REALM HIGH INCOME FUND

REALM INVESTMENT HOUSE

DECEMBER 2023

FUND OBJECTIVE

The Realm High Income Fund is a fixed income strategy, that invests in domestic 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 $1.70 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	1.64%	1.67%	0.36%
3 Month	3.56%	3.66%	1.05%
6 Months	5.38%	5.60%	2.08%
1 Year	10.11%	10.59%	3.87%
3 Years p.a	4.07%	4.49%	1.74%
5 Years p.a	4.56%	5.00%	1.34%
10 Years p.a	4.24%	4.69%	1.60%
Since Inception p.a*	4.69%	4.77%	1.74%

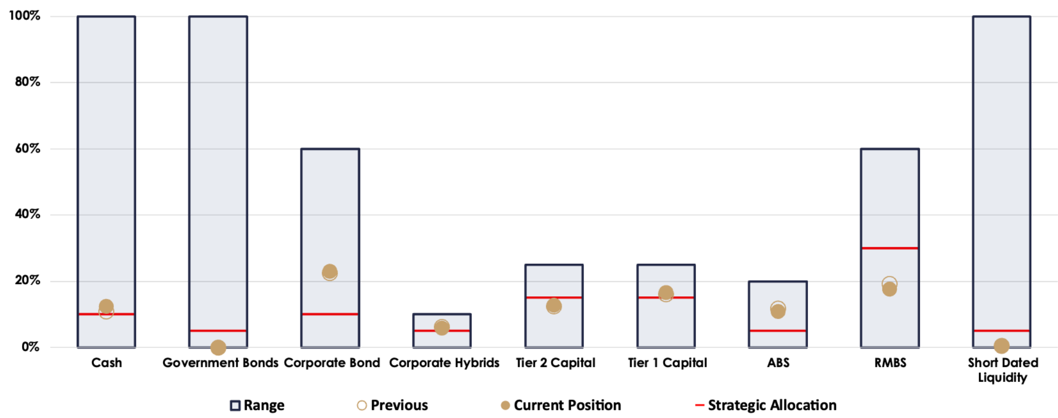
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	6.03%
Yield to Maturity	7.43%
Volatility†	2.63%
Interest rate duration	0.68
Credit duration	2.97
Average Credit Rating	BBB+
Number of positions	364
Average position exposure	0.11%
Worst Month*	-1.99%
Best Month*	2.09%
Sharpe ratio∂	2.08

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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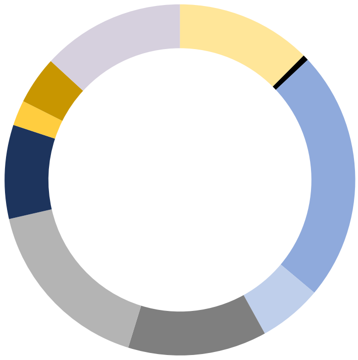
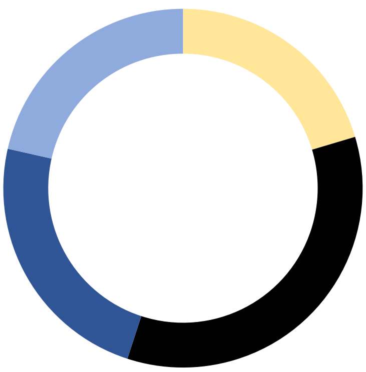
PORTFOLIO COMPOSITION



MATURITY PROFILE



FUND UPDATE

Cash and Short-Term Liquidity: ↑ The allocation to highly liquid assets (cash, commercial paper and government bonds) increased from 11.51% to 13.01%. This mainly reflected lower allocations RMBS, ABS and corporate hybrids which was partly offset by higher allocations to corporate bonds, T1 capital and T2 capital.

Corporate & Subordinated Debt: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and T2 capital) increased from 41.28% to 41.75%. The positive momentum in global credit markets in November flowed into December which is a seasonally quiet month. This saw global credit spreads firm with relative outperformance from T1 and T2 capital. 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. Domestically, credit spreads tightened but underperformed global credit markets. As a result, the fund continued to take profits in offshore T2 capital and reallocate to AUD corporate bonds. December new issuance was muted with the only notable deal from Hollard Insurance (T2 capital). New issuance activity has resumed early in the new year with AUD deals from Westpac (senior) and ANZ (T2 capital) and a USD deal from ANZ (senior).

Interest Rate Duration Position: ↓ IRD positioning decreased from 0.85 to 0.68 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. US 10-year real yields decreased to a level of 1.71%, driving the Aus 10-year yields to rally and invert. And as such, the portfolio IRD was wound down to reflect these conditions.

Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS securities decreased from 19.28% to 17.60% over the month. Structured markets continued to rally over the course of December, largely driven by constraints to market supply as dealflow slowed into the beginning of the holiday period. New primary market transactions remain overbid, with limited secondary market activity as secondary markets continue to trade very tight relative to primary markets into year end. With respect to market performance, Prime arrears as reported by S&P's SPIN index for October remained in line at 0.92%. Nonconforming arrears also improved 16bps to 3.70%. Meanwhile the Bloomberg index for arrears for November improved 3bps for prime arrears. Both results remain very strong in comparison to both market expectations and historic index levels.

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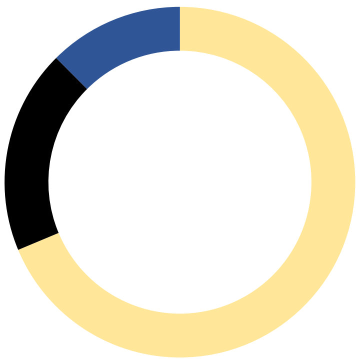
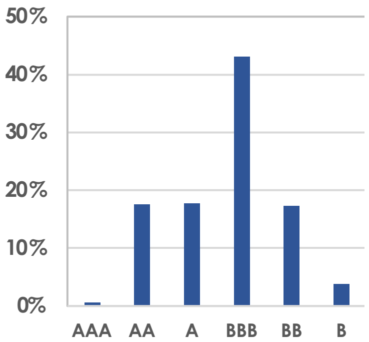
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (68.69%)
- Foreign Domicilied Issuer (18.84%)
- Cash (12.47%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	3.86%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.22%	10%
Gambling	0.14%	10%

Tier 1 Capital: ↑ Weighting to T1 capital increased from 16.19% to 16.65%. 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 notable deals from Credit Agricole and AXA. Domestically, we anticipate ANZ and CBA will issue new ASX-listed AT1 hybrids to refinance upcoming redemptions in March and April respectively.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 11.74% to 10.98%. 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 decreased from 2.64% to 2.31%. This reflected the contribution of lower interest rate duration (from 0.85 years to 0.68 years) and lower credit duration (from 3.09 years to 3.01 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

- 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: State Street Australia Limited

Unit Pricing and Unit Price History: https://www.realminvestments.com.au/ourproducts/Realm-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 continues to hold above average risk levels. Whilst valuations have become less compelling for market segments as a whole, we continue to hold elevated risk exposures given the portfolio is concentrated into individual positions that continue to offer favourable 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. We remain close to our upper bound in foreign issuer exposure where the majority of our positions relate to regulatory capital of systemically important banks or large insurers whose balance sheet metrics are very strong.

As foreign positions are concentrated into offshore financial institutions, our corporate exposures are mostly invested into an idiosyncratic mix of domestic companies in AUD. In each case, spreads on offer are wide to comparable alternatives for reasons we are comfortable with. This includes situations where spreads on bonds issued in foreign currency trade manifestly wider than domestic alternatives from the same obligor.

Within structured credit, where total weights are below strategic levels overall, the portfolio remains overweight ABS. This reflects the shift in lending activity towards auto and equipment finance amongst non-banks. Arrears rates for RMBS remain stable and recent research from the RBA indicates that overall housing credit quality remains strong. The majority of the RMBS book is held in bank issued and conforming debt. The potential for permanent losses in this segment of the portfolio remains remote. Exposures to CLOs are a small part of the portfolio.

Portfolio IRD was reduced to 0.68yrs as Australian and US 10-year bond yields rallied strongly on the back of dovish commentary and the expectation of rate cuts being pulled forward. This remains towards the low end of our 0-5yr allowable mandate range and is close to the historical average. We are also maintaining material macro hedges via equity indices and single-name derivatives, which are screening as expensive relative to credit.

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The portfolio's traded margin has narrowed as spreads have rallied. It remains historically wide and comes with limited default risk. 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 7.43%, 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

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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Europe is slowing. Retail sales and industrial production all fell by more than expected. The PMIs suggest the economy is contracting. Unemployment was higher than expected at 6.5%. Given these outcomes, it was consistent for core inflation to undershoot expectations (3.6% yoy vs 3.9% expected). The ECB did not meet in November but kept rates unchanged in December. It intends to slowly wind down the pandemic emergency purchase program from H2 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 November and December although the bias amongst the decision makers was for higher rates.

The German Constitutional Court has ruled that certain fiscal initiatives outside of the official budget, relating to climate change spending and industry support, are not legal and should be subject to existing limits. Approximately EUR 60bn of proposed expenditure is now uncertain. Similarly to the US, Europe's funding commitment to Ukraine is becoming more unclear. Hungary recently blocked a EUR50bn funding package, but removed itself from discussions about accession.

Speculation continues to surround decisions relating to the BoJ ending its negative interest rate policy and abandoning its efforts to directly influence the trading band of the key 10 year rate. Moves in that direction were set back slightly with a core inflation reading of 2.9% yoy, marginally below expectations of 3%. PPI was -0.4% MoM suggesting limited inflationary pressure in the production pipeline.

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