REALM HIGH INCOME FUND

MARCH 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 $1.45 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	-0.80%	-0.77%	0.30%
3 Month	1.92%	2.02%	0.80%
6 Months	5.06%	5.22%	1.52%
1 Year	2.68%	3.06%	2.06%
3 Years p.a	3.21%	3.63%	0.78%
5 Years p.a	3.15%	3.57%	0.96%
10 Years p.a	4.16%	#N/A	1.50%
Since Inception p.a*	4.27%	4.27%	1.57%

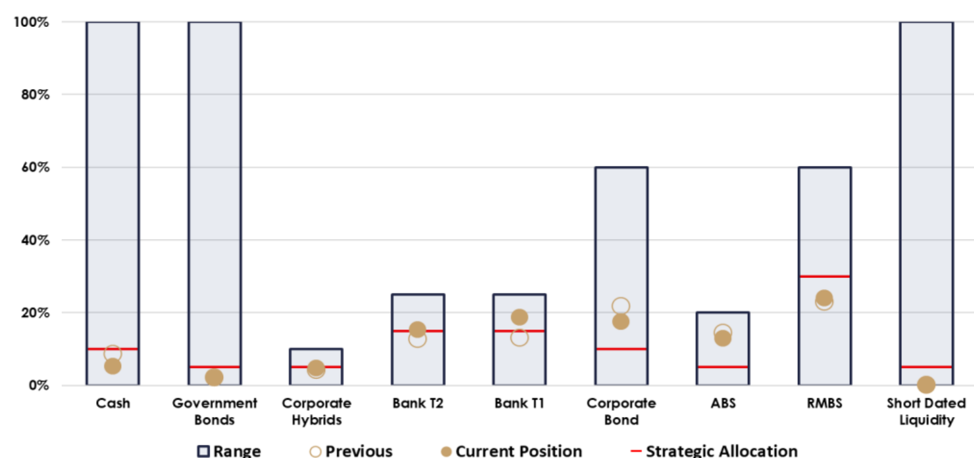
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	6.32%
Yield to Maturity	7.85%
Volatility†	3.40%
Interest rate duration	0.38
Credit duration	3.80
Average Credit Rating	BBB+
Number of positions	366
Average position exposure	0.12%
Worst Month*	-1.99%
Best Month*	2.12%
Sharpe ratio∂	1.92

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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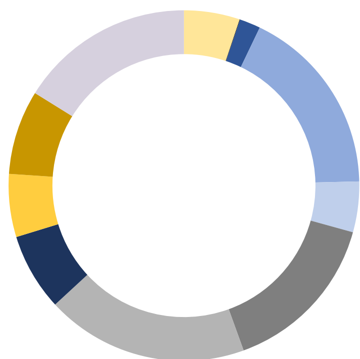
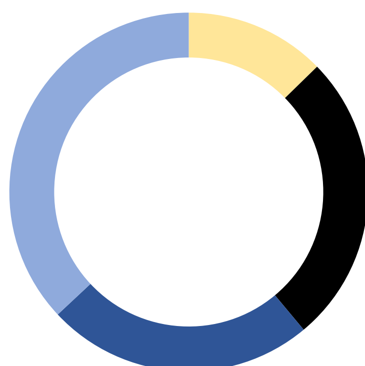
PORTFOLIO COMPOSITION



- Cash (5.15%)
- Commercial Paper (0.04%)
- Government Bonds (1.93%)
- Corporate Bond (17.50%)
- Corporate Hybrids (4.67%)
- Bank T2 (15.18%)
- Bank T1 (18.66%)
- ABS Public (7.13%)
- ABS Private (5.81%)
- RMBS Private (7.78%)
- RMBS Public (16.15%)

MATURITY PROFILE



- At Call to 6 Months (12.69%)
- 6 Months to 3 Years (26.24%)
- 3 Years to 5 Years (24.10%)
- 5 Years to 10 Years (36.97%)
- 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 10.91% to 7.12%. This largely reflected increased allocations to bank T1, bank T2 and RMBS and lower allocations to corporate bonds and ABS.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) decreased from 38.62% to 37.35%. After a relatively quiet start to the month, global credit spreads sold-off sharply toward mid-March, as concerns over a potential "banking crisis" riled financial markets. The forced merger between Credit Suisse and UBS saw the write-down of around US$16 billion worth of CS AT1's but resulted in a very handsome capital gain to our high conviction CS senior debt position. Note: we did not have exposure to CS AT1's. Unsurprisingly, bank capital securities (i.e., T2 and T1) underperformed during this period, which provided us an opportunity to pivot back into global assets – this was largely expressed through adding to USD T2/T1's issued by strong Australian financial institutions while reducing allocations to AUD corporate bonds. While the outlook remains uncertain, the markets consider the impacts of the March "banking crisis" to be largely contained, which has led to a modest recovery in global credit spreads at month-end. New issuance activity was relatively quiet over the month as volatility remained high.

