REALM HIGH INCOME FUND

AUGUST 2023

REALM INVESTMENT HOUSE

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 $1.55 billion
Management Fees (Net of GST):
Ordinary Units - 1.1182% Wholesale Units - 0.7175% Adviser Units - 0.7175% mFunds Units – 0.7175%
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	0.25%	0.29%	0.34%
3 Month	3.04%	3.14%	1.01%
6 Months	3.26%	3.49%	1.93%
1 Year	8.04%	8.45%	3.36%
3 Years p.a	3.46%	3.89%	1.29%
5 Years p.a	3.74%	4.18%	1.16%
10 Years p.a	4.15%	#N/A	1.55%
Since Inception p.a*	4.48%	4.53%	1.66%

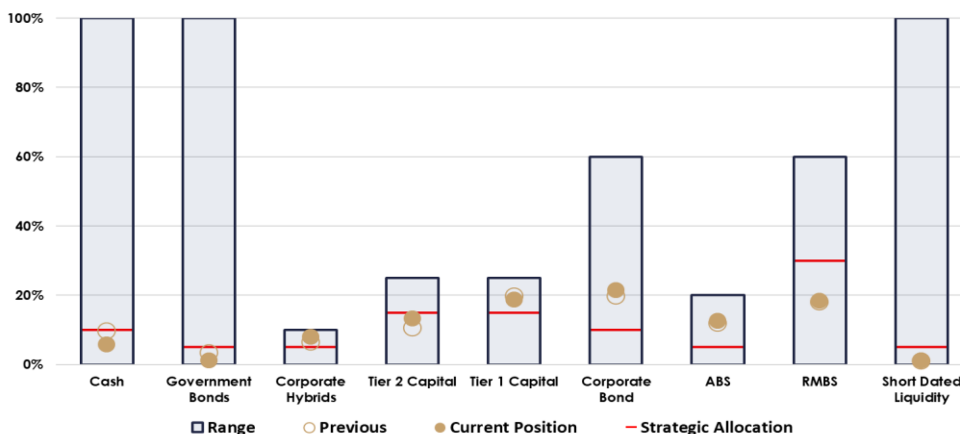
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	6.00%
Yield to Maturity	7.97%
Volatility†	3.14%
Interest rate duration	0.86
Credit duration	3.21
Average Credit Rating	BBB+
Number of positions	337
Average position exposure	0.13%
Worst Month*	-1.99%
Best Month*	2.09%
Sharpe ratio∂	1.99

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

SECTOR ALLOCATION



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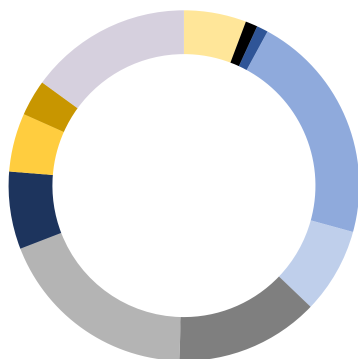
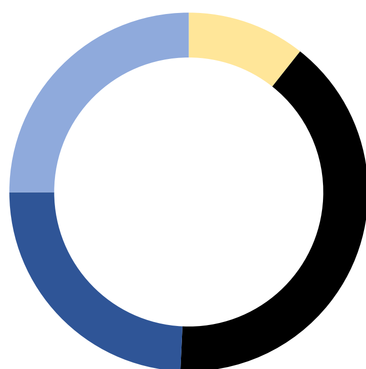
PORTFOLIO COM POSITION



- Cash (5.75%)
- Commercial Paper (1.11%)
- Government Bonds (1.05%)
- Corporate Bond (21.35%)
- Corporate Hybrids (7.89%)
- Tier 2 Capital (13.25%)
- Tier 1 Capital (18.74%)
- ABS Public (7.14%)
- ABS Private (5.40%)
- RMBS Private (3.33%)
- RMBS Public (14.99%)

MATURITY PROFILE



- At Call to 6 Months (10.66%)
- 6 Months to 3 Years (40.08%)
- 3 Years to 5 Years (24.23%)
- 5 Years to 10 Years (25.03%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ The allocation to highly liquid assets (cash, commercial paper and government bonds) decreased from 13.84% to 7.91%. This mainly reflected increased allocations to T2 capital, corporate bonds and corporate hybrids; which was partly offset by lower allocations to T1 capital.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and T2 capital) increased from 36.59% to 42.49%. Global credit markets softened over the month, partially unwinding some of the solid credit spread performance achieved two months earlier. In contrast, domestic credit markets continued to firm over the month, despite the modest pickup in new issuance. Improved relative value in offshore markets provided the opportunity to increase allocations to Australian corporate bonds and subordinated debt denominated in USD and EUR. The fund also participated in a new green corporate hybrid deal from Volkswagen in EUR which has performed very strongly in secondary trading. Domestically, notable new deals include senior unsecured bonds from Westpac, CBA, ANZ and NBN Co, and T2 capital from UK Bank Lloyds.

