REALM HIGH INCOME FUND

JANUARY 2024

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 $1.71 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

NET PERFORMANCE

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	1.19%	1.24%	0.36%
3 Month	4.93%	5.04%	1.07%
6 Months	5.28%	5.52%	2.10%
1 Year	9.14%	9.63%	3.98%
3 Years p.a	4.43%	4.86%	1.86%
5 Years p.a	4.65%	5.09%	1.39%
10 Years p.a	4.31%	4.76%	1.62%
Since Inception p.a*	4.76%	4.85%	1.76%

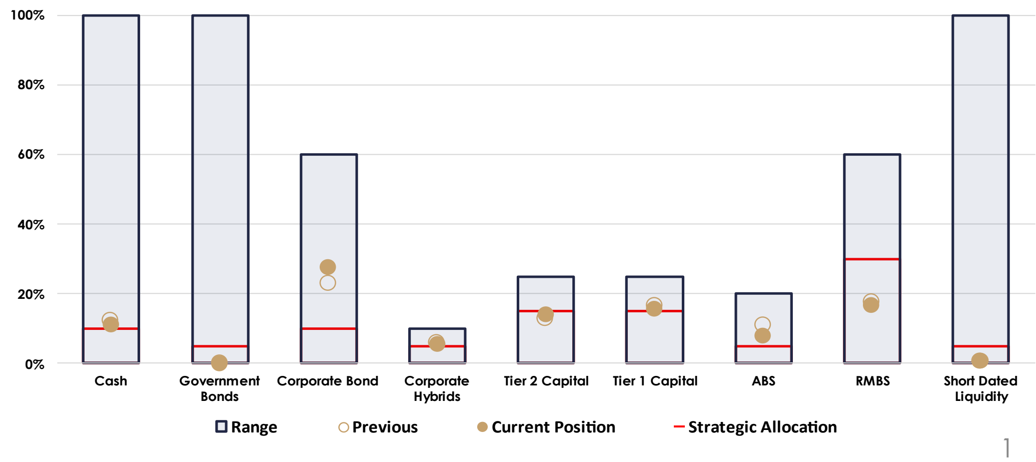
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	6.03%
Yield to Maturity	7.31%
Volatility†	2.61%
Interest rate duration	0.60
Credit duration	3.05
Average Credit Rating	BBB+
Number of positions	357
Average position exposure	0.11%
Worst Month*	-1.99%
Best Month*	2.09%
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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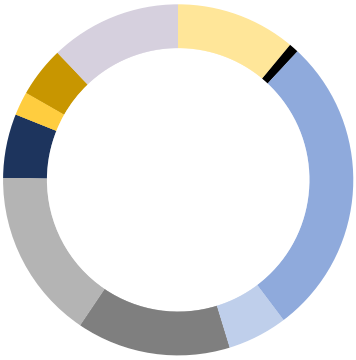
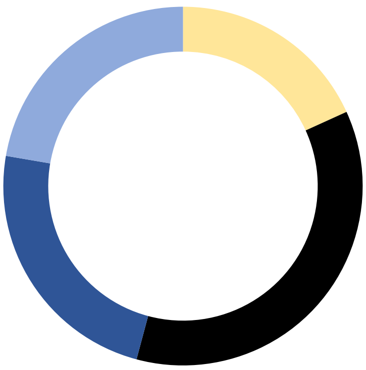
PORTFOLIO COMPOSITION



- Cash (11.04%)
- Commercial Paper (0.88%)
- Government Bonds (0.00%)
- Corporate Bond (27.80%)
- Corporate Hybrids (5.54%)
- Tier 2 Capital (14.20%)
- Tier 1 Capital (15.72%)
- ABS Public (5.89%)
- ABS Private (2.19%)
- RMBS Private (4.63%)
- RMBS Public (12.12%)

MATURITY PROFILE



- At Call to 6 Months (18.21%)
- 6 Months to 3 Years (35.95%)
- 3 Years to 5 Years (23.53%)
- 5 Years to 10 Years (22.30%)
- 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 13.01% to 11.92%. This mainly reflected higher allocations corporate bonds and T2 capital which was partly offset by lower allocations to public ABS/RMBS and T1 capital.

Corporate & Subordinated Debt: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and T2 capital) increased from 41.75% to 47.54%. January 2024 was one of the busiest starts for global investment grade primary issuance. Despite the deluge of supply, global credit spreads firmed for a third consecutive month, with T1 and T2 capital continuing to outperform. In contrast, domestic primary markets were relatively quiet but domestic credit spreads closed wider over the month. The improved relative value saw the fund continue to take profits in offshore T2 capital and reallocate to AUD assets (corporate bonds and T2 capital). Australian major banks were relatively active in primary markets with ANZ/NAB/Westpac pricing senior deals in AUD and USD and ANZ pricing a T2 capital note in AUD.

