REALM HIGH INCOME FUND

FEBRUARY 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 $1.46 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	0.64%	0.68%	0.25%
3 Month	4.03%	4.15%	0.77%
6 Months	4.63%	4.79%	1.40%
1 Year	2.99%	3.37%	1.77%
3 Years p.a	3.02%	3.50%	0.69%
5 Years p.a	3.31%	3.74%	0.93%
10 Years p.a	4.24%	#N/A	1.49%
Since Inception p.a*	4.38%	4.39%	1.56%

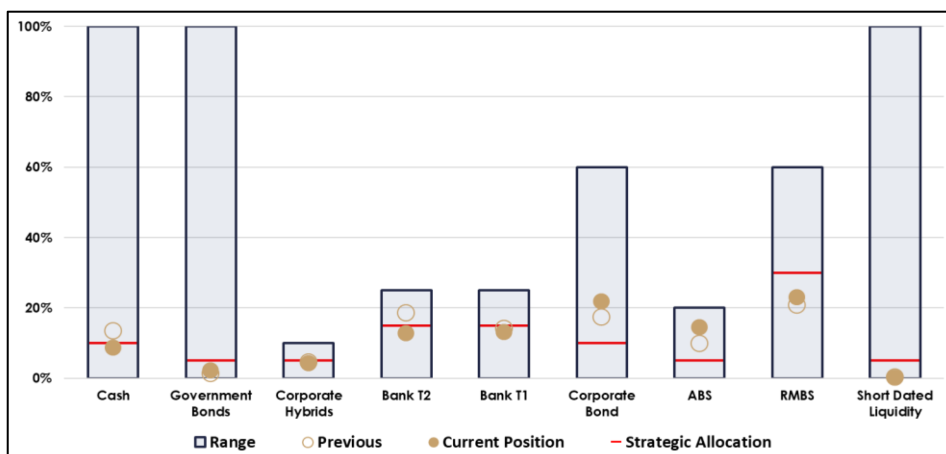
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	5.84%
Yield to Maturity	7.12%
Volatility†	2.66%
Interest rate duration	0.58
Credit duration	3.54
Average Credit Rating	BBB+
Number of positions	371
Average position exposure	0.13%
Worst Month*	-1.99%
Best Month*	2.12%
Sharpe ratio∂	2.25

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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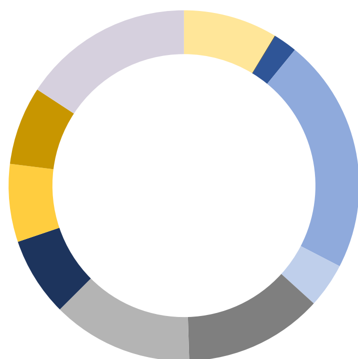
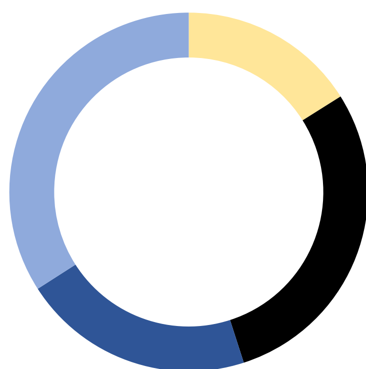
PORTFOLIO COMPOSITION



- Cash (8.69%)
- Commercial Paper (0.04%)
- Government Bonds (2.18%)
- Corporate Bond (21.70%)
- Corporate Hybrids (4.13%)
- Bank T2 (12.79%)
- Bank T1 (13.00%)
- ABS Public (7.29%)
- ABS Private (7.18%)
- RMBS Private (7.24%)
- RMBS Public (15.77%)

MATURITY PROFILE



- At Call to 6 Months (16.06%)
- 6 Months to 3 Years (28.97%)
- 3 Years to 5 Years (20.89%)
- 5 Years to 10 Years (34.08%)
- 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 14.93% to 10.91%. This reflected increased allocations to corporate bonds, ABS and RMBS and lower allocations to bank T2 and bank T1.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) decreased from 40.42% to 38.62%. The tremendous credit spread rally since November 2022 took a breather in February as the market focus shifted back to higher terminal interest rates and sticky inflation. Global credit spreads closed mixed month-on-month with USD slightly wider while EUR was slightly firmer as European recession probability forecasts declined. Domestic credit was a relative outperformer having lagged the recent global rally. This supported our tilt back towards into AUD credit (notably corporate bonds and bank T2) as we continued to take profits in global T2's. Domestically, we saw the return of T2 issuance with ANZ issuing an inaugural 15-year (callable after 10 years) bond with a fixed coupon of 6.736%. This was followed up by T2 issuance from Suncorp and NAB, with all three deals performing well in secondaries. In early March, CBA issued a 15-year (callable after 10 year) T2 with a fixed coupon of 6.704% which is also performing well.

