REALM HIGH INCOME FUND

DECEMBER 2022

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 $1.41 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	1.26%	1.29%	0.26%
3 Month	3.09%	3.13%	0.71%
6 Months	3.66%	3.82%	1.15%
1 Year	-0.07%	0.30%	1.28%
3 Years p.a	2.37%	2.79%	0.56%
5 Years p.a	2.84%	3.27%	0.87%
10 Years p.a	4.10%	#N/A	1.49%
Since Inception p.a*	4.18%	4.16%	1.53%

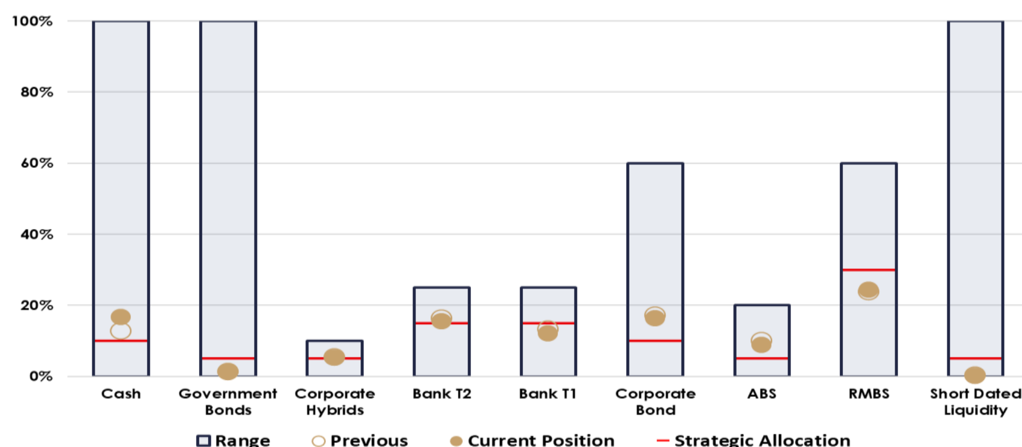
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	5.30%
Yield to Maturity	6.80%
Volatility†	2.58%
Interest rate duration	0.82
Credit duration	3.39
Average Credit Rating	BBB
Number of positions	336
Average position exposure	0.14%
Worst Month*	-1.99%
Best Month*	1.94%
Sharpe ratio∂	2.12

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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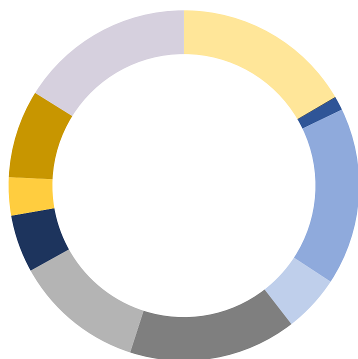
REALM | INVESTMENT HOUSE

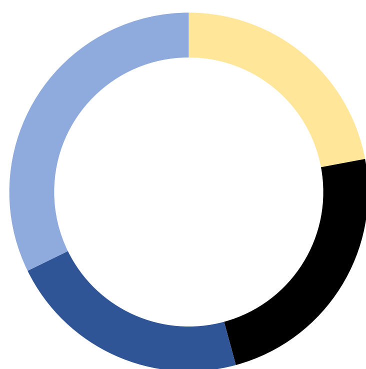
DECEMBER 2022

PORTFOLIO COMPOSITION



- Cash (16.57%)
- Commercial Paper (0.04%)
- Government Bonds (1.25%)
- Corporate Bond (16.37%)
- Corporate Hybrids (5.27%)
- Bank T2 (15.46%)
- Bank T1 (11.98%)
- ABS Public (5.31%)
- ABS Private (3.52%)
- RMBS Private (8.10%)
- RMBS Public (16.13%)

MATURITY PROFILE



- At Call to 6 Months (22.05%)
- 6 Months to 3 Years (23.72%)
- 3 Years to 5 Years (21.99%)
- 5 Years to 10 Years (32.24%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ The allocation to highly liquid assets (cash, commercial paper and government bonds) increased from 14.28% to 17.86%. This mainly reflected lower allocations to ABS, Bank T1, Bank T2 and corporate bonds.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) decreased from 38.76% to 37.10%. Credit spreads generally tightened over the month, typical of the reduced activity and low liquidity period leading into the holidays. Global credit firmed for a third consecutive month with continued outperformance from subordinated debt. This supported of our tilt towards Australian Bank T2 issued in USD, which still provides attractive relative value in our view. Similarly, domestic credit also firmed over the month with notable outperformance from subordinated debt. There was limited new issue supply in December. Credit spreads remain firm in 2023 despite the deluge of new global issuance. Notably, we participated in USD T2's issued by NAB and Macquarie which further increased our allocations to Bank T2. In contrast, new domestic issuance remains quiet with the only notable deal being CBA's 3-year and 5-year senior unsecured notes.

