REALM HIGH INCOME FUND

NOVEMBER 2022

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 $1.39 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	1.48%	1.51%	0.23%
3 Month	0.57%	0.62%	0.63%
6 Months	0.33%	0.48%	0.95%
1 Year	-1.12%	-0.75%	1.02%
3 Years p.a	1.97%	2.38%	0.50%
5 Years p.a	2.61%	3.04%	0.85%
10 Years p.a	4.05%	#N/A	1.52%
Since Inception p.a*	4.09%	4.05%	1.52%

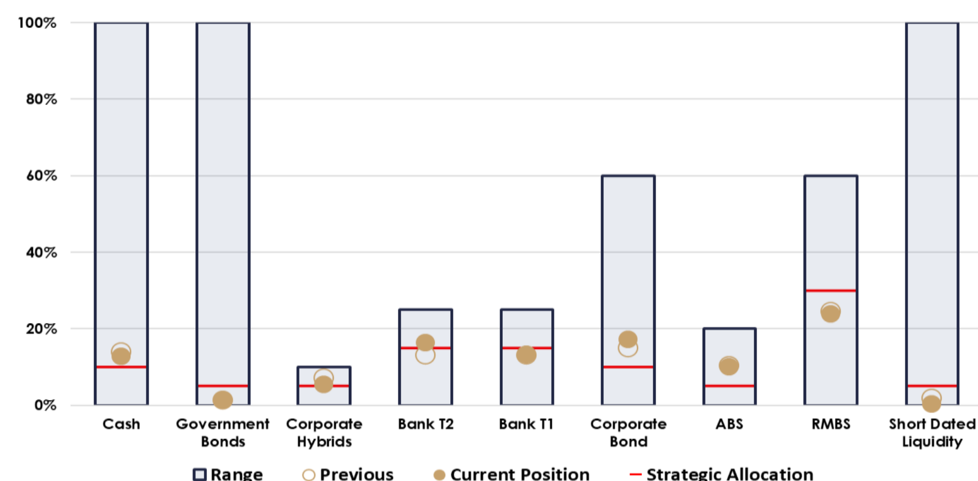
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	5.37%
Yield to Maturity	6.88%
Volatility†	2.53%
Interest rate duration	0.85
Credit duration	3.57
Average Credit Rating	BBB
Number of positions	321
Average position exposure	0.15%
Worst Month*	-1.99%
Best Month*	1.94%
Sharpe ratio∂	2.07

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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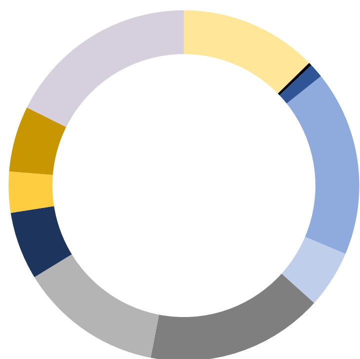
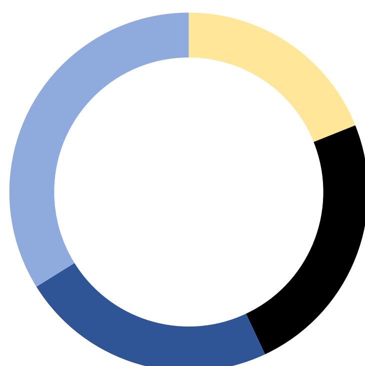
PORTFOLIO COMPOSITION



- Cash (12.66%)
- Commercial Paper (0.29%)
- Government Bonds (1.33%)
- Corporate Bond (17.09%)
- Corporate Hybrids (5.31%)
- Bank T2 (16.36%)
- Bank T1 (13.21%)
- ABS Public (6.26%)
- ABS Private (3.78%)
- RMBS Private (6.06%)
- RMBS Public (17.65%)

MATURITY PROFILE



- At Call to 6 Months (18.94%)
- 6 Months to 3 Years (24.07%)
- 3 Years to 5 Years (23.14%)
- 5 Years to 10 Years (33.85%)
- 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 16.96% to 14.28%. This reflected increased allocations to bank T2, corporate bonds and ABS public; partly offset by lower allocations to ABS private, corporate hybrids and RMBS.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) increased from 35.11% to 38.76%. Global credit spreads rallied strongly over the month, firming for a second consecutive month. Domestic credit also closed firmer, although the path was fraught with uncertainty as Australian Bank T2's sold-off at the start of the month following APRA's letter on capital calls. This provided an excellent opportunity for us to increase allocations to Australian Bank callable T2's issued in USD at very attractive valuations - these securities have since performed strongly and are now trading back inside of pre-APRA levels. At the end of the month, ANZ issued a 10Y bullet T2 in USD which has also performed strongly. On domestic new issuance, there's was a slight pick-up in supply although it remains largely skewed towards bank senior unsecured transactions . Of note, both Westpac and NAB issued 3-year and 5- year senior unsecured notes.