Interest Rate Duration Position: ↑ IRD positioning increased from 0.52 to 0.58 years. Both the volatility and the end of month government bond yields were higher for February. Much to the market's dismay, global economic data had continued to surprise to the upside. Most notable of these surprises were the US unemployment number, which unexpectedly fell to 3.4%, along with upside surprises to US inflation data. Consequently, central bank commentary was hawkish due to the risk of persistent inflation on the back of a resilient consumption economy. As a result, terminal cash rates increased which flowed through to higher government bond yields. Australian rate movements were correlated to global government yields for the most part and as a result, our positioning was increased slightly.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 20.75% to 23.04% over the month. Public structured credit market yields tightened significantly over the course of the month, after having lagged the tightening experienced by other credit markets in January. Senior AAA markets tightened by as much as 40 basis points, with middle mezzanine (A/BBB rated) and junior mezzanine markets (sub-investment grade rated) tightening as much as 80 basis points. Dealer inventory levels remain very low as market participants continue to seek out good quality paper. Lenders saw these significantly tightened yields as an opportunity to issue into the market, with a significant amount of dealflow within the current primary market pipeline across several different asset classes expected over the next month.

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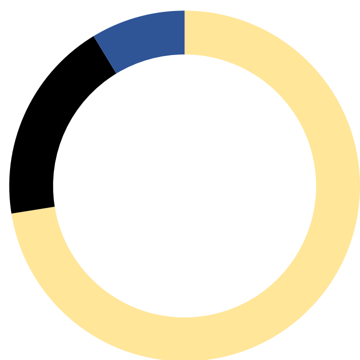
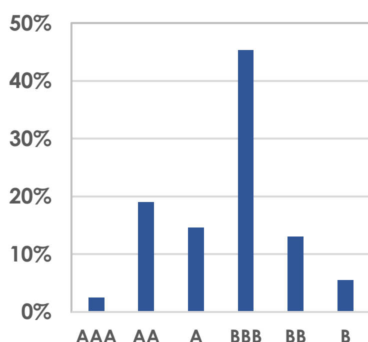
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (72.48%)
- Foreign Domicilied Issuer (18.83%)
- Cash (8.69%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	4.69%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.28%	10%
Gambling	0.21%	10%

With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 11bps over the month of December to 0.76%, with nonconforming arrears weakening to 3.20%. Both results remain very strong in comparison to both market expectations and historic index levels.

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 14.12% to 13.00% as we took some profits from our AT1 book which continues to comprise entirely of global AT1's. Following a strong start to the month, global AT1's returned most of the outperformance by month-end. Global AT1 supply continued over the month with notable issuance from ING, Swedbank, HSBC and Citi in USD and Barclays in GBP. Domestically, ASX-listed AT1 credit spreads widened month-on-month with ANZ pricing its Capital Notes 8 (AN3PF) at a margin of +275bps. Challenger also launched it's Capital Notes 4 (CGFPD) offer to refinance the CGFPB's. The supply/demand technical should be supportive for the remainder of the year with no ASX-Listed AT1's due for call until 2024.

Asset Backed Securities (ABS): ↑ ABS allocation increased from 9.78% to 14.47%. Each of the ABS exposures within the fund continue to perform well within 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 decreased from 2.71% to 2.58%. This partly reflects the re-allocation of high beta bank T2 and T1 into corporate bonds, ABS and RMBS. This resulted in lower credit duration (from 3.64 years to 3.54 years) which was partly offset by higher interest rate duration (from 0.52 years to 0.58 years). The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Bond markets were materially weaker over the month of February. The 10-year bond yields of major western economies and Australia rose by 30 to 50bps. Japanese 10-year bond yields remained firmly pressed against the yield curve control target of 50bps. US Corporate credit was slightly weaker but the Australian market has been lagging and finished slightly firmer. The USD rallied strongly, rising 4.7% against AUD. Commodities were generally weaker. The VIX finished slightly higher. Equities were mixed with the US and Australian markets finishing lower whilst UK, European and Japanese markets recorded gains. The US peak cash rate inferred from market pricing rose to 5.4% with prior expectations of easing later in 2023 largely erased. Expectations for the peak cash rate in Australia rose to 4.3%.

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/

The strength of the US economy surprised markets. Whilst activity in manufacturing continued to contract, the services sector appeared to have grown robustly. The non-farm payrolls figure confounded expectations with the addition of 517k jobs reported for January relative to expectations of 185k. Retail sales also outperformed. CPI also rose faster than expected with the 'sticky' components continuing to accelerate. Wage growth remained too high to be consistent with the Fed's inflation targets. The Fed lifted cash rates by 25bps to the range of 4.50-4.75% and indicated more increments were to come. Though the deflationary process had started, the Fed is seeking substantially more evidence before a pause can be contemplated.

