REALM HIGH INCOME FUND

OCTOBER 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 $1.58 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	-0.12%	-0.09%	0.34%
3 Month	0.34%	0.46%	1.02%
6 Months	3.75%	3.98%	2.02%
1 Year	9.11%	9.59%	3.64%
3 Years p.a	3.18%	3.61%	1.50%
5 Years p.a	3.69%	4.12%	1.25%
10 Years p.a	4.06%	4.45%	1.57%
Since Inception p.a*	4.42%	4.47%	1.70%

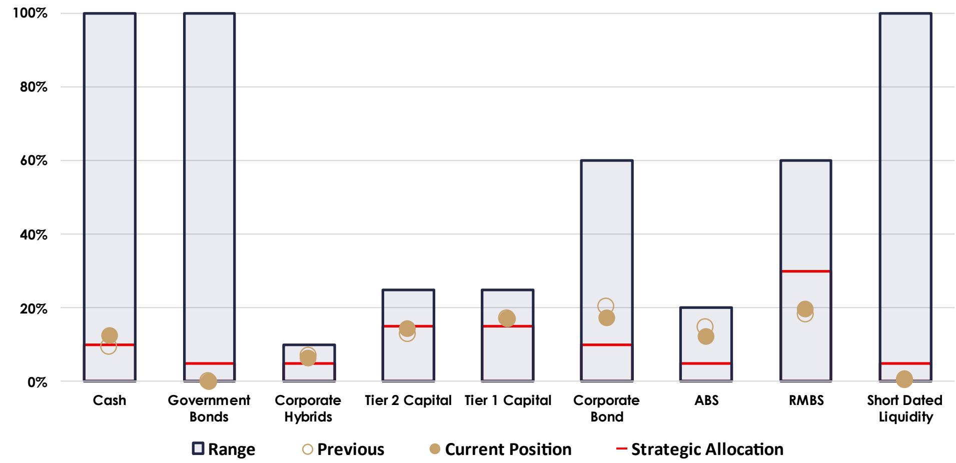
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	6.14%
Yield to Maturity	8.24%
Volatility†	2.84%
Interest rate duration	1.21
Credit duration	3.18
Average Credit Rating	BBB+
Number of positions	327
Average position exposure	0.14%
Worst Month*	-1.99%
Best Month*	2.09%
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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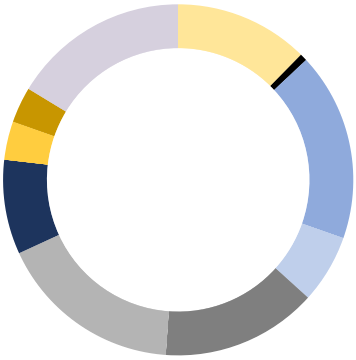
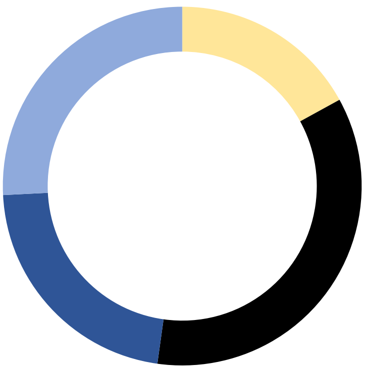
PORTFOLIO COMPOSITION



- Cash (12.37%)
- Commercial Paper (0.66%)
- Government Bonds (0.00%)
- Corporate Bond (17.35%)
- Corporate Hybrids (6.33%)
- Tier 2 Capital (14.41%)
- Tier 1 Capital (17.03%)
- ABS Public (8.68%)
- ABS Private (3.56%)
- RMBS Private (3.29%)
- RMBS Public (16.33%)

MATURITY PROFILE



- At Call to 6 Months (17.01%)
- 6 Months to 3 Years (35.21%)
- 3 Years to 5 Years (21.99%)
- 5 Years to 10 Years (25.80%)
- 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 9.63% to 13.03%. This mainly reflected lower allocations to corporate bonds and ABS; which was partly offset by increased allocations to T2 capital and RMBS.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate bonds and subordinated debt (corporate hybrids and T2 capital) decreased from 40.35% to 38.09%. Concerns over higher government bond yields and rates volatility continued to drive risk sentiment. This saw global credit spreads close wider over the month before recovering solidly in the start of November. Domestic credit spreads also widened over October but outperformed global credit markets on a relative basis. This saw the fund reduce allocations to AUD corporate bonds which was partly reallocated to USD T2 capital. Domestically, primary markets remained busy as Aussie corporates aimed to lock in funding before year end. Notable deals in October include senior deals from Woolworths, Scentre Group, and the Port of Brisbane, and T2 capital deals from CBA, Bendigo & Adelaide Bank, QBE, and IAG. New deal flow has continued into November with notable deals including: an inaugural EUR corporate hybrid from APA Group and T2 capital from Westpac in both AUD and USD.

