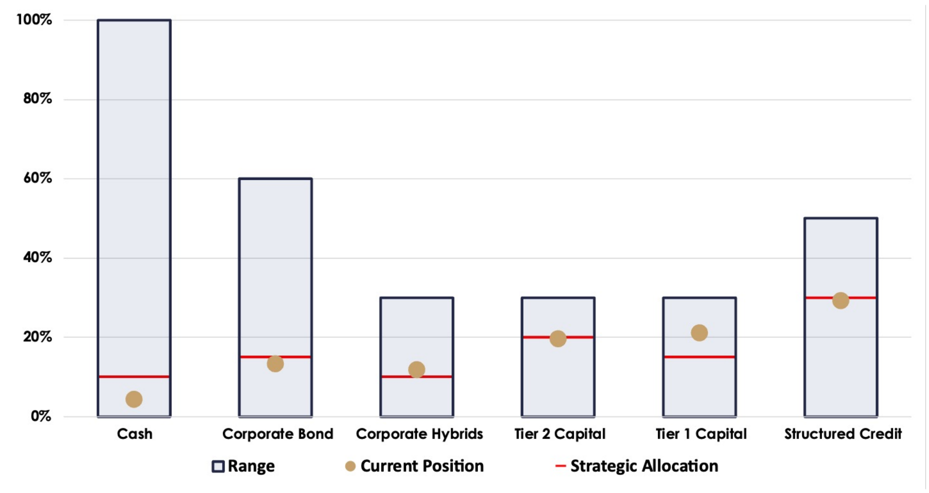
* Past performance is not indicative of future performance.
Inception 16 November 2023.

FUND STATISTICS

Running Yield	6.51%
Yield to Maturity	8.10%
Volatility†	N/A
Interest rate duration	0.05
Credit duration	3.07
Average Credit Rating	BBB
Number of positions	59
Average position exposure	0.61%
Worst Month*	2.22%
Best Month*	2.22%

†Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

SECTOR ALLOCATION



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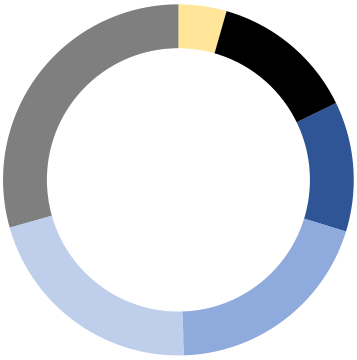
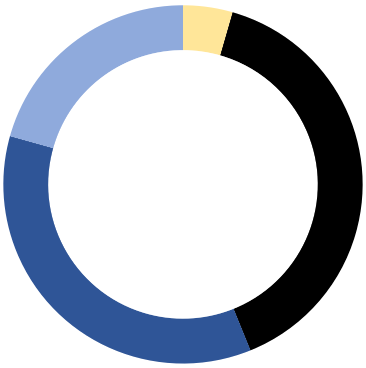
PORTFOLIO COMPOSITION



- Cash (4.43%)
- Corporate Bond (13.35%)
- Corporate Hybrids (11.96%)
- Tier 2 Capital (19.76%)
- Tier 1 Capital (21.13%)
- Structured Credit (29.37%)

MATURITY PROFILE



- At Call to 6 Months (4.46%)
- 6 Months to 3 Years (39.40%)
- 3 Years to 5 Years (35.47%)
- 5 Years to 10 Years (20.66%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity: ↓ The allocation to highly liquid assets (cash, commercial paper and government bonds) decreased from 5.17% to 4.43%. This mainly reflected increased allocations to T1 capital and corporate hybrids which was partly offset by lower allocations to structured credit.

Corporate & Subordinated Debt: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and T2 capital) increased from 44.10% to 45.07%. December was another positive month for global credit as the momentum from November continued into year end. T1 and T2 capital outperformed once again which improved the relative value of corporate hybrids. This saw the fund introduce a position in US utility, NextEra Energy. Fund performance also benefitted from a high conviction position in Volkswagen corporate hybrids which rallied off the back of an upgrade of its ESG rating from MSCI. After a relatively muted December, primary issue activity has been very active in the new year. New deals have generally performed well in secondary trading supported by healthy new issue concession and strong investor demand. The fund has participated in new senior deals from UBS, ABN Amro and Credit Agricole and a Tier 2 deal from Allianz.

