REALM HIGH INCOME FUND

JUNE 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 $1.48 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	1.49%	1.52%	0.33%
3 Month	2.52%	2.64%	0.94%
6 Months	4.49%	4.73%	1.76%
1 Year	8.31%	8.73%	2.93%
3 Years p.a	3.11%	3.55%	1.07%
5 Years p.a	3.57%	4.01%	1.07%
10 Years p.a	4.18%	#N/A	1.52%
Since Inception p.a*	4.41%	4.44%	1.63%

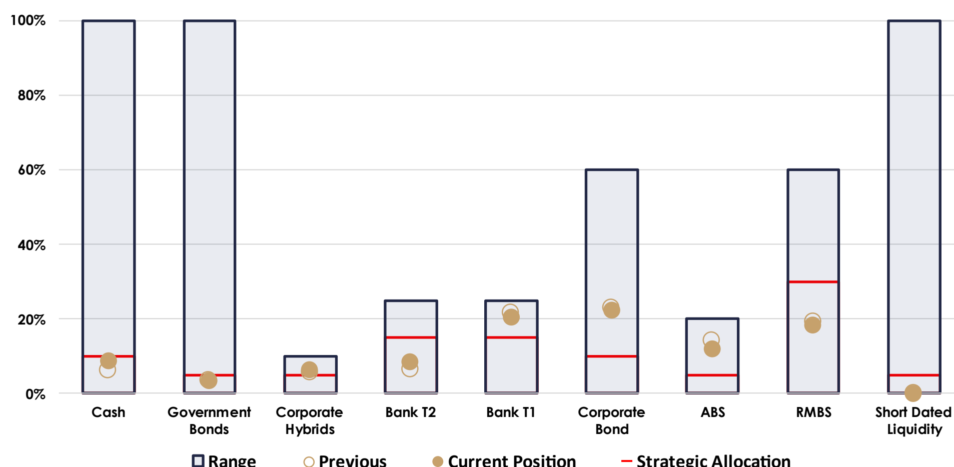
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	5.82%
Yield to Maturity	7.93%
Volatility†	3.32%
Interest rate duration	0.70
Credit duration	3.28
Average Credit Rating	BBB+
Number of positions	333
Average position exposure	0.11%
Worst Month*	-1.99%
Best Month*	2.09%
Sharpe ratio∂	1.96

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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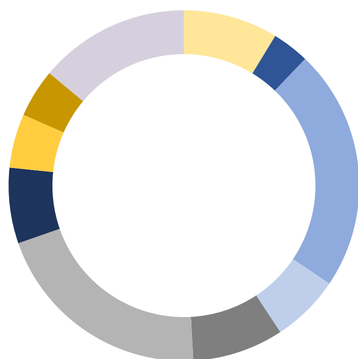
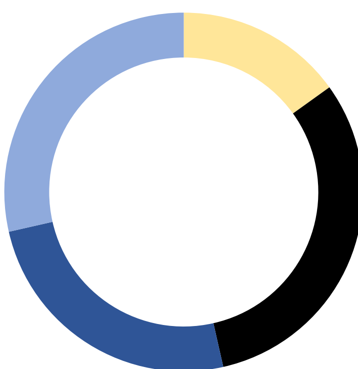
PORTFOLIO COMPOSITION



- Cash (8.72%)
- Commercial Paper (0.00%)
- Government Bonds (3.43%)
- Corporate Bond (22.29%)
- Corporate Hybrids (6.30%)
- Bank T2 (8.41%)
- Bank T1 (20.52%)
- ABS Public (6.97%)
- ABS Private (4.98%)
- RMBS Private (4.47%)
- RMBS Public (13.91%)

MATURITY PROFILE



- At Call to 6 Months (15.08%)
- 6 Months to 3 Years (31.38%)
- 3 Years to 5 Years (24.98%)
- 5 Years to 10 Years (28.56%)
- 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 9.77% to 12.15%. This largely reflected lower allocations to ABS, RMBS and bank T1; partly offset by higher allocations to bank T2.

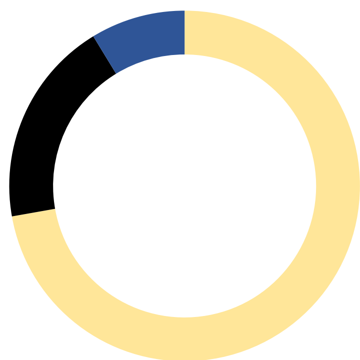
Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) increased from 35.15% to 37.00%. The improved risk sentiment saw global credit spreads firm over the month, with bank capital instruments (T2 and AT1) continuing to outperform. The exception was GBP assets which underperformed due to macroeconomic concerns from high inflation. The silver lining was Lendlease buying back £125 million of their senior unsecured Sterling bond maturing in 2033 - a high conviction line in the portfolio - at a premium of more than 10% to market value. Domestically, risk sentiment and credit spreads were also firmer which resulted in solid outperformance from new issuance. Notable new deals include T2 issuance from Westpac and QBE and corporate issuance from Endeavour Energy and Australian Gas Infrastructure Group. New deal participation resulted in increased allocations to T2's.