Interest Rate Duration Position: ↑ IRD positioning increased from 1.00 to 1.21 years. Volatility in the US 10-year government bonds decreased from the previous month, however, absolute yields ended the month higher in both US and AUS – 24bp and 44bp respectively. Economic data releases pointed to resilience in both the US and Australian consumer and labour markets. However, much of central bank action saw cash rates held steady with rhetoric around data dependency. Bank of Japan's anticipated loosening of YCC policy saw global rates pre-emptively sell off. However, a major driver of rates volatility and absolute levels was the developing situation in the Middle East. With the rise in real yields, the portfolio's IRD was increased commensurately.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 18.18% to 19.62% over the month. Structured credit markets rallied over the month of October, with market participants continuing to bid strongly for stock, driven by the continued lack of supply from dealer inventory sheets. New transactions in primary markets remain substantially overbid, which has continued to drive markets tighter. The new deal flow pipeline remains very healthy, with issuers electing to use the tighter margins to bring new trades to market prior to the Christmas period. With respect to market performance, Prime arrears as reported by S&P's SPIN index for September remained in line at 0.92%. Nonconforming arrears weakened slightly, widening 16bps to 3.86%. Both results remain very strong in comparison to both market expectations and historic index levels.

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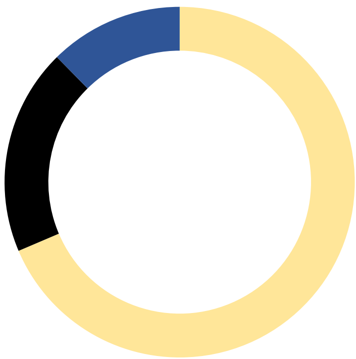
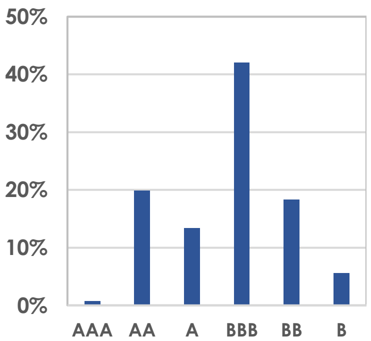
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (68.59%)
- Foreign Domicilied Issuer (19.04%)
- Cash (12.37%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	1.90%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.21%	10%
Gambling	0.14%	10%

Additional Tier 1 (AT1) Exposures: ↓ Weighting to T1 capital decreased slightly from 17.22% to 17.03%. The fund continues to maintain a strategic overweight to global AT1's as valuations remain attractive while market activity continues to normalise following the collapse of Credit Suisse in March 2023. Since mid-October, we have seen new issuance from three global systemically important banks (G-SIBs) Mitsubishi UFJ Financial Group, Societe Generale and UBS. Most notably, UBS priced USD$3.5 billion (through two tranches) with book cover at an incredible US$36 billion, or more than 10x oversubscribed. These new deals have performing strongly in secondary trading with markets expecting the success of the UBS deal to pave way for more global AT1 issuance before year end. Domestically, Judo Bank launched its inaugural capital notes offer and Westpac said it is considering a new Westpac capital notes offer. Interestingly, the new Westpac deal may include the reinvestment of the Westpac capital notes 6 (WBCPI), which sees its reinvestment well ahead its first call date of July 2024 and jumps ahead of other major bank redemptions, such as The ANZ capital notes 4 (AN3PG) in March 2024 and CBA PERLS VI (CBAPH) in April 2024.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 14.62% to 12.24%. Each of the ABS exposures within the fund continue to perform in line with expectations. 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 2.76% to 2.90%. This mainly reflected higher interest rate duration (from 1.0 years to 1.21 years) while credit duration was largely unchanged (from 3.17 years to 3.18 years). The fund remains compliant with the Portfolio ESG risk limits.