Interest Rate Duration Position: ↓ IRD positioning decreased from 1.17 to 0.85 years. Government bond volatility remained elevated through the month of November – albeit it was slightly lower than the previous month. Importantly, both domestic and US 10 year government bond yields ended the month lower than where they commenced. Market sentiment and volatility was influenced by: China's zero covid strategies and ensuing public unrest; divergence in cash rate hikes between RBA and global central banks; US CPI downside surprise; and expectation that central bank tightening will slow. As a result of global bond market yields tightening, our IRD positioning was reduced, locking in profits. Current IRD composition includes a modest allocation to US 10 year bonds due to the real yields on offer.

Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS securities decreased from 24.5% to 23.71% over the month. Public structured credit markets continue to trade in line with last month, lagging the tightening experienced by other credit markets over the November period, and making structured credit very attractive on a relative value basis. New supply remains fairly limited in comparison to historical levels with only a handful of new trades coming to market prior to year-end. Secondary markets on the other hand remain highly active, with offshore demand returning to bid on assets, after having been stronger sellers in October. With respect to market performance, Prime arrears as reported by S&P's SPIN index improved over the month of September to 0.58%, with nonconforming arrears weakening to 2.24%. Both results remain very strong in comparison to both market expectations and historic index levels.

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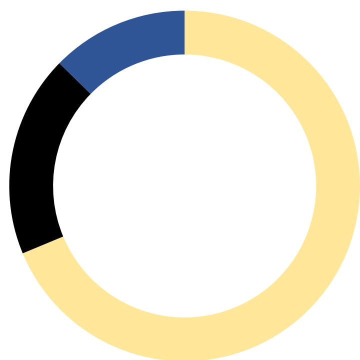
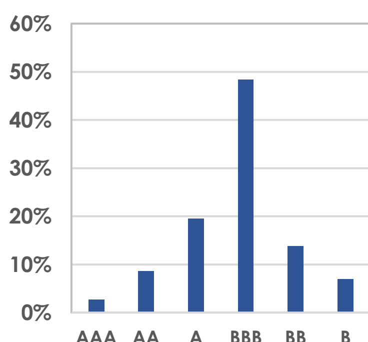
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (68.72%)
- Foreign Domicilied Issuer (18.62%)
- Cash (12.66%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	4.87%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.16%	10%
Gambling	0.08%	10%

Additional Tier 1 (AT1) Exposures: ↑ AT1 exposure increased modestly from 13.12% to 13.21%. AT1's firmed over the month, with notable strong outperformance from global AT1's. This boded well for our AT1 book which now comprises entirely of offshore securities as domestic listed AT1's continue to look expensive in a global context. Global AT1 issuance picked-up over the month, pricing at attractive coupons. These included deals from global systemically important banks (G-SIBs) such as BNP Paribas (9.25% coupon) and Societe Generale (9.375% coupon) in USD and Deutsche Bank (10% coupon) in EUR. Domestically, insurer IAG issued a new ASX listed AT1 to refinance the outstanding IAGPD's.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 10.33% to 10.04%. Each of the ABS exposures within the fund continue to perform well, with shorter duration assets limiting the impact of weaker credit markets, which makes them highly sought by the market and well bid.

Targeted risk across the Fund: ↑ Targeted portfolio risk was relatively unchanged, increasing slightly from 2.73% to 2.74%. This reflected lower cash holdings and increased credit duration (from 3.3 years to 3.57 years) which was offset by lower interest rate duration (from 1.17 years to 0.85 years). The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Markets were firmer over the month as the medium term economic outlook improved and expected rate paths lowered. Equity markets climbed with China/HK markets performing particularly strongly. The VIX declined significantly and bonds also rallied as expectations for a pivot in the Fed's cash path became more entrenched. As risk aversion waned, the USD weakened. The AUD closed the month at 0.67 having touched a low of 0.62. Energy prices declined, whist industrial metals strengthened. Global credit markets rallied, with US investment grade and European markets being especially notable. Australian markets rallied less, partly due to the paucity of Japanese investors who now strongly favour domestic assets. The high yield market fared less well as investors awaited more clarity on peak cash rates.

Australian consumer confidence fell to levels last seen in the recession of the early 1990s. Business confidence also fell to below average levels, although current conditions remain favourable. PMIs are well into contractionary territory for services and manufacturing. Housing prices continued to fall as lending volume was constrained by lower borrowing capacity. Equifax noted a rise in distress levels amongst mortgagees but banks are moving proactively to accommodate them via movement to interest-only schedules or payment deferrals. The unemployment rate is the lowest since 1974 and wage growth surprised to the upside.