Interest Rate Duration Position: ↑ IRD positioning increased from 0.82 to 0.86 years. Intra-month IRD positioning was actively managed to take advantage of the volatility in the rates market. The trading range of the US 10-year government bond was higher than the Australian counterpart and as such our trading activity was skewed towards the US. Overall, both markets ended the month higher than where they began and consequently our positioning also increased. Global bond markets were driven by strong economic data, however, volatility sharply increased following a relatively weaker interest in US primary bond issuance. Global inflation continues to trend downwards, but services inflation proves to be stubborn. Concerns around China's economy and their property sector remained elevated, while the lack of official stimulus compounded the sentiment.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities decreased from 18.02% to 18.32% over the month. Public structured credit market yields continued to tighten over the month of August, with the strong offshore bid maintained in the senior and higher rated mezzanine tranches. Margins across lower credit grade portions of the capital structure also tightened, especially around the A and BBB rated tranches, as investors began to compete for supply as margins continued to tighten. Issuers continue to utilise the cheaper funding margins to issue transactions at more economic levels. This has led to a large number of new transactions seeking to price over the period across a wide range of subsectors including regional bank trades, both prime and non-conforming RMBS, and asset backed securities.

With respect to market performance, Prime arrears as reported by S&P's SPIN index improved 1bp over the month of July to 0.96%. Nonconforming arrears weakened slightly, widening 16bps to 3.63%. Both results remain very strong in comparison to both market expectations and historic index levels.

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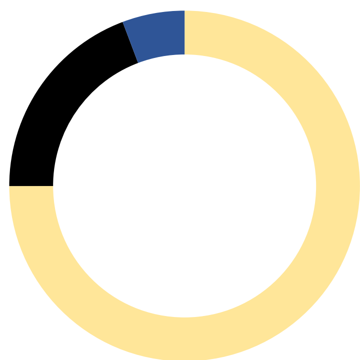
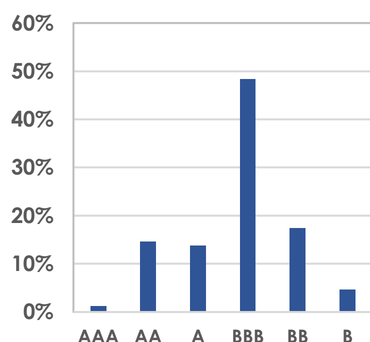
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (74.99%)
- Foreign Domicilied Issuer (19.26%)
- Cash (5.75%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	2.77%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.27%	10%
Gambling	0.18%	10%

Additional Tier 1 (AT1) Exposures: ↓ Weighting to T1 capital decreased from 19.77% to 18.74%. Following three consecutive months of solid outperformance, global T1's softened in August, in line with the broader market sentiment. Despite the softer tone, new issuance continued over the month, a positive sign that global T1 markets are returning to normal market conditions post the collapse of Credit Suisse. Notable new deals include BNP Paribas and Goldman Sachs in USD and three deals from smaller European banks in EUR. Domestically, ASX-listed AT1's were also softer over the month as NAB launched its Capital Notes 7 Offer.

Asset Backed Securities (ABS): ↑ ABS allocation decreased from 11.78% to 12.54%. Each of the ABS exposures within the fund continue to perform in line with expectations. These assets are typically very short dated, continue to offer healthy yields and remain highly sought after by market participants.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased slightly from 2.78% to 2.79%. This reflected lower cash holdings and modestly higher credit duration (from 2.96 years to 3.21 years) and interest rate duration (from 0.82 years to 0.86 years). The fund remains compliant with the Portfolio ESG risk limits.

FUND OUTLOOK

Credit markets continue to offer spreads which provide above average risk-adjusted returns. However, as markets have rallied following the US regional banking crisis, some segments have become much less attractive. Medium term investors are still expected to benefit from elevated risk aversion associated with a slowing economy.

Bank debt in the key US and European markets continue to offer value as spreads have not fully recovered from the shocks related to the invasion of Ukraine, Trussonomics and the US regional banking crisis which also brought the demise of Credit Suisse. The immediate outlook depends on forecasts of the cash rate path and would turn bearish if projected rate cuts in 2024 should fail to materialize. CRE related risks remain relevant, particularly as a wall of refinancing is approaching in 2024, however they are not considered to be a threat to the financial system. Australian bank system risk was more resilient during recent risk episodes and offers less opportunity. Domestic banks are also refinancing their Term Funding Facilities which will create higher than usual issuance volumes, dampening the outlook.

