REALM HIGH INCOME FUND

REALM INVESTMENT HOUSE

MAY 2023

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 $1.47 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	0.59%	0.64%	0.32%
3 Month	0.21%	0.34%	0.91%
6 Months	4.25%	4.50%	1.68%
1 Year	4.59%	5.00%	2.65%
3 Years p.a	2.91%	3.34%	0.97%
5 Years p.a	3.31%	3.75%	1.03%
10 Years p.a	4.09%	#N/A	1.51%
Since Inception p.a*	4.30%	4.31%	1.51%

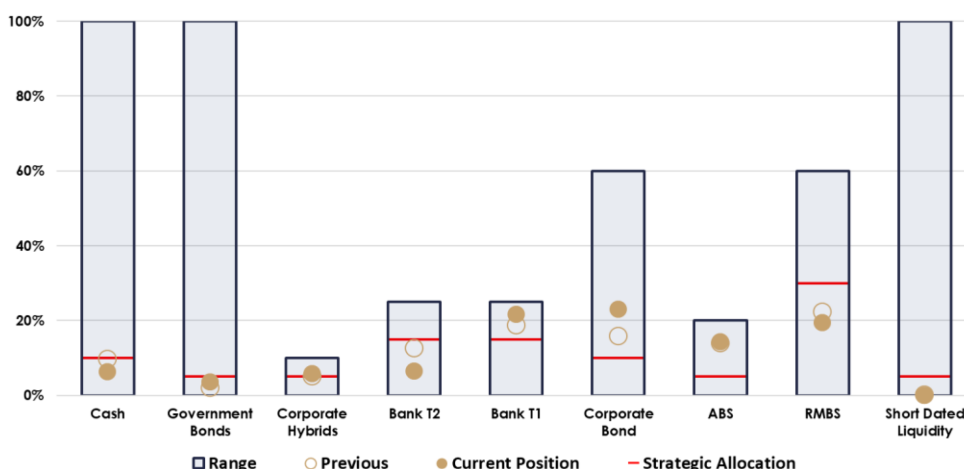
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

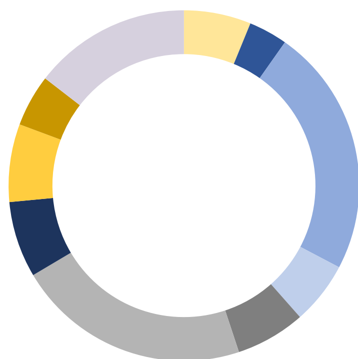
Running Yield	6.13%
Yield to Maturity	7.93%
Volatility†	3.34%
Interest rate duration	0.32
Credit duration	3.41
Average Credit Rating	BBB+
Number of positions	355
Average position exposure	0.12%
Worst Month*	-1.99%
Best Month*	2.12%
Sharpe ratio∂	1.53

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

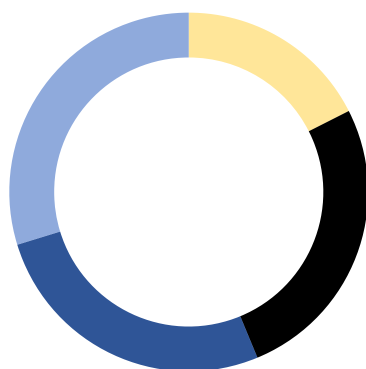


PORTFOLIO COMPOSITION



- Cash (6.19%)
- Commercial Paper (0.00%)
- Government Bonds (3.58%)
- Corporate Bond (22.94%)
- Corporate Hybrids (5.78%)
- Bank T2 (6.43%)
- Bank T1 (21.55%)
- ABS Public (7.03%)
- ABS Private (7.18%)
- RMBS Private (4.79%)
- RMBS Public (14.53%)

MATURITY PROFILE



- At Call to 6 Months (17.54%)
- 6 Months to 3 Years (26.20%)
- 3 Years to 5 Years (26.50%)
- 5 Years to 10 Years (29.75%)
- 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 11.67% to 9.77%. This largely reflected increased allocations to corporate bonds, bank T1 and corporate hybrids; partly offset by lower allocations to bank T2 and RMBS.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) increased from 31.35% to 35.15%. The cautious market sentiment from April improved over the month of May as concerns over US regional banks subsided and the optimism of a US debt ceiling deal grew. This paved way for the continued recovery in bank capital instruments (T2 and AT1) which strongly outperformed corporate bonds. It also provided us the opportunity to take profits in bank T2 and increase allocations to corporate bonds. Domestically, credit spreads firmed over the month in sympathy with global risk sentiment. The return of Australian corporate issuance continued in May with deals from Ausnet, Transgrid and QIC Town Centre Fund in AUD and Melbourne Airport in EUR.