Interest Rate Duration Position: ↓ IRD positioning decreased from 0.85 to 0.82 years. Government bond volatility was relatively muted over the month of December, however this was to be expected given the festive season. The first half of the month was dominated by central bank pivot talk and the need to decrease the pace of rate hikes. Global momentum saw rates on a downward trend and as such our positioning was accordingly reduced. The shock of the month came in the form of Bank of Japan's Kuroda, who surprised the entire market by increasing the trading range for the Japanese 10 year bond. Volatility spiked and the Australian 10 year bond sold off circa 20bsp in a single day, which motivated us to opportunistically increase IRD slightly on the day.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 23.71% to 24.23% over the month. Public structured credit market yields continued to trade in line with the previous month, as primary issuance slowed and secondary market activity was relatively quiet into the Christmas break. Both private and public market yields remain wide relative to historic yield levels and have continued to lag the tightening experienced by other credit markets, making current market levels look very attractive compared to other asset classes on a relative value basis. This, combined with the good liquidity that was witnessed in the Australian market as offshore desks tried to sell stock in October, has begun to attract foreign demand into the asset class, with Australian broking desks reportedly selling good volumes of stock back to offshore clients over the course of the month.

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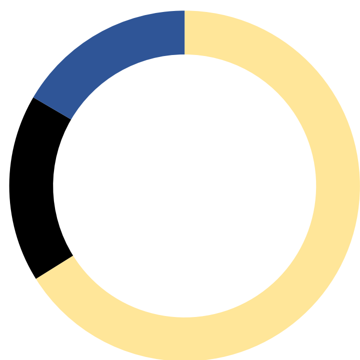
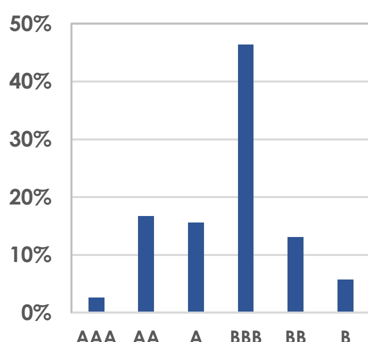
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (66.11%)
- Foreign Domicilied Issuer (17.32%)
- Cash (16.57%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	4.69%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.23%	10%
Gambling	0.15%	10%

With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 2bps over the month of October to 0.60%, with nonconforming arrears weakening to 2.56%. Both results remain very strong in comparison to both market expectations and historic index levels.

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 13.21% to 11.98%. AT1's performed strongly over the month, with continued outperformance from global AT1's. This provided the opportunity to take profits on various global AT1 lines which have performed exceptionally since October. These funds have since been redeployed into the flurry of new global AT1 deals which priced in early 2023 with attractive coupons. These include EUR investment grade transactions from French Banks Credit Agricole (7.25% coupon) and BNP Paribas (7.375% coupon). Domestically, we expect the supply/demand dynamics in 2023 to remain supportive given only two hybrids are due for call: ANZPJ's in March 2023 and CGFPB in May 2023.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 10.04% to 8.83%. Each of the ABS exposures within the fund continue to perform well, with shorter duration assets limiting the impact of weaker credit markets, which makes them highly sought by the market and well bid.

Targeted risk across the Fund: ↓ Targeted portfolio risk decreased from 2.74% to 2.62%. This reflected higher cash holdings and reductions to both credit duration (from 3.57 years to 3.39 years) and interest rate duration (from 0.85 years to 0.82 years). The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Equities generally finished the month lower although the HKSE rallied strongly as China sought to re-open its economy by significantly relaxing its covid measures. The VIX finished the month at similar levels, towards the lower end of its post-Covid trading range. Bond yields rose, with the Australian 10 year bond yield once again trading above that of the US. The US yield curve inversion is at the deepest level since the early 1980s. The USD weakened as risk aversion softened and IG credit spreads generally rallied in Australia and elsewhere. Structured credit spreads remained elevated vs equivalently rated corporate bonds.

There was some positive news on inflation. Eurozone inflation fell for the first time since mid-2021. Although the US CPI reading was slightly positive, it came in below expectations. The US ISM Manufacturing Deliveries Index is at its lowest point (excluding the onset of covid) since 2016, reflecting a considerable easing in supply chains.

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PLATFORM AVAILABILITY

- Australian Money Market (Retail Units)
- BT Wrap
- BT Panorama
- Credit Suisse
- Crestone
- First Wrap
- Hub24
- Macquarie Wrap
- 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/

Markets remain concerned for the stickiness of services inflation and wage growth. Labor markets remain tight with Australia's job data showing an additional 64k workers were employed in November, well above the expectations of 19k. The participation rate returned to a historic 66.8% and the unemployment rate was stable at 3.4%. The US Non-Farm payrolls also surprised to the upside although it is interesting to note that those who have lost a job are finding it harder to become re-employed and it appears that much of the growth in payrolls is arising from people taking multiple jobs. Fed Chair Powell suggested that the number of jobs created each month needs to fall to 100k (currently 263k) in order to match population growth and stop tightening the labour market. Whilst wage inflation is picking up, inflation expectations remain well anchored for now.