The ECB lifted its key reference rate by 50bps, to a level of 3%. ECB President Lagarde firmly guided expectations for the next meeting to produce another rate rise of 50bps before moving to more of a data dependent setting. The ECB is now reducing its bond holdings from the Asset Purchase Program, which commenced acquiring securities in 2014. Bond purchases relating to the covid era will remain on balance sheet. The outlook for the European economy has improved and is now generally expected to avoid recession in 2023. Natural gas prices are now trading below where they were before the Ukrainian invasion. Storage levels are so strong that voluntary caps on gas consumption may be removed, although caution remains for the possibility that China's re-opening may see increased competition for LNG cargoes. The Windsor Framework was negotiated between UK PM Sunak and EC President von der Leyen which seeks to improve upon existing Brexit Agreements.

Australian property prices, as measured by CoreLogic's National Home Value Index, fell by 0.14% in February which is the smallest amount since rate hikes commenced in May 2022. Sydney property prices were firmer. Whilst households are increasingly concerned for their financial situation, the actual performance of mortgage or asset backed loan books is still strong with arrears and other distress metrics remaining below pre-Covid levels. APRA released data showing credit growth is slowing and credit card loan balances are declining. Major Non-Bank originators have uniformly observed that prime mortgages have become far less profitable to write given the intense competition from banks seeking to grow their lending books into a slowing market. They are shifting their origination activities to other areas. New issuance of structured credit securities attracted strong bids and produced a meaningful rally.

The RBA raised rates by 0.25% to 3.35%. The move was regarded as hawkish by the market, in part due to the absence of consideration for a rate pause in their deliberations. The RBA noted that the fall in global goods inflation was not evident in Australia. However, there was also limited evidence of a wage-inflation spiral despite the tight labour market. Inflation is expected to return to the target band in mid-2025. The RBA believes the strength of its monetary policy settings is similar to other economies.

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After the RBA meeting, it was revealed that employment levels actually fell in January although some technical matters reduce the weight given to this reading. The Q4 2022 GDP figures also revealed a significant decline in real household incomes and savings rates. This should serve to contain consumption growth in 2023 and reduce the degree to which monetary settings need to be used to slow the economy. The final retail sales figure for December was released, showing a 3.9% monthly decline, materially weaker than a 0.6% decline which had been expected. Nonetheless, households continue to retain large savings buffers in aggregate, with those aged over 45 having built more additional savings than the younger cohort. The current account surprised to the upside and recorded the longest run of positive surpluses in the history of the series which commenced in 1959.

Consumers are shifting discretionary purchases from goods to services and, as such, it is unsurprising that retailers like JB-Hifi and Good Guys are seeing a weaker sales environment and greater difficulties with passing costs to customers. Nonetheless, the NAB Business Confidence reading increased due to easing labour market conditions and reduced upstream price pressures.

The BoJ's Governor Kuroda will shortly retire. He took office in 2013 and has overseen the Bank's Quantitative and Qualitative Monetary Easing policy since then. One feature, the yield curve control applied to the 10-year bond market, seems unlikely to persist in its current form once Kazuo Ueada takes office. Any move to loosen this is likely to see Japanese investments repatriated in some volume, and may steepen yield curves globally, whilst strengthening the JPY.

China's re-opening continued, and the PMI data indicates the economy is growing. The National People's Congress announced a modest 5% target growth level for 2023. Authorities are seeking to protect the property market including by easing restrictions on land sales and availability of leverage. Coal shipments from Australia have begun to arrive in Chinese ports again.

The Bank of England raised rates by 50bps to 4%. Two members of the Committee voted for no rate rise. Governor Bailey indicated that the UK has turned the corner on inflation.

Western support for Ukraine, in the form of announced plans for weapons transfers, has increased. Russia has massed aircraft close to the Ukraine border and launched a major assault on Bakhmut.

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We added exposures to private structured credit as negotiations successfully concluded for a number of facilities and were drawn. We reduced exposures to subordinated debt into a stronger market. We increased exposure to Australian corporate bonds, whose performance had lagged the rally in foreign markets. Whilst cash exposures were reduced over this period, overall effective portfolio liquidity remains more than adequate, including via exposures held in semi-government bonds which can be liquidated with ease.

Although we continue to see value in credit markets, uncertainty remains elevated and has recently been exacerbated by a sharp and significant upwards revision in the expected path of Fed rates. We have added additional hedges to protect the portfolio against a re-assessment of recession risks which do not appear to have materially featured into credit or equity markets as yet.

The portfolio maintained interest rate duration at low levels over the month which limited the exposure to increased bond yields. These settings remain in place.

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