Interest Rate Duration Position: ↑ IRD positioning increased from 0.32 to 0.70 years. Economic data releases highlighted the strength of global economies. Most notable was the accelerating UK inflation figure in addition to a strong employment report. Australian unemployment decreased unexpectedly to 3.6%, while the fair work commission increased the minimum award wages by 5.75%. The 3rd estimate of the US GDP came in higher than expected, revealing the resilient economy. The FOMC paused rate hikes, but with a hawkish stance. Remaining global central banks hiked rates with the RBA, BoC and BoE surprising the market to varying degrees. Consequently, Australian government bond rates underperformed US and ended the month breaching 4%. In line with market movements, IRD positioning of the fund was increased accordingly.

Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS securities decreased from 19.32% to 18.38% over the month. Public structured credit market yields remained in line over the month of June, after having tightened at the end of May as foreign investor interest started to return. The tightening in yields makes issuing transactions more economic for issuers. This has bought more primary deal flow to public markets including two new bank transactions, and several non-conforming and CMBS transactions.

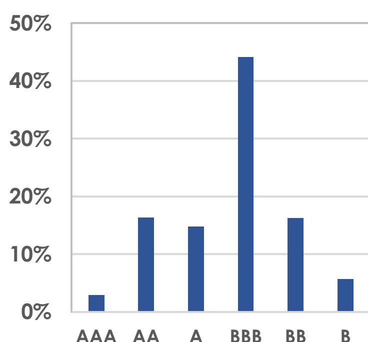
Secondary markets remain moderately active, with good transaction volume reported from each of the broking desks. With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 6bps over the month of April to 1.01%. Nonconforming arrears also weakened slightly, increasing 3bps to 3.73% as reported by S&P for the March period. Both results remain very strong in comparison to both market expectations and historic index levels.

ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (72.22%)
- Foreign Domicilied Issuer (19.06%)
- Cash (8.72%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	5.13%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.26%	10%
Gambling	0.18%	10%

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 21.55% to 20.52%. Fund performance continues to benefit from the strategic overweight to global AT1's which outperformed once again over the month. We used this opportunity to take some profit as relative value normalises. Domestically, ASX-listed AT1's were firmer over the month as the supply/demand dynamics remains supportive with no new issuance announced over the month.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 14.21% to 11.95%. Each of the ABS exposures within the fund continue to perform well. 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 from 2.80% to 2.87%. This reflected increased interest rate duration (from 0.32 years to 0.70 years) which was partly offset by lower credit duration (from 3.41 years to 3.28 years) and higher cash holdings. The fund remains compliant with the Portfolio ESG risk limits.

FUND OUTLOOK

Credit markets remain in a state of heightened risk aversion, providing the opportunity for superior future returns for medium term investors. The risk aversion is supported by a rate tightening cycle which has yet to conclude and the prospect of below trend growth in the coming years, including the possibility of a modest recession in several key markets. Instability in the US banking system remains a fresh memory and the concentration of poorer quality CRE loans within US regional banks suggests that there may be some further volatility to come as refinancing these may prove challenging. For these reasons, bank senior debt and investment grade corporate debt spreads may not rally further in the near term in major global markets. The prospects in Australia are better given relative value and the strength of the financial system here.

Higher spreads and interest rates have reduced issuance activity in sub-investment grade markets and the lack of supply may be artificially compressing spreads. Although the immediate prospects for senior bank debt are modest, we expect a more favourable outlook for subordinated debt as the memories of Credit Suisse's collapse fade.

The rally in credit markets has drawn greater attention to the relatively favourable pricing in structured credit markets. Supply in global CLO and MBS markets has been sparse as the volume of new borrowing is impaired due to higher borrowing costs. Access to Australian public RMBS has been hampered by heavy competition amongst banks for prime mortgages and a tendency for issuers to pre-place significant portions of new transactions with warehouse financiers.

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/

As the foreign bank hybrid market rallied through the month, some positions were rotated to sectors offering better relative value, including Tier 2 and corporate bonds. In aggregate, portfolio risk levels were marginally reduced. Portfolio hedges were adjusted in response but will still provide significant protection in the event of any disorderly market development.