FUND OUTLOOK

Global investment grade spreads are at around historical average levels. This arguably offers limited value in an environment where economic activity is expected to slow in the near term. However, the shallow trajectory of the anticipated deceleration, expectations that monetary policy will be highly responsive to adverse developments and corporate flexibility to strengthen fundamental metrics produce a modestly positive outlook in our current assessment.

The longer-term outlook depends materially on whether inflationary pressures will create a need to keep rates higher for longer than is presently projected. If so, credit metrics will deteriorate and become uncomfortable for sub-investment grade floating-rate borrowers. Indeed the potential for this outcome to arise is visible at the lower end of sub-IG credit and the dispersion of spreads within this universe of assets is presently elevated. This contrasts to a calmer picture amongst investment grade corporates where spread dispersion is unremarkable. The levered loan market is trading cautiously and although conditions have become more favourable for CLO creation, primary issuance of mezzanine lines is challenging to place.

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/

It is notable that the sensitivity of the system to failures of regional banks has evolved such that Citizens Bank and Heartland Tri-State Bank can be resolved without fanfare. Further, the AT1 market, which became acutely distressed when Credit Suisse wrote off its junior regulatory debt, found a strong bid again when a hybrid issued by its acquiror, UBS, was more than 10-times oversubscribed. These give support to official statements that the banking system is sound. If so, which is a viewpoint supported by recent earnings releases, the offshore bank regulatory capital market presents value.

Funding concerns for US Treasuries and stickiness in services inflation have created a positive correlation between bond yields and credit spreads again. This may persist for a while and the inverted US yield curve is contributing to yield compression in levered loan and high yield markets. Nonetheless, the eruption in the Gaza strip has not created a spike in oil prices as the presence of two US carrier battle groups has reduced the prospect of regional escalation.

Domestic structured credit spreads continue to compress with the senior part of the complex benefiting from the return of foreign buyers. This effect is permeating through to lower parts of the investment grade universe where our assessment is spreads are now closer to fair. Asset backed spreads have also narrowed further than RMBS, and this relationship is reverting towards historical norms. These effects are less obvious in the sub-investment grade issues. Credit quality remains very strong despite the considerable erosion of household spending power. Major bank reporting and structured credit data does not indicate material distress is occurring. In the event, housing prices are near all time highs, with ongoing high migration rates and constrained supply inferring that rising arrears would not result in worrisome collateral losses. The dynamics of the structured credit market continue to be influenced by competition for prime mortgages amongst the banks and more constrained credit growth. ABS issuance volumes are more elevated. Additionally, supply of new public securities is accelerating now that spreads in the public market have become more competitive compared to warehouse funding.

The portfolio continues to hold above average risk levels with contributions to this position arising across corporate debt, structured credit and bank capital.

Although investment grade credit offers modest value as a whole, risk aversion appears excessive from the perspective of a medium-term investor for USD and EUR bank capital. We remain close to our upper bound in foreign issuer exposure where the majority of our positions relate to regulatory capital of systemically important banks or large insurers whose balance sheet metrics are very strong.

As foreign positions are concentrated into offshore financial institutions, our corporate exposures are invested in an idiosyncratic mix of domestic companies. In each case, spreads on offer are wide to comparable alternatives for reasons we are comfortable with. This includes situations where spreads on bonds issued in foreign currency trade manifestly wider than domestic alternatives from the same obligor.

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Within structured credit, where total weights are close to strategic levels overall, the portfolio remains overweight ABS. This reflects the shift in lending activity towards auto and equipment finance amongst non-banks. The exposures can withstand extreme loss scenarios which are well outside those implied by economic projections from the RBA and private sector. Arrears rates for RMBS remain stable and recent earnings updates from the major banks indicates that overall housing credit quality remains strong. The majority of the RMBS book is held in bank issued and conforming debt. The potential for permanent losses in this segment of the portfolio remains remote. Exposures to CLOs remain a small part of the portfolio.

Portfolio IRD was lifted from 1.0 to 1.2yrs as Australian and US 10-year bond yields rose. This remains towards the low end of our 0-5yr allowable mandate range and is slightly above the historical average. Our risk allocation process has maintained IRD at low levels throughout the latest surge in yields. For context, IRD was merely 0.3yrs in March, when Australian 10-year bonds offered a yield of 3.3%pa. We are also maintaining material macro hedges via equity indices and single-name derivatives, which are screening as expensive relative to credit. Risks relating to China's economy, CRE refinancing, the potential for a disorderly tightening of financial conditions, ongoing geopolitical tensions, and the potential for a resurgence in the assessed likelihood of a hard landing all infer that caution towards tail events is warranted. These buffered performance over the month. We considered adding macro hedges relating specifically to the risk of an expansion in hostilities within the Middle East but were comfortable with our existing settings.