Interest Rate Duration Position: ↓ IRD positioning decreased from 0.68 to 0.60 years. Bond volatility during the month of Jan, represented by trading range, was almost half of the volatility of December. Driven by favourable economic data releases – resilience in labour markets but with easing inflation, revived the 'Goldilocks' narrative. The ripple effect from the shift downwards of the FED dot plots and a pause from global central banks, saw bond yields continue their rally. The OIS markets moved to pricing in almost six cash rate cuts in the US and slightly over two cuts in AUS by the end of 2024. And as such, the portfolio IRD was wound down to reflect these conditions.

Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS securities decreased from 17.60% to 16.75% over the month. Structured markets continued to rally over the course of January, in line with other credit markets. This was further exacerbated by the limited supply, as new dealflow remained very limited into the end of the holiday period, resuming with new mandates in late January. As a result, secondary markets remain overbid and continue to trade very tight relative to primary spreads. With respect to market performance, Prime arrears as reported by S&P's SPIN index for November improved 1bp to 0.91%. Nonconforming arrears also improved 5bps to 3.65%. Both results remain very strong in comparison to both market expectations and historic index levels.

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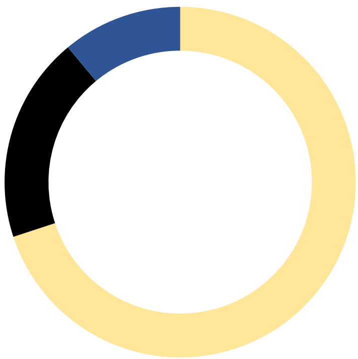
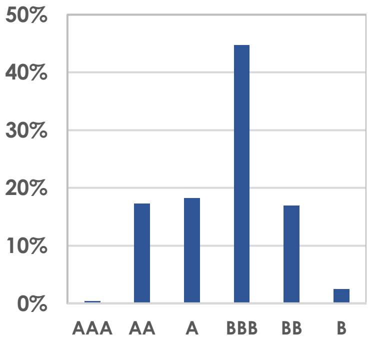
ISSUER DOMICILE



CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	3.73%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.22%	10%
Gambling	0.14%	10%

Tier 1 Capital: ↓ Weighting to T1 capital decreased from 16.65% to 15.72%. As global T1's outperformed for a third consecutive month, the fund reduced its sector allocation towards the strategic weight of 15%. Since the collapse of Credit Suisse in March 2023, global T1's have significantly recovered and credit spreads are now trading back at long-term averages. Interestingly, the strong outperformance of global T1's means the relatively value of domestic ASX-T1's - which widened over the month - continues to improve. Global T1 primary markets were relatively active over the month, with notable deals from Credit Agricole and AXA in EUR. This has continued into early February with new deals from ING, Swedbank and UBS in USD. Domestically, ANZ has announced their intention to issue new ASX-listed AT1 hybrids to refinance an upcoming redemption in March.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 10.98% to 8.08%. 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 2.31% to 2.23%. This reflected lower interest rate duration (from 0.68 years to 0.60 years) and lower allocation to T1 capital which was partly offset by modestly higher credit duration (from 3.01 years to 3.05 years).

FUND OUTLOOK

Key credit spreads finished the month at similar levels. The indicative ICE BofA BBB US Corporate Index Option-Adjusted Spread of 1.26% pa is tight by historical standards. Similar levels have existed only during periods of loose credit, overconfidence, or where search-for-yield effects were strong. In some ways, the high all-in yields presently available may also be encouraging this outcome.

Credit markets appear to be pricing an outcome which is similar to a no-landing scenario, where growth is at trend levels, inflation is in-line with targets and monetary policy is at around neutral. The consensus for 2025 points to this type of environment but, given the limited accuracy of economic forecasts and the many visible uncertainties, spreads are offering scant margin for error.

Although the trajectory of key Western economies is for a further slowdown during H1 2024, before recovering towards trend levels, confidence in avoiding recession is rising. Derivative pricing shows very low concerns for the possibility of a difficult market. Indeed, even oil and gold derivatives display inferred volatility expectations which are around average levels. This seems unusual given the number of active conflicts taking place, particularly in the Middle East where missile and drone strikes are being exchanged between the US and Iranian proxies. ISIS also claimed responsibility for a bombing attack in Iran which killed nearly 100 people during a memorial for former Quds Forces Commander Soleimani, who was killed in a US drone attack in 2020.