Interest Rate Duration Position: ↓ IRD positioning decreased from 0.58 to 0.38 years. Financial stability concerns were the major drivers to volatility over the month - the collapse of Silicon Valley bank in the United States and the forced merger between Credit Suisse and UBS being the main culprits. Concerns around contagion, in the US, were quickly thwarted by guaranteeing the non-insured deposits of SVB, however, global confidence suffered in the aftermath. As a result, the volatility of global government bonds was unsurprisingly high for the month of March - with absolute levels ending the month sharply lower than where they began. Most notably, market's view on AUS terminal cash rate decreased from 4.2% to 3.5%, with the expectation of a rate cut by the end of 2023. In line with market movements, portfolio interest rate duration was decreased.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 23.04% to 23.93% over the month. Public structured credit market yields remained inline over the course of the month, after having rallied substantially over the prior month. These tighter yields continue to allow lenders to issue new trades at more economic levels, which has resulted in more lenders looking to bring new trades to market over the next short period. Secondary markets remain active, with dealers using the higher volume of new primary trades to rebuild inventory sheets that had been lifted of stock as market yields tightened and market participants sought to buy last month. The primary pipeline continues to present opportunities with several new trades looking to come to market over the next month across a wide range of asset classes.

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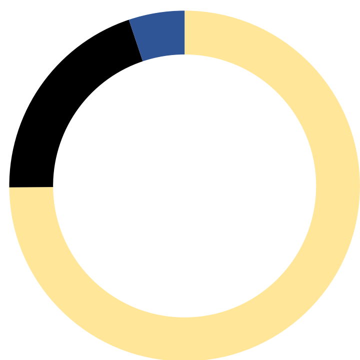
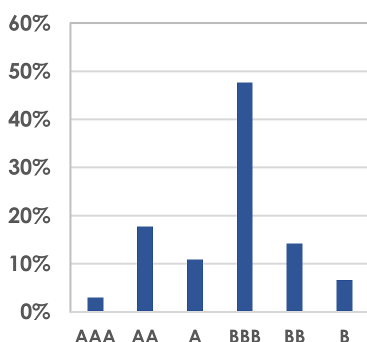
ISSUER DOMICILE



Australian/NZ Domiciled Issuer (74.87%)
Foreign Domicilied Issuer (19.98%)
Cash (5.15%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	3.56%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.28%	10%
Gambling	0.19%	10%

With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 3bps over the month of February to 0.93%, with nonconforming arrears weakening 8bps to 3.99%. Both results remain very strong in comparison to both market expectations and historic index levels.

Additional Tier 1 (AT1) Exposures: ↑ AT1 exposure increased from 13.00% to 18.66%. Global AT1's faced significant volatility in March, having sold-off following the collapse of Silicon Valley Bank before materially dislocating -- albeit only for a day -- following the unexpected write-down of around US$16 billion worth of Credit Suisse AT1's. We saw the turmoil as an opportunity to materially add to USD AT1's issued by strong Australian financial institutions such as ANZ, Westpac, Macquarie and QBE. As the market views the CS write-down to be idiosyncratic, the global AT1 complex has materially recovered to pre-CS AT1 write-down levels. Domestic ASX-listed AT1 credit spreads were modestly wider over the month but strongly outperformed global AT1's. As such, we continue to see exceptional value in global AT1's vs domestic ASX-listed AT1's.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 14.47% to 12.94%. 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 2.58% to 2.73%. This partly reflected lower cash holdings and increased allocations to bank T1 and bank T2 which resulted in increased credit duration (from 3.54 years to 3.80 years). Interest rate duration reduced over the month (from 0.58 years to 0.38 years). The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

The month was tumultuous for debt investors. Depositors fled the US tech industry focused Silicon Valley Bank following the failure of a capital raising aimed at replenishing investment losses. The bank closed on 10 March. The adverse impact on depositor confidence contributed to the failure of Signature Bank shortly afterwards. The FDIC moved to guarantee all deposits from these entities and the Fed created a new facility to support inter-bank liquidity, partly to help absorb a significant shift from bank deposits to money market funds that followed. First Republic Bank, which also faced considerable strains, drew support from other large banks to restore confidence. Collectively, these have provided a measure of calm to the market for now. One outcome is that the Fed balance sheet has grown sharply again, unwinding more than half of the reduction since QT commenced in June 2022.

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 shock to depositor confidence crossed the Atlantic. Clients withdrew significant funds from Credit Suisse, bringing its wealth management-oriented business turnaround plans to an abrupt end. Regulators compelled UBS to acquire it on the weekend of 19 March, surprising the market by entirely writing off its AT1 whilst leaving some residual value for equity holders. The nominal value of these bonds was USD 16bn, representing a material portion of the USD $270bn market. This announcement sent AT1 markets into a tailspin, although markets subsequently recovered most of the losses from this event.