Savings rates are declining sharply. In the US, consumer savings rates are nearly at all time lows with levels comparable to those reached during the housing boom of 2005. Spending remains focused on 're-opening' activities. Excess savings from covid have been almost fully eroded for the least wealthy 50% of households. This is clearly not sustainable and brings the possibility of much weaker consumption in 2023. Australia's savings rates have continued to decline towards pre-covid levels although there remains a significant stock of excess savings. Australian house prices have now fallen 9% from their peak and more can be expected as borrowing capacity continues to be tightened and fixed rate mortgages revert to higher floating rates throughout the year.

The RBA tightened rates by another 25bps to 3.1% although the minutes showed that the Board considered not raising rates. However, much of the commentary focused on the capacity of households to manage a higher interest rate burden and confirmed that further rate rises are in prospect. Parliament's Standing Committee of Economics nonetheless requested the RBA to undertake a more nuanced approach and consider whether raising rates further would have the desired effect.

The US Fed tightened rates by 50bps and released its latest economic projections. The expected peak Fed rate was revised to 5.1% with only modest cuts expected in 2024. The expected unemployment rate in 2023 was also revised upwards to 4.6%, inferring an increase of 0.9% from current levels. Core inflation for 2023 was also revised from 3.1% in September to 3.5%. The ECB delivered a 50bps hike (November hike was 75bps) with President Lagarde producing a very hawkish outlook and projections which showed inflation not returning to target levels during the 3-year forecast horizon. GDP growth in 2022 is expected to be 0.5%. QT will commence in March at an initial rate of EU 15bn per month. The BoE also raised rates by 50bps, a smaller step than the prior month's 75bps hike.

Monetary policy in Japan has been influential on capital flows as the relative attractiveness of domestic assets from the perspective of a Japanese investor has increased. This month, BoJ Governor Kuroda widened the operating band for its Yield Curve Control program for the 10-year bond yield from 25bps to 50bps. The impact was immediately felt across global bond and currency markets and raised the prospect that Japan may abandon this instrument entirely upon his retirement next year.

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China's move to relax covid restrictions has led to an upwards revision of its prospects during 2023 although the surge in case numbers has dampened activity in the near term. Several countries have introduced testing requirements for arrivals from China but no new variant has emerged as yet. Australia's relations with China appeared to thaw as Foreign Minister Penny Wong met with her counterpart Wang Yi. China continues to ensure the banking system remains liquid as it seeks to find a resolution to difficulties in the property market.

Forms of protectionism and price intervention continue to rise. A cap on Russian oil was agreed between Western aligned nations at $60 per barrel. Russia responded by banning sales to countries seeking to impose it. Eurozone ministers capped the futures price for natural gas and also introduced the world's first carbon border tax. European natural gas prices have now fallen below levels ahead of the Ukrainian invasion. The Australian Government introduced caps on energy prices which has created considerable uncertainty in the industry with several new projects now on hold. The US has started to replenish its Strategic Petroleum Reserves after selling approximately 180m barrels.

Both sides of the Ukrainian conflict have spoken of the possibility of peace talks but the pre-conditions remain far apart. The US recently approved additional support for the Ukrainian effort as part of a USD 1.7tr funding bill. Ukrainian troops have liberated around half of the maximum amount of territory which had been seized this year.

Australia appears likely to avoid recession as immigration provides a solid support for growth and the RBA has elected to become more incremental. However, there is a reasonable prospect for the US and, more so, Europe to experience a mild technical recession in 2023. Whilst the prospects for IG credit remains attractive, more uncertainty exists for the outlook on non-bank sub-IG names. Market liquidity remains challenged and funding risks are more elevated. Market positioning remains very bearish although some signs of improved sentiment are emerging. Significant uncertainty remains around the stickiness of services inflation, the impact of China's re-opening on energy prices, the path of the Ukrainian conflict, whether central banks will remain as precautionary for inflation as economies skirt recession and many other factors. Given the wide range of potential outcomes, we are relying less on central case expectations for general positioning and more on ensuring the portfolio is durable.

Interest rate duration was brought down to 0.55yrs (from 0.85) as bond yields rallied. However, we returned this to 0.80 at month end as the term structure steepened again. Portfolio credit risk was slightly reduced as credit spreads rallied with exposures in bank subordinated and hybrid debt being wound back.

Yield to Maturity remains close to 7% which, in our assessment, provides a considerable buffer over reasonable default expectations. Portfolio risk levels therefore remain towards the higher end of our general practices. Our sub-investment grade exposures remain primarily with large banks and RMBS, all of which can sustain extreme downside scenarios. For a medium-term investor, the forward-looking return expectations are attractive. As cash rates continue to rise, the prospect of a negative return over these time frames is low and can generally be expected to diminish in the absence of a significant policy error. Portfolio liquidity remains robust.

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