Interest Rate Duration Position: ↓ IRD positioning decreased from 0.39 to 0.32 years. Economic data over the month of May was mixed. Labour data in Australia and in the US alluded to softening conditions while the headline inflation numbers surprised to the upside. The silver lining in the US was the weakening 'core services ex housing' figure, a sign of weakening demand. RBA, FED, RBNZ, ECB and BOE raised interest rates by 25 basis points – with the RBA's action somewhat surprising the market and consequentially increasing the expected terminal rate from 3.7% to 4.1%. Global Risk sentiment improved as the month progressed, with US regional bank sector concerns easing and the US debt ceiling negotiations being resolved in principle. Portfolio positioning reflected the market conditions with only minor adjustments.

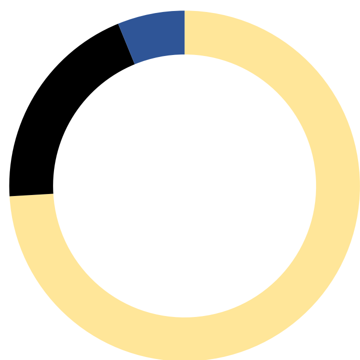
Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS securities decreased from 22.32% to 19.32% over the month. Public structured credit market yields began to tighten into month end, in line with other credit markets. Primary market issuance was less active in May than April, but include both a new bank transaction and regional bank transaction amongst other non-conforming programs. Secondary markets were more active over the month as investors looked away from the limited primary market supply to increase allocation to the sector. With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 2bps over the month of March to 0.95%, with Bloomberg reporting prime arrears for April remaining inline with the prior month at 0.93%.. Nonconforming arrears improved 29bps to 3.70% as reported by S&P for the March period, with Bloomberg's arrears index for nonconforming loans also improving 26bps for the month of April to 3.01%. Both results remain very strong in comparison to both market expectations and historic index levels.

REALM HIGH INCOME FUND

MAY 2023

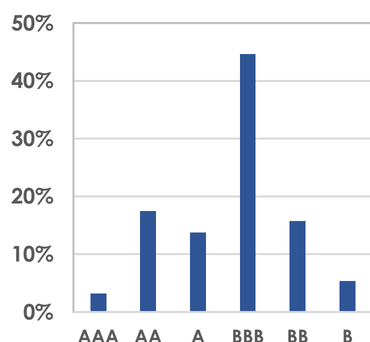
REALM | INVESTMENT HOUSE

ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (74.05%)
- Foreign Domicilied Issuer (19.75%)
- Cash (6.19%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	5.50%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.27%	10%
Gambling	0.19%	10%

Additional Tier 1 (AT1) Exposures: ↑ AT1 exposure increased from 20.75% to 21.55%. The fund has benefited from the strategic overweight to global AT1's which outperformed over the month. Performance has accelerated further in the start of June as the sector is lifted by improved risk sentiment, potential structural support from the European Banking Authority as well as various credit rating upgrades. Notably, our positions benefited from credit rating upgrades to Macquarie Bank and Barclays and a positive outlook upgrade to Deutsche Bank. Domestically, ASX-listed AT1's underperformed as credit spreads widened off a relatively expensive level in our view. The domestic market was also caught off guard by a new issue from CBA - a surprise given there are no further ASX-listed AT1 redemptions due until 2024. We now anticipate further opportunistic new issuance in 2023. Despite the normalisation in relative value between global AT1 and domestic ASX-listed AT1's we continue to see better value in offshore assets and maintain a strategic overweight in global AT1's.

Asset Backed Securities (ABS): ↑ ABS allocation increased from 13.92% to 14.21%. 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 2.69% to 2.80%. This reflected lower cash holdings which was partly offset by a decrease in both credit duration (from 3.48 years to 3.41 years) and interest rate duration (from 0.39 years to 0.32 years). The fund remains compliant with the Portfolio ESG risk limits.

FUND OUTLOOK

Credit markets continue to embed some risk of recession or abrupt deterioration in financial conditions. Concerns remain elevated for commercial real estate loans and levered loan markets more generally. Further, as services inflation continues to prove more resilient than expected, the anticipated path of cash rates has been rising in western economies and this increases the likelihood of a hard landing. However, the level of cash rates and bond yields is now high enough to provide a strong monetary buffer against prolonged and unintended economic distress which restricts expected credit losses. Whilst arrears rates are rising towards historical norms for mortgages, as would be expected with tighter monetary policy, house prices have risen in recent months and this has reduced any loss exposure.