Bonds rallied strongly on risk aversion and lowered expectations for the path of cash rates. Less tightening will be required if financial conditions suffer from lower bank credit supply arising from liquidity pressures, tighter lending standards and increased regulation amongst US regional banks. For example, expectations for the US peak cash rate had been close to 5.7% at one point but fell below 5% by month end. The DXY lowered along with this. Although bank share prices fell materially, the broader equity markets finished mixed with the US and Australian markets higher on the month. Option implied volatility for bonds rose strongly. In contrast, VIX fell below 20 which is towards the lower end of the post-covid period.

Before the collapse of SVB, the market was focused on Fed Chair Powell's comments to the Senate that another 50bps hike might be required to control sticky measures of inflation. He also mentioned the number of job vacancies remained at a highly elevated 1.9x unemployed workers and activity in services remains robust. Ten-year bond yields topped 4% during the month, after the prices paid component of the ISM manufacturing survey surprised to the upside although it finished close to 3.5%. Manufacturing activity is declining and headline inflation is well off its peak. The Fed raised rates by 25bps later in the month in a unanimous decision despite the turmoil. Its economic projections, which accounted for the potential effects of SVB's closure on credit conditions, showed that another rate increment and no cuts are expected in 2023. This is considerably more hawkish than market pricing which expects rates to be 50bps lower by year end. According to the US Conference Board survey on consumer sentiment, the banking issues are being taken in stride at street level.

ECB President Lagarde had previously guided to a 50bps hike and the ECB delivered to this expectation, partly to show confidence in the banking sector and the policy tools available to address liquidity issues. A data-dependent setting is now in place for future decisions with the market expecting more hikes to come. Whilst QT commenced during the month, the bonds purchased as part of the pandemic emergency purchase program will continue to be reinvested until at least the end of 2024. European inflation readings remain elevated and the Services PMI shows activity in these firms remains firmly in expansionary territory.

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The Swiss National Bank raised rates by 50bps despite the ructions involving Credit Suisse. The Bank of England raised rates by 25bps.

House prices in Australia rose in March. This occurred despite Westpac's consumer survey's "time to buy a dwelling" measure being at its lowest since 1989. Auction clearance rates have been rising on low volumes. Rents are rising sharply with a shortage of rental stock likely to be exacerbated in the near term by high immigration rates. Credit growth is slowing as borrowing capacity declines. Arrears rates on mortgages are rising however NAB's survey of financial hardship confirmed that it remains below levels in 2016 for now. Investor attention is focused on fixed rate mortgages which will roll to higher floating rates, much of which will occur in the coming year.

The RBA raised rates by 25bps, accompanied with dovish commentary, and paused during its April meeting. Recent Australian CPI readings have surprised to the downside. GDP for Q4 2022 also surprised to the low side with consumption adversely affected by a significant decline in real household income, which was partly offset by a reduced savings rate. The outlook for business investment remains reasonable, although confidence has fallen as evidence of a slowing economy mounts. APRA released the results of its most recent stress tests on our 10 largest banks, timely given recent developments, showing our system would cope well in an extreme scenario including a 43% fall in property prices, 11% unemployment and highly distressed funding conditions.

China's economic recovery continued following the conclusion of its covid-zero policy setting. A new growth target of 'around 5%' was announced for this year. Residential construction surprised to the upside as sales and prices show signs of recovery. President Xi's term was extended for another 5 years and he called for a reunification with Taiwan and for China's military to be a 'Great Wall of Steel'. In a noteworthy development, China brokered an agreement to restore diplomatic relations between Iran and Saudi Arabia. President Xi also visited Russia's Putin in Moscow to re-affirm their relationship.

In addition to the delicate balance required from central bankers to slow the economy and prevent an outbreak of a wage-price spiral, the collapse of SVB means that the Fed must now also allow for the associated impact on credit supply when considering the rate path. Concerns for the health of the US shadow banking market are elevated, with greatest focus on commercial real estate loans.

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As the portfolio holds approximately 7% in European bank AT1, investment performance moved with developments in these markets. As markets became disorderly, we took the opportunity to acquire additional Australian bank issued USD denominated AT1, and other selected AT1 exposures, which had also sold off despite remaining virtually free of the concerns that felled SVB and Credit Suisse. The portfolio's holdings in Credit Suisse senior HoldCo bonds benefited strongly from the acquisition by UBS. Importantly, there were no holdings in their AT1. The portfolio holds significant equity hedges, interest rate and VIX related exposures that would be expected to provide over 100bps of performance buffer in an average bear market. Portfolio liquidity has been tightly managed as we have built into market weakness. We have also reduced exposures to non-conforming public RMBS as we expect market sentiment will weaken and pricing has become tight.

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