Corporates are responding to tighter monetary conditions by improving balance sheets where possible and deferring refinancing. The US and European markets offer modest premia for an economic slowdown. Australian corporate debt offers more value than offshore markets in aggregate with investment grade spreads to the larger markets remaining relatively wide.

PLATFORM AVAILABILITY

- Australian Money Market (Retail Units)
- BT Wrap
- BT Panorama
- Credit Suisse
- Crestone
- First Wrap
- Hub24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator/Wrap
- Netwealth
- Powerwrap
- Praemium
- uXchange
- Xplore Wealth
- mFund: RLM03

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/

The core of the banking systems we invest in remains very sound. An exceptionally favourable issuance of senior debt by US regional Fifth Third Bancorp signalled that concerns in this part of the market are receding despite the outlook for CRE not having improved.

As cash rates and government bond yields have risen, market behaviour is increasingly focused on securing all-in yields. This creates a dynamic where spreads in segments of the credit market move increasingly inversely to bond yields. This dynamic is most notable in high yield segments where balance sheets are nonetheless considered to be strong enough to comfortably travel through the coming period of below trend growth. The dynamic is supported by relatively low issuance at present and limited immediate re-financing needs. These technical considerations have created spreads which offer less value here than other segments of the credit market.

Whilst senior structured credit has rallied in line with bank senior debt, the mezzanine components have lagged and this creates opportunities to secure returns from further compression. Primary transaction volumes have increased again as spreads have tightened, creating greater incentives to recycle warehouse and balance sheet financing. Within domestic markets, access to deals remains an issue for most investors who do not have pre-emptive rights or cornerstone positions. Realm is well placed in that regard. Despite a slowing economy, arrears rates remain low and regular seasonal factors have reduced these figures in recent months. National property prices have been rising since March, decrease potential loss exposure in RMBS. CLO markets are benefiting from scarcity effects as spreads remain wider than levels where most managers have incentives to issue new structures although we appear close to a turning point. Markets are strongly favouring programs offered by top-tier managers who have the best capacity to restructure distressed deals in the underlying portfolio.

We continue to find value in several parts of the market despite a rally in spreads. The portfolio holds above average risk levels although the aggregate credit rating remains a solid BBB+. Sub-investment grade exposures are concentrated into large and well capitalized banks and domestic structured credit where loan performance remains an order of magnitude inside any scenario that may remotely create impairment.

Although AT1 spreads have narrowed substantively since the collapse of Credit Suisse, the memory of that event continues to be embedded in regulatory securities from European issuers. We continue to retain an overweight there although the position size has been reduced as markets recovered.

Australian corporate credit, including corporate hybrids, offer good forward-looking returns relative to foreign counterparts. We hold positions issued in AUD and foreign currencies. Most of the exposure is to entities with significant asset backing, like selected REITs or infrastructure.

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Realm's strong market position in domestic structured credit is being reflected through favourable access to deal volume in new public transactions. Our ability to provide funding certainty to issuers and preferential position as warehouse funding providers provides priority allocation. As mezzanine debt spreads have lagged a recent rally in senior lines, we expect attractive returns to arise. As pricing of CLOs is less compelling in aggregate, we are participating in a selective and idiosyncratic manner with European credit of most interest.

Interest rate duration has remained below 1yr despite Australian 10-year bond yields reaching 4%. We have been trading our exposures in a contrarian fashion and these are balanced between AUD and USD issues. Whilst yields are near 10-year highs, we do not regard them as cheap given structural changes that have occurred over this period. Central banks are also reducing balance sheet holdings. We retain material equity macro hedges given risks associated with an ongoing economic deceleration, upcoming refinancing of CRE positions and financial stability in China are presently live.

The portfolio's traded margin of 415bps is historically wide. Given the credit quality of our exposures and a current yield-to-maturity of 8%, the portfolio has excellent forward-looking reward to risk characteristics. Bond and equity exposures will also provide meaningful downside protection in the event of a significant adverse development.

MARKET DEVELOPMENTS

Credit synthetics weakened during the month as major Chinese property developer Country Garden missed a bond payment. Equities were lower with price performance and the VIX moving in concert with credit. Ten-year government bond yields in major markets were unchanged overall. USD strength was notable, driven by surprising economic resilience in the US and risk aversion. Despite a stronger USD, oil prices also spiked as Saudi Arabia and Russia extended their voluntary production cuts. A weaker than expected Chinese economy is contributing to lower copper prices.

OTHER DEVELOPMENTS

The outlook for growth in the US strengthened following a strong core retail sales outcome, higher than expected industrial production and robust ISM readings. Nonetheless, new orders and expectations for job creation are easing. Whilst spending on tourism remains elevated, discretionary spending is declining. The stock of excess savings has been largely depleted. Inflation readings were favourable, with core inflation at 4.7% yoy which was slightly below expectations. Whilst the labour market remained tight and wage growth remained robust, leading indicators like vacancies, quit rates and temporary help hiring suggested a turning point has been reached. Growth is expected to trough in H1 2024 as consumption, investment and industrial activity soften. The probability of recession remains elevated. Nonetheless, markets expect modest increments in unemployment through to 2025 which limit the expected severity should this transpire.