Tier 1 Capital: ↑ Weighting to T1 capital increased from 19.99% to 21.13%. Global T1's outperformed again in December supporting the fund's strategic overweight to the sector. As valuations remain attractive, the fund added to high conviction positions over the month. Fund performance further benefitted from S&P's upgrade of Deutsche Bank, where we hold high conviction positions across both T1 and T2 capital. Following a hiatus in December, new issue activity has resumed early in the new year with the fund participating in new deals from Credit Agricole and AXA.

Structured Credit (ABS/CLO): ↓ Weighting to ABS/CLO securities decreased marginally from 30.74% to 29.37% over the month. Global CLOs performed in December, as markets grew more comfortable with a growing narrative of sooner rate cuts which immediately benefits underlying floating rate loan borrowers. It was a busy month for new transactions in the US with issuers looking to lock in tighter spreads, and investor demand remaining high. January has traditionally been a strong month for new issue, and the pipeline for January is already building steadily, with price talk expected to be continue a tightening trajectory. With respect to loan collateral performance, median CCC assets in CLO portfolios fell to 6% over the month in the US and stable at around 3.4%in Europe. The Morningstar LSTA US Leveraged Loan and European Leveraged Loan indices increased 94c and 45c in December, further supporting CLO market value metrics.

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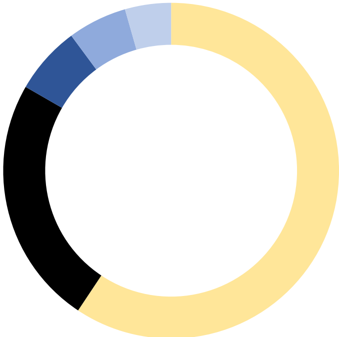
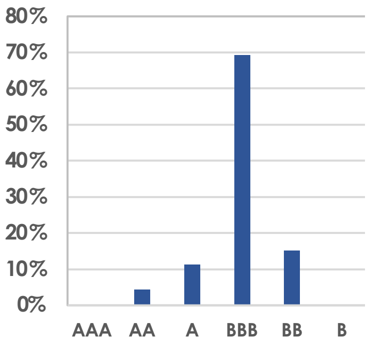
GEOGRAPHIC EXPOSURE



- Europe (59.35%)
- North America (23.97%)
- United Kingdom (6.55%)
- Australia/New Zealand (5.70%)
- Cash (4.43%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	2.77%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.00%	10%
Gambling	0.00%	10%

Interest Rate Duration Position: ↓ IRD positioning decreased to 0.05 years. Bond markets rallied strongly, driven by the expectation of rate cuts in 2024. Sentiment surveys indicated an easing in concerns by both consumers and business owners. Inflation data highlighted the trend downwards and increased the probability of a soft landing. The term premium and relative value on offer from credit instruments outweigh those offered by global government bonds, and as a result, the IRD of the portfolio was maintained at a minimum level.

Targeted risk across the Fund: ↓ Targeted portfolio risk decreased slightly from 2.79% to 2.78%. This reflected lower cash holdings which was offset by the contribution of lower interest rate duration (from 0.16 years to 0.05 years) and lower credit duration (from 3.42 years to 3.07 years).

FUND OUTLOOK

Global investment grade spreads continued the trend rallying into the month of December. The ICE BofA BBB US Corporate Index Option-Adjusted spread ended the year at a level of 1.29% - edging towards the lows of recent times. The grind tighter was aided by the lack of primary bond issuance and expectations of peak in the central bank tightening cycle. Such low spreads are becoming harder to justify through fundamental valuations but rather from the expectation of an imminent monetary easing cycle.