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/

The bond market remains volatile relative to equities. Derivative pricing infers that central banks have a significant capacity to stabilize the economy against adverse developments. The relative pricing of equity and bond volatility indices is reminiscent of the first part of the Greenspan era where the Fed cut rates to help the economy recover from the 1990-91 recession and enhanced the belief in the Greenspan Put. With cash rates now considerably above the nominal floor, the capacity certainly exists but this central bank tool is quite ineffective with supply side shocks. As a result, following a strong recovery in credit markets since the collapse of Credit Suisse, we are cautious on aggregate pricing, but still find pockets of opportunities where we are comfortable with risk deployment.

Primary markets have responded to the tighter spreads with heavy issuance since the start of the year. However, the ghost of Silicon Valley Bank remains near as a higher than expected write-down in US CRE exposures by New York Community Bancorp, which acquired Signature Bank, has focused attention on US Regional Banks operating in this market again. As with Credit Suisse, the distress in the US crossed the Atlantic and has affected German banks with material US CRE exposures like Deutsche Pfandbrief Bank and Deutsche Bank. Overall, we believe much of the US Corporate market exhibits lower relative value than credit issued from Europe where sub-ordinated debt continues to offer reasonable opportunities.

Bidding for structured credit assets has become intense with new deals heavily oversubscribed. Credit conditions were favourable enough to see a large funding trade by Westpac. The last one of its size from a major bank was in 2020. Warehouse exposures are also being termed out into the more favourably priced market with many prime RMBS deals in the pipeline. With property prices reaching new highs, the outlook for employment being for ongoing growth, real wages improving and the expected interest burden near its peak, the credit quality for RMBS assets is extremely strong. Despite a significant rally in spreads, Australian structured credit continues to trade with a favourable margin to comparable offshore structured credit markets.

Whilst spreads on levered loans have also rallied, current all-in yields remain high given they are floating rate. This will still produce difficult financial conditions for borrowers and hence spreads have not narrowed as far as for some other markets. However, liquidity has returned and many borrowers who turned to the private debt market in 2023 are refinancing in the levered loan market once again. Loan issuance and CLO issuance year to date is towards the highest experienced since 2010. CLO spreads have rallied more strongly and new money appears best placed into the top of tranches for now.

As credit spreads have contracted, the portfolio's risk bearing has declined. Traded margins and risk are now in the vicinity of long-term average levels. Whilst AT1 remains a material contributor to risk, this is much less so than in the immediate period following the collapse of Credit Suisse. Corporate debt exposures are now more material.

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Whilst USD denominated credit spreads have generally become tight, there remain pockets of the credit market which offer reasonable value, including within European sub-ordinated debt and Australian senior bonds. The European market is affected by the weaker economic outlook, elevated political risk, and ongoing sensitivity to losses experienced by Credit Suisse AT1. Whilst these adversely impact sentiment, credit risk remains well contained.

The sub-IG exposure remains around 20%, with half arising from systemically important European banks. Much of the other half is held in Australian structured credit. Both can withstand very significant adverse developments in the economy. Whilst US CRE exposures have become front of mind again following the release of an adverse earnings update by New York Community Bancorp, our assessed fundamental exposure is very limited.

Foreign issuer exposure remains close to the 20% limit. In recent months, as the foreign AT1 exposure has been reduced on valuation grounds, foreign corporate bond exposures have been increased via European names. In currency terms, the portfolio's exposure to AUD denominated debt has increased as USD exposures have been reduced.

The portfolio is overweight in ABS exposures and also seeking to increase exposures to RMBS as opportunities allow.

Interest rate duration has been pared back further to 0.6 yrs. The term structure remains less attractive than credit spreads. Even with such modest exposure, the recent volatility in bond markets still makes a notable impact on total portfolio risk. We have also reduced the size of the macro hedges in proportion to credit risk bearing.

There is a low risk of a negative return being recorded over a six-month and one-year horizon. With the yield-to-maturity of 7.31% pa, existing hedges and otherwise average risk bearing, the portfolio offers favourable expected risk-adjusted absolute returns. The ability to generate a strong margin over the RBA cash rate is cyclical and has been very strong in recent times, but less so under current circumstances.

OVERALL COMMENTS

Credit synthetics were largely unchanged at month end. Equities were mixed. The Nikkei performed strongly as foreign flows supported the market and a better inflation outlook lifted the prospects for corporate earnings. In contrast the Chinese equity markets fell. Authorities there introduced curbs on short selling, increased bank lending capacity and were rumored to be planning direct intervention into the equity market via state-owned enterprises. The VIX traded in a choppy fashion with Fed's Waller's hawkish conditioning of the US rate path and the surprisingly high number of job openings in the US each producing moderate spikes. Moves on bond yields were mixed although the US and Australian 10-year bond yields were close to unchanged on the month. As expectations for rate cuts in the US diminished, the USD strengthened. Oil prices rose on the resilience of the US economy, concerns over the Middle East and a larger than expected fall in US crude inventories.