Interest rate duration was retained at relatively low levels and this has helped successfully navigate the significant rise in rates since May whilst producing diversification benefits.

The financial year has been marked by many extreme events in the credit market, including: the European energy crisis, the Truss government's failed fiscal policy, collapse of US regional banks and Credit Suisse, weaker housing prices and far higher cash rates than expected at the start of the year. The portfolio withstood significant drawdowns but was never exposed to any risk of material permanent loss of capital as it went on to deliver its strongest financial year result. One important aspect which contributed to the favourable outcomes is the stability of the investor base throughout, demonstrating a genuine focus on the medium term which permits us to pursue a contrarian approach and hold positions through difficult markets. The alignment between client objectives and our investment approach is a significant source of the portfolio's performance potential.

Although a strong result has been delivered, the yield to maturity remains over 7%. The traded margin is expected to compress over the medium term and the portfolio remains appropriately positioned to deliver stronger than average outcomes as risk aversion eventually returns towards historical norms. Credit quality remains a key focus with the portfolio aggregate rating held at a robust BBB+.

MARKET DEVELOPMENTS

Equity markets performed strongly, especially in Japan and the US. The rally in the US was concentrated into the 'magnificent 7' tech companies whilst Japanese assets were supported by ongoing ultra-loose monetary policy. Credit derivatives rallied in concert with risk markets, and optimism was also visible in the VIX which reached the lowest levels since the covid breakout. Movements in key currencies and commodities reflected the mood. The risk-on trade occurred despite a strong rise in long bond yields in western developed markets, with Australian yields rising over 40bps to surpass the 4% mark.

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OTHER DEVELOPMENTS

The outlook for the US was upgraded following the release of the final GDP result for Q1. The 2.0% SAAR growth rate exceeded the expected 1.4%. It was supported by strong consumer spending, although durable goods demand and exports also contributed. Activity in the services sector remained solid, albeit manufacturing activity is declining. Labour market statistics confirmed ongoing resilience with non-farm payrolls surging well ahead of expectations. Inflation remained on a downward trajectory. Low turnover of existing housing stock has resulted in a jump start to construction. Home prices are also rising. The Fed skipped a rate hike in June, but the markets sold off on the release of the minutes which proved more hawkish than anticipated. Nonetheless, Chair Powell pointed out that forward indicators suggest that labour market will soften soon and economic risks are becoming more balanced. The debt ceiling legislation was passed early in the month.

The Australian economy grew at a more modest 0.2% (quarterly) rate for Q1. This was slightly lower than expected and the softest rate in six quarters. Household consumption was weak and the accumulating impact of higher interest rates is showing through via household savings rates which have declined to 3.7%, the lowest since Q2 2008. The labour market remains surprisingly strong with unemployment, growth in jobs, vacancies and participation rates all indicating tight conditions. Inflation readings remained elevated with the RBA's preferred trimmed mean measure of CPI printing at 6.1% for the year, although the headline rate is now 5.6%. The RBA surprised markets by raising rates another 25bps to 4.1%. Concern remained for the potential development of a wage-price spiral as evidence accumulates of indexing wages to inflation. The rate rise followed the announcement of robust increments to award and minimum wages by the Fair Work Commission. The RBA continues to seek to keep the economy growing whilst softening inflationary forces. Business surveys suggest the scenario is plausible. House prices rose by 1.1% in June, with CoreLogic indicating that these are now 3.4% above the February lows and 6% below their April 2022 peak. A supply response is not anticipated for some time yet. The RBA surprised markets again in July when it paused.

The ECB tightened by a further 25bps to bring the Main Refinancing Operations rate to 4%. President Lagarde indicated a July hike was 'very likely'. The ECB upgraded the inflation projection. Wages growth surprised to the upside and inflation readings for June continued to suggest that inflation remained too high. PMI indicators suggest the economy is barely growing and, following the final GDP reading for Q1 of -0.1%, the EZ is presently experiencing a technical recession. The BoE was compelled to raise rate by 50bps to 5% as inflation pressures continued to exceed expectations.

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China's economic outcomes continue to underwhelm. Export performance is significantly below expectations, pointing to a sharper deceleration in the Asian economy. Retail sales and credit growth underperformed expectations. The Chinese authorities are expected to launch some form of stimulus in response. Interest rates were marginally reduced for the 7-day reverse repo and medium term lending rates. The market is uncertain about the form and magnitude of any stimulus with the concern over a low growth trajectory, creaking property market, and high youth unemployment rate being balanced off against earlier official comments committing to quality growth.

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