Aligning with a historically quiet month of December for new issuances, the downward trending inflation prints aided in the continuation of the corporate credit market rally. Credit market valuations relative to history remain challenged, while still being favourable in comparison to equities. Risk remains to the soft-landing scenario if the downward trend of inflation doesn't persist to bring inflation back into the central banks' target range. Resulting higher for longer than anticipated setting could pose a negative shock to credit markets. Furthermore, contraction in new credit creation, household consumption, shocks to unemployment and geo-political events remain key risks to markets.

Structured credit markets also continued their rally. In line with overall markets, lack of issuance remained a tail-wind to structured credit spreads. The spread tightening cycle, with increased risk appetite, has led to non-conforming RMBS credit spreads pricing in line with conforming spreads. Also, from a historical perspective non-bank RMBS spreads are relatively tight to bank credit. The shortage of housing supply continues to drive house price growth and is seen to be providing a fundamental backstop to value. This narrative underpins the support for RMBS securities. Additionally, the stability in arrears rate continues to minimise the probability of potential losses in RMBS.

PLATFORM AVAILABILITY

- Netwealth IDPS
- Powerwrap

OTHER FUND DETAILS

Responsible Entity: One Managed Investment Funds Ltd

Custodian: State Street Australia Limited

Unit Pricing and Unit Price History: https://www.realminvestments.com.au/our-products/realm-global-high-income-fund/

Levered loan spreads have been supported by the broader positive market movement. Reinforced by the rate cutting sentiment, levered loans experienced strong performance in December. In addition to ETF and fund inflows, the issuance of primary CLOs created additional demand for levered loans supporting spreads. Top tier managers and high-quality pools continued to outperform, while the mezzanine tranches in primary issuances attracted the most interest due to a supportive macro environment. Historically, primary issuances are relatively higher in January and early indications confirm the pattern.

Bond markets correlated with the risk market rally, driven by the expectation of rate cuts in 2024. The imminent easing cycle priced in by global markets continued to favour asset prices. Realised inflation data suggests the trend is downwards and the probability of a soft landing increased contextually. Such an environment saw the Australian yield curve inverting again – validating the market's expectation of rate cuts.

The portfolio holds slightly overweight risk levels. Whilst valuations have become less compelling for market segments as a whole, our positioning reflects holdings to individual positions that continue to offer very attractive opportunities.

Value can still be found in USD and EUR regulatory capital and as a result, exposure was increased to such high conviction positions even as spreads rallied. The majority of our positions relate to regulatory capital of systemically important banks or large insurers whose balance sheet metrics are very strong.

We also see better relative value in corporate hybrids (vs corporate bonds), where our book is mostly invested into an idiosyncratic mix of utility, energy and automotive companies. In each case, spreads on offer are wide to comparable alternatives for reasons we are comfortable with.

Structured credit weight is just under strategic levels and focused on the broadly syndicated CLO sector, particularly Europe which continues to offer better risk adjusted value than the US. CCC collateral levels have stabilised around 6% and 3.5% in CLO pools in the US and Europe respectively. Loan index pricing has remained strong, and supports high levels of overcollateralization in CLO tranches across the stack. Portfolio investments have focused on higher coupon transactions which offer significant buffer to spread widening whilst providing strong carry. The potential for losses in these transactions remains remote.

Portfolio IRD is at 0.05yrs and is at the very low end of our 0-5yr allowable mandate range. Over the month of December global bond yields rallied strongly on the back of dovish commentary and the expectation of rate cuts being pulled forward. The term premium and relative value on offer from credit instruments outweigh those offered by global government bonds, and as a result, the IRD of the portfolio was maintained at a minimum level.

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The portfolio's traded margin is greater than 400bps while portfolio credit quality is strong at BBB with sub-IG exposures concentrated into regulatory capital of money center banks and structured credit capable of withstanding significant shocks. Given the credit quality of our exposures and a current yield-to-maturity of 8.10%, the portfolio has excellent forward-looking reward to risk characteristics.