The portfolio benefited from a recovery in offshore AT1 markets. Real money investors have been supportive, attracted by favourable underlying fundamentals and pricing. Competition for capital within our foreign issuer allocation is elevated. The outlook for AT1 remains favourable and we expect ongoing spread contraction, yet value is also emerging in mezzanine CLOs. This leaves limited space for foreign issuer Tier2 exposures despite also offering favourable risk-adjusted opportunities.

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/

Recent property transactions within Australian REITs supports the belief that carrying values on balance sheets may be overstated, but not as much as inferred within the pricing of listed trusts. We remain comfortable with our REIT-related exposures. Our pipeline for structured credit warehouses remains deep and negotiations are presently tilted towards mortgages whereas asset-backed opportunities have been available in greater volume for much of the year.

We added VIX exposures to protect the portfolio against a potentially adverse outcome in the US debt ceiling negotiations. Disruption was narrowly averted when the House Rules Committee voted 7 to 6 to allow the legislation to advance. Given our above-benchmark exposure to AT1, we continue to protect the portfolio with equity swaps to limit left tail risk. Interest rate duration has been constrained as the term premium has not been attractive relative to credit spreads on offer, although the exposure has been calibrated for a higher than usual level of diversification benefit since SVB collapsed.

With a yield to maturity of nearly 8% and a credit duration of 3.4, the portfolio is well positioned to benefit from an ongoing normalization of credit spreads in non-AUD bank capital and elsewhere. In doing so, credit quality is a foremost consideration as left tail risks are elevated. With a robust overall credit rating of BBB+, significant hedges in place and the majority of sub-IG held in AT1 exposures from money-center banks and robust structured credit holdings, exposure to actual credit losses is considered to be small. For medium-term investors who can tolerate some market volatility, the portfolio is offering compelling value and has a low risk of recording a negative return over a 12-month period.

MARKET DEVELOPMENTS

Key credit derivatives in the US and Europe were relatively unchanged, although credit rallied in Australia. Equity markets were mixed with the S&P500 marginally higher, although indices were down in Europe and the FTSE fell by 5%. Chinese equities were weaker. In contrast, Japanese equities rose following further depreciation of the Yen, positive developments on inflation and favourable export performance. The VIX closed slightly higher at 17.9, remaining close to post-Covid lows. US and Australian 10-year bond yields rose, but yields on UK Gilts jumped by nearly 50bps as inflation outcomes surprised. German Bund yields closed flat. Japanese 10-yr bond yields continue to trade below the upper end of the yield curve control band as expectations for reforms have been dampened in the immediate term. The USD strengthened with the DXY up 2.6% which contributed to weaker commodity prices. WTI fell by over 10%.

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Aidan Drentin
T: 0473 515 753
E: aidan.d@realminvestments.com.au

Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

A: LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

OTHER DEVELOPMENTS

In the US, rising interest rates and tightening lending standards are expected to slow the economy to a point which skirts recession around Q4. The labour market remains highly resilient with 339k additional jobs created in May. Whilst some signs of rebalancing are visible with lower vacancies and quits, inflation remains too high with core inflation at 5.5% yoy and not showing much sign of improvement. Nonetheless, rent inflation appears to have peaked and new car prices are declining again having driven goods inflation up in recent months. The outlook for services remains strong, whilst manufacturing activity is slowing. Whilst there has been limited adverse news in regional banking over the month, banks continue to increase draws on the Fed liquidity facility which was opened shortly after the collapse of SVB. Fed speak was focused on conditioning the market not to translate any pause in rates rises as an end to the tightening cycle. There continues to be a wide range of opinion within the FOMC about terminal cash rates, although it remains united in dismissing the possibility of rate cuts in the near term.

In Australia, household consumption is slowing although considerable uncertainty remained about the effect of the stock of excess savings. RBA analysis suggested that 9% of borrowers would deplete their savings by mid-2024 even if they make extreme adjustments to non-essential spending. Signs emerged of a softening labour market with a decrease in employment reported and lower vacancies. Nonetheless, the Fair Work Commission increased award rates by 5.75% and minimum wage rates by 8.6%. The RBA has deemed it necessary to increase the likelihood that inflation returns to the target band by mid-2025 and has surprised the market by raising rates in May as well as during the June meeting, which was delivered with a hawkish tone. Consumer and business confidence point to a slower economy, with services still expanding whilst manufacturing activity is expected to decline. The GDP figures for Q1 showed that Australia's GDP per capita fell, although population growth contributed to a positive overall reading. The Federal Budget revealed a surplus for this year, with additional stimulatory measures to come. Weak labour productivity is contributing to concerns that inflation may be hard to contain. House prices climbed again in May, supported by lack of supply, and may contribute to stronger consumption from wealth effects.