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OTHER DEVELOPMENTS

The US economy continued to be resilient. The Advanced GDP came in at a robust 3.3% saar. Retail sales for December exceeded expectations at 0.6% (ex auto/gas) and the more comprehensive personal spending measure also beat at 0.7%. The ISM PMI reports pointed to robust outcomes with the Manufacturing measure at 49.1 with the new orders component at 52.5. Services jumped to 53.4 and new orders here were also robust at 55. The strength of the JOLTS openings figure of 9m moved the market. The Non-Farm Payrolls also surprised to the strong side on jobs, earnings and unemployment. Core inflation measures remained contained. Although Treasury borrowing requirements remain elevated, the latest refunding release was well received. The Beige Book pointed to an improved outlook and easing wage pressure. Tourism, leisure and travel spending remains strong, whilst manufacturing was softer.

The FOMC left settings unchanged again. Fed speakers expressed the need for patience and Chair Powell captured the sentiments when indicating that a March rate cut was 'not base case'.

The Republican Presidential race has been winnowed to two candidates with Trump well ahead of Haley. A Trump Presidency is likely to see increased import tariffs in general with Chinese trade likely to experience a much higher impost. The government remains mired in efforts to pass a spending bill to support Ukraine with efforts linked to that supporting border control, Israel and other priorities. A purportedly bipartisan $118bn bill failed to pass the Senate.

The Australian economy is showing signs of troughing. Retail sales and the PMIs were stronger than anticipated. Whilst the NAB Business Survey saw Conditions decline slightly, Confidence has recovered from -8 to -1. House prices rose another 0.4% in January. Consumer sentiment remained weak with households expecting interest rates to remain unchanged over the year. Inflation outcomes were to the favourable side, but not sufficient for there to be any doubt that the RBA would hold rates steady in February. The press conference revealed a fresh posture from the RBA as Governor Bullock avoided making strong projections and counselled against reading too much into short term economic outcomes. The employment figure was surprisingly low at -65.7k, although this seems to be the result of seasonal adjustment difficulties which now appear to have washed through. Loan data suggests housing activity may be picking up again. The revisions to the Stage 3 tax cuts are not expected to materially impact the course of the economy. However, the scrapping of the Significant Investment Visa and lower student visa intake, together with further incentives against foreign ownership of vacant houses in favour of build to rent projects, will have an impact on rental inflation and housing prices and improve living standards in years to come.

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Europe is The European economy is soft, although the flash GDP result for Q4 suggests a technical recession has been avoided by the barest margin. PMI readings point to a slowing economy. However, the Loan Officer Survey suggests that credit conditions may soon start to ease. The ECB kept monetary policy unchanged and commentary generally centered around it being too early to talk about rate cuts. Nevertheless, the ECB's Chief Economist Lane and President Lagarde indicated that the time to commence discussions may arrive in June. Manufacturing is being hampered by diversions in the Red Sea as both Tesla and Volvo announced production cuts. Container shipping costs have doubled from levels just prior to the conflict in Gaza erupting. Eurozone GDP is expected to experience a gradual recovery from a flat Q4 as real wage growth improves and supports household spending. The bloc managed to agree to a support package for Ukraine after taking extraordinary action against Turkey.

Official statistics suggest China's economy is performing adequately. GDP (Q4) was 5.2% yoy, slightly below expectations. However, Industrial Production and Fixed Asset Investment growth were robust, especially in tech, EV and green energy. Household spending was still impaired by lack of confidence in housing. Retail spending disappointed and unemployment crept up to 5.1%. The PBoC left interest rates unchanged, possibly to protect bank profitability and the currency, but reduced the RRR by 50bps to increase lending capacity. Beleaguered developer, Evergrande, was ordered to liquidate by the HK courts although it is unclear what this means for its inventory in China. Credit growth came in below expectations. Housing prices fell slightly. Year on year consumer inflation was -0.3%. China's export prices over the year have declined at the fastest rate since the GFC, placing downwards pressure on global inflation. The election of a pro-sovereignty President in Taiwan has complicated plans to re-unify. It is believed that President Xi's latest purge of the military relates to corruption in the Rocket Forces. Foreign investor confidence in China has been strained as Foreign Direct Investment (YTD) YoY declined by 8%.

Japan's economy is performing well with the Services PMI indicating moderate growth. Unemployment is at the lowest point since covid, beating expectations. Core inflation was 2.3% yoy. Although the BoJ kept monetary settings unchanged, Governor Ueda has indicated increasing confidence that inflation projections will be met and permit an exit from the Negative Interest Rate Policy which has been in place since 2016.

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