MARKET DEVELOPMENTS

Softening inflation and easing consumer concerns contributed to favourable conditions for a correlated bond and risk market rally. Bond pricing was predominantly driven by central bank rate cuts. The US 10s, along with Australian 10-year bond yields, rallied close to 45bps. Breakeven component of the US10s only accounted for a fall of ~8bps, resulting in the US real yields decreasing by ~37bps to level of 1.71%. VIX remained low for the month finishing at ~12 – reflecting the quiet theme for December. CDX IG decreased even further due to the lack of key events. With favourable conditions most equity markets rallied, however, the Nikkei index remained flat while the Chinese market continued its decline. With the decrease in requirement for safe haven assets and the expected rate cuts in the US, the USD declined – DXY down 2%, AUD strengthening 2.6% against the USD. Middle eastern conflict concerns failed to prevent WTI declining further – decreasing by almost 7% for the month.

OTHER DEVELOPMENTS

US economic activity continued its moderation over the month as the majority of data releases were in line with market expectations. ISM manufacturing PMI declined further than expected, however, the services figure surprised to the upside highlighting the resilience. Personal income and personal spending moderated as expected, while unemployment decreased unexpectedly to 3.7%. Core PCE inflation softened to 3.2% year on year boosting market and consumer confidence – Michigan consumer sentiment index increased meaningfully to 69.4, while both the 1-year and 5-10 year inflation expectations eased. Core CPI and average earnings figures were steady year on year, while the nonfarm payrolls highlighted the strength in the economy. PPI reflected an easing while retail sales surprised to the upside.

The Fed had held rates steady in December, but it was the capitulation of members in their dot plot projections that surprised the market causing a rally in rates. Chairman Powell remained dovish in his press conference accepting the peak in rates had been reached.

The most surprising declaration regarding the US political system came from the Colorado court's announcement disqualifying Trump from the 2024 ballot. Citing the insurrection at the Capitol, the verdict hinders the chance of a Trump re-election by raising the probability of other states imposing a similar ban.

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Following the end of the temporary cease-fire agreement between Israel and Hamas, offensive operations resumed by the IDF. Further negotiations stalled between the parties forcing the return of the Israeli delegation from Doha. The risk remains for further escalation and widening of the war to the southern part of Lebanon, where Hezbollah has a stronghold.

December data pointed to a slowdown in the Australian economy. The manufacturing and services PMIs all point to an economy which is contracting quite rapidly. The NAB Business Confidence index moved further into negative territory and the related survey results revealed softer inflation outcomes. The Westpac Consumer Confidence index increased slightly over the month but remained in deeply pessimistic territory. Job advertisements continued the fall and with the unemployment rate notching up to 3.9%, against expectations, indicate services inflation will be contained.

The RBA kept rates unchanged in December but retained their data-dependent posture. Markets envisage that the RBA has completed its hikes for this cycle. The RBA points out that, whilst mortgage interest payments have increased, most households remain in sound financial condition. The total debt servicing burden is lower than the prior peak due to a lower level of personal debt outstanding.

Caixin PMI data for China pointed to a small uptick to expansionary territory for both manufacturing and services. Both the CPI and PPI data confirmed the worsening deflationary environment. However, overall trade was supportive for the economy with exports beating expectations. Short and medium-term prime rates were held steady during the month. Growth concerns for the country remain, while further stimulus was expected to be announced by officials.

There weren't meaningful data releases during the month to indicate a reversal in slowdown in Europe. Retail sales and industrial production all fell by more than expected. The PMIs suggest the economy is contracting. Given these outcomes, it was consistent for core inflation to undershoot expectations (3.6% yoy vs 3.9% expected). Surprisingly, the ZEW economic sentiment increased more than expected to a level of 23. The ECB kept rates unchanged in December. Discussion on the reduction in balance sheet assets related the Pandemic program appears more likely in the first half of 2024. Although the market is pricing peak cash rates for this cycle, President Lagarde would not be drawn on the timing for potential rate cuts. The BoE kept rates unchanged in December although the bias amongst the decision makers was for higher rates.

The jobless rate of 2.5% in Japan highlighted the improving strength in the labour market. However, released GDP figures showed a weaker than expected overall economy, contracting 0.7% for the quarter. A monthly PPI figure of 0.2% almost reversed the preceding reading. The BoJ kept monetary settings unchanged and noted the Japanese economy is likely to continue recovering moderately.

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