ECB President Lagarde has warned that there is no clear evidence that underlying inflation has peaked. The flash core inflation estimate for the year to May was 5.3%. Whilst consumer confidence is well off its lows following the commencement of hostilities in Ukraine, it remains weak. This is contributing to tightening lending standards and lower loan demand. Although the GDP outlook for 2023 remains modestly positive, Europe has experienced a mild technical recession. In the UK, the inflation reading for April at 1.2% was again materially above the 0.8% consensus. BoE Governor Bailey denied that a wage-price spiral had emerged, but acknowledged stubborn core prices and a tight labour market were unhelpful for the inflation outlook.

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Aidan Drentin
T: 0473 515 753
E: aidan.d@realminvestments.com.au

Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

A: LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

China's economic performance since the significant easing of covid restrictions has not met with prior expectations. Industrial production, credit growth, investment and retail sales readings all fell below expectations. Official PMI figures infer that manufacturing activity is now declining, although non-manufacturing activity continues to expand. Youth unemployment rose to 20.4%. Unlike much of the world, inflation is low with an annual rate of just 0.2%. Additional stimulatory measures are anticipated. Meanwhile housing activity remains subdued as efforts to clear the backlog of uncompleted homes continue.

Headline inflation in Japan surprised to the upside at 3.5% yoy relative to an expectation of 2.5%. The core reading of 3.4% yoy met expectations. Nonetheless, economic outcomes for machinery orders, housing starts and retail sales were weaker than expected. Ongoing stimulus will be required but the form of monetary stimulus is presently under review. The bond market is focused on whether the yield curve control measures will be adjusted.

DISCLAIMER

Realm Investment Management Pty Ltd ACN 158 876 807, a corporate authorised representative (number 424705) of Realm Pty Ltd ACN 155 984 955 AFSL 421336 (Realm) is the investment manager of the Realm High Income Fund (ARSN 159 673 533) (Fund). One Managed Investment Funds Limited (ABN 47 117 400 987) (AFSL 297042) is the responsibility entity of the Fund (OMIFL). The information contained in this document was not prepared by OMIFL but was prepared by other parties. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information contained therein cannot be warranted or guaranteed. Anyone reading this report must obtain and rely upon their own independent advice and inquiries. Investors should carefully consider each of the Product Disclosure Statement for the Ordinary Units, mFund Units and Wholesale Units dated 29 September 2022 or the Product Disclosure Statement Adviser Units dated 29 September 2022 (together with the Additional Information Booklet dated 29 September 2022) (PDS) and Target Market Determination (TMD) issued by OMIFL before making any decision about whether to acquire, or continue to hold, an interest in the Fund. Applications for units in the Fund can only be made pursuant to the application form relevant to the Fund. A copy of the PDS for the Ordinary Units, mFund Units and Wholesale Units dated 29 September 2022 and the PDS for the Adviser Units dated 29 September 2022, TMD dated 19 October 2022, continuous disclosure notices and relevant application form may be obtained from https://www.oneinvestment.com.au/realm/ or https://www.realminvestments.com.au/our-products/realm-high-income-fund/. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. Realm believes that the information contained in this document is accurate when issued. Realm does not warrant that such information or advice is accurate, reliable, complete or up-to-date, and to the fullest extent permitted by law, disclaims all liability of Realm and its associates. This document should be regarded as general information only rather than advice. In preparing this document, Realm did not take into account the investment objectives, financial situation and particular needs of any individual person. The information contained in this document must not be copied or disclosed in whole or in part without the prior written consent of Realm, and Realm accept no liability whatsoever for the actions of third parties in this respect. It is presented for informational purposes only and is not to be construed as a solicitation or an offer or recommendation to buy or sell any securities. Any opinions expressed in this document may be subject to change. Realm is not obliged to update the information. The information must not be used by recipients as a substitute for the exercise of their own judgment and investigation. Neither Realm nor any of their directors, employees or agents accept any liability for any loss or damage arising out of the use of all or part of, or any omission, inadequacy or inaccuracy in, this document. OMIFL and Realm do not guarantee the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither OMIFL nor Realm, including their directors, senior executives, employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Realm only provides services to wholesale clients, as defined in section 761G of the Corporations Act. Past performance is not indicative of future performance. Information in this document is current as at 31 May 2023.

ZENITH DISCLAIMER

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned June 2021 referred to in this document is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at http://www.zenithpartners. com.au/RegulatoryGuidelines