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Fed Chair Powell's speech at the annual Jackson Hole symposium suggested further rate rises were possible. The Fed minutes for the July meeting were also received in a hawkish manner with staff revising away expectations of a recession. Fitch downgraded the credit rating for US federal debt to AA+ and the US Treasury also surprised markets with a stronger issuance schedule. Some indigestion of a 30 year bond auction provided support for a view that the outlook for US bonds is challenging.

Australia's economic performance was weaker with PMIs in both manufacturing and services pointing to an economic contraction. Retail sales readings provided some relief, supported by school holiday spending and the FIFA Women's World Cup. The Q2 GDP figures showed weak consumer discretionary spending whilst corporate and government spending remained firm. Trade was also supportive. Nonetheless, Australia is in an economic recession in per-capital terms and the outlook is challenged with household savings rates at 3.2% (lowest since the GFC period) with a considerable amount of monetary tightening yet to reach households. Notably, banks are not reporting unusual arrears levels amongst mortgagees coming off fixed rate arrangements. Unemployment is gradually rising, as required to maintain price stability. Consumer confidence is very weak, although business conditions remain resilient for now. The housing market rose by 1% in August according to CoreLogic, extending the record of sequential positive monthly returns since March. The approvals pipeline suggests no relief is in sight for home buyers.

RBA Governor Philip Lowe's term ends on 17 September. His final speech outlined the need for independent fiscal levers to help meet economic goals and an expectation that inflation will be more volatile due to structural changes. The RBA left rates unchanged in August and September. It expects that inflation can be brought back to target levels in 2025 whilst holding on to employment gains.

China's growth trajectory continues to be hampered by precautionary saving amongst households. This has been attributed to uncertainties relating to property and governance. Activity indicators were weak. Credit growth, retail sales, fixed asset investment and official PMIs point to a tepid growth rate which is being supported by the official sector. Efforts to stimulate the economy include reducing deposit requirements for property, providing window guidance to banks on loan volumes, and lowering selected interest rates. The questionable credit quality of property developers is affecting risk sentiment, but the financial system appears capable of withstanding this whilst property prices remain stable. In contrast to much of the world, Chinese consumer inflation was negative on an annual basis. Unemployment was recorded at 5.3% and the publication of youth unemployment statistics was discontinued.

China is responding to the strength in the USD via currency fixes which are more supportive of the Yuan. State owned banks are also engaging in activity which discourages efforts to short-sell the Yuan.

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Manufacturing activity in Europe is plummeting with German PMI readings akin to levels during the first wave of covid. Imports have dropped in response. Services PMI in the EZ also infers economic contraction. ECB President Lagarde continued to warn that inflation has not been contained and that rates may need to be raised and retained at elevated levels for some time. She re-iterated a belief that the world economy will be more supply-constrained and experience higher inflation volatility. The ECB's balance sheet is shrinking and, along with weak loan growth, has created an overall reduction in the stock of M3 money. This is associated with weak economic outcomes historically. The BoE raised rates by 25bps to 5.25% and Governor Bailey indicated that these were close to the top of the cycle.

The Japanese economy is performing strongly. Retail sales remain robust at 6.8% yoy. Economic activity is also supported by an ongoing clearance of the backlog of car manufacturing. Inflation levels remain elevated, with the core reading at 3.1% yoy. Unemployment remains low at 2.7%. The BoJ made unscheduled interventions in the 10-year bond market to protect the yield from rising towards the new upper limit of 1%. Governor Ueda recently commented that sufficient data may arise by the end of the year to re-evaluate Japan's negative interest rate policy.

The web of global interactions remains intriguing. Trade relations between Australia and China are normalizing with anti-dumping and anti-subsidy tariffs on barley exports removed this month. China and the US opened new lines of communication to tackle thorny issues following US Secretary of State Blinken's visit to Beijing. Nonetheless, the US, Japan and Sth Korea announced a deepening of security ties to deter China's regional encroachment. China's President Xi elected to skip the G20 meeting but attended the BRICS summit where membership was expanded to include Argentina, Ethiopia, Iran, Saudi Arabia, Egypt and the UAE. Reduction in the reliance on USD was on the agenda. Meanwhile Russian investors became increasingly concerned for capital controls as the Rouble depreciated further and the Argentinian peso declined 18% against the USD following the election of a libertarian President, Javier Milei. Turkey abandoned notions that low interest rates would solve inflation and lifted official rates by 7.5%. The Lira has depreciated 48% against the USD over the year.

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