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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 RBA opted for a 25bps increment in the cash rate despite raising the inflation profile with Governor Lowe indicating that risks have become more two-sided. The RBA now expects that inflation will not return to the target band by end 2024 although the most recent monthly CPI figure surprised materially to the downside. The RBA's task has been complicated by plans from the government to introduce energy subsidies, which are stimulatory, and the passing of new industrial relations legislation which permits multi-employer bargaining. This increases the upside pressure on wage growth which is already accelerating.

APRA released an announcement to emphasize its expectations relating to callable instruments. This led the market to re-assess extension risks, especially in Subordinated Tier 2 securities. APRA also stated that Australian banks are well placed to withstand the financial risks associated with global warming.

US Mid-term elections produced a divided Congress which will slow legislative process. The Republicans have expressed less willingness to supply arms and munitions to Ukraine. The Democrats held the Senate by a slim majority, defying expectations. Fed-speak was focused on recognizing that the incremental steps in rate tightening will shortly be wound back to 50bps. Ongoing conditioning that the peak rate might be higher than market pricing and need to be held for some time were largely ignored. There are emerging signs that the labour market may be rebalancing with continuing claims data indicating increasing difficulty securing a job. Whilst household expenditure remains robust, excess savings are being rapidly depleted. Inflation expectations remain well anchored. Economic surveys infer a 60% risk of recession in 2023.

Europe's resilience in the face of an energy crisis has been impressive. With gas storages largely filled, dire warnings of a severe recession have receded. As supply chains continue to adapt, German factories reported the first reduction in supplier times since July 2020. Europe still faces a challenge to refill storages sufficiently to see themselves through the 2023/24 winter. Headline inflation is declining. The ECB will continue to tighten rates, possibly by smaller 50bps steps, and is expected to commence reducing its balance sheet in early 2023. Overall, European credit rallied as the outlook for 2023 improved. European based buyers of structured credit also re-emerged after a hiatus.

The high level of uncertainty in the outlook has produced divergent circumstances. In contrast to the Fed which is suggesting peak rates will be higher than market pricing, Bank of England Governor Bailey warned that market pricing for the rate path had risen too far and would imply a recessionary outcome through to H1 2024. Also, the RBNZ lifted the OCR by 75bps to 4.25% but also sharply revised its estimate of the peak rate from 4.1% in its August Monetary Statement to 5.5% in the November release. This highlights how much expectations can change in such volatile circumstances.

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China's economic performance has been hampered by ongoing outbreaks which continued to be met with a zero-covid policy stance. Key economic activity figures released in November underperformed what were already low expectations. However, Chinese authorities took additional measures to support the ailing property market by providing window guidance to banks directing them to fund credit worthy developers and ensure that unfinished inventory is developed to completion. Additionally, measures were announced which aimed to ease the restrictions associated with managing covid. Markets responded favourably. China's relatively low vaccination rates amongst the elderly and weaker vaccine performance implies that a surge of hospitalisations and deaths can be expected in the near term. This may hamper economic performance. China has also taken a more conciliatory stance during the G20 meeting in Bali.

Whilst the fallout from the collapse of cryptocurrency exchange FTX did not perturb more traditional financial markets, the liquidity of US Treasuries continues to be somewhat impaired and this is contributing to a heightened liquidity premium.

Surveys of fund managers suggest that credit markets are perceived to be cheap for those with a medium-term investment horizon. However, investors are unsure about how sticky core services inflation will prove to be and this is creating uncertainty about an appropriate amount of risk bearing to undertake at this point. One contributor to the uncertainty is an understanding of how resilient household consumption will prove to be. Another is how wage growth will respond to labour market conditions. Estimation is difficult as there is no recent experience to draw from and the economic models have struggled. This is before we consider the potential path of the Ukranian conflict and the outlook for China following the release of several initiatives to stimulate the economy. Nonetheless, Fund manager positioning is extremely bearish. Whilst economic forecasts have a fraught record, fund manager positioning of this magnitude of bearishness does correlate to superior subsequent performance.

The portfolio acquired an opportunistic position in Credit Suisse Group's senior debt and also other selected Australian domiciled issuers which screened well. The portfolio also added exposures to the subordinated debt of Australian banks and insurers following APRA's clarification of its expectations relating to callable instruments. This announcement materially increased perceived extension risk for such instruments, creating a temporary dislocation. Interest rate duration was progressively reduced as bond markets rallied and the term structure flattened.

In line with our contrarian approach, the portfolio continues to retain risk exposures which are towards the highest end of our general practices. In doing so, the exposures are well diversified by name, asset class and geography. Even amongst our sub-investment grade exposures, default exposure is minimal under heavy stress tests that exceed GFC levels of duress. With a yield to maturity of approximately 7%pa, the probability of generating a negative return over the medium term is relatively low.

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