The portfolio's traded margin of close to 400bps is historically wide and being achieved with limited default risk. Given the credit quality of our exposures and a current yield-to-maturity of over 8%, the portfolio has excellent forward-looking reward to risk characteristics. Bond and equity exposures will also provide meaningful downside protection in the event of a significant adverse development.

MARKET DEVELOPMENTS

Bearish sentiment towards bonds was a key market driver. Stronger than expected economic and inflation outcomes, concerns about funding coupon issuance associated with an unsustainable trajectory of federal debt and ongoing conditioning by Fed officials combined to push US 10-year bond yields through 5% for a time. Australian 10-year bond yields rose to match US yields again for the first time since late August. The BoJ's softening stance on yield curve control saw their 10-year bond yields rise closer to the guideline of 1%. European yields were more stable as economic outcomes were weaker in this region. Equities fell with key indices down 3 to 4% over the month and the VIX rose to levels last experienced during the aftermath of the US regional banking crisis. Major currency crosses were stable but the AUD fell vs USD on rising risk aversion, trading over a 2% range. Gold performed as a geopolitical hedge, but oil prices fell. Credit spreads reflected the risk-off sentiment.

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OTHER DEVELOPMENTS

Economic activity was stronger than expected in the US. Retail sales, industrial production, core durables and personal spending all came in ahead of expectations. The first GDP estimate for Q3 was reported at a very strong 4.9% saar, which was supported by household spending, private investment and inventory build. The ISM PMI readings for October showed that manufacturing activity is slowing more quickly, whilst services continued to expand and have a positive outlook. Core PPI was ahead of expectations as was the employment cost index reading. Although core inflation was in line with expectations, the contribution from pricing of shelter concerned the market. The labour market tightened with JOLTS job openings stronger than anticipated. Non-farm payrolls were very strong at 336k (subsequently revised to 297k), well ahead of the estimated 160k. Unemployment was at 3.8%. The quits rate remains similar to pre-covid levels. The outlook suggests recession can be avoided in the coming quarters. Unemployment is expected to rise slowly and a wage-growth spiral should be avoided. Inflation is expected to return to target in 2025.

The Fed Minutes suggested another rate hike is probable although the balance of risks in the economy had become more balanced. Whilst no meeting was held in October, no change to settings were announced in the November meeting. Moody's downgraded the outlook for US federal debt to negative whilst retaining the AAA rating. One reason was ongoing political dysfunction. However the House elected Trump ally Michael Johnson as Speaker and he has secured passage of a bipartisan bill to keep the government funded. The Commander-in-Chief of the Ukraine military has indicated the conflict is close to stalemate at present, a comment which may reduce enthusiasm for ongoing US support. Odds-makers have Trump leading Biden for the 2024 Presidential Election.

Australian economic activity outcomes slowed. The NAB Business Survey saw current conditions readings fall from 14 to 11, still a healthy level, with each of the sub-components (sales, profitability and employment) falling. Labour and purchasing costs also eased. Whilst the Westpac Consumer Survey reading improved slightly, concerns for family finances remained elevated. The overall reading remains at very low levels. Lending to the private sector slightly accelerated. Labour force figures suggested that conditions softened. The workforce grew by 6.7k, below the expected level of 20k. Whilst unemployment fell slightly to 3.6%, this was the result of falling participation rates. Employers were responding to a softening in economic activity by offering fewer hours. Job advertisements were slowing. Although the RBA paused in October, it indicated low tolerance for slippage in the timeline for inflation to return into the target band. Subsequent Inflation readings came in ahead of prior projections, with the trimmed mean reading at 5.2% yoy. The RBA lifted rates in November in response. Updated economic projections showed a generally stronger outlook than previously expected. The overall size of the workforce is not expected to fall over the projections to 2025.

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Australia's PMI readings pointed to a shrinking economy. In the immediate term, economic growth is expected to slow under the pressure of tighter monetary policy and higher cost of living. As inflation declines, real household incomes are expected to expand and lift aggregate growth off lows albeit still below trend levels over the next few years. It is possible that the RBA will require another rate rise to achieve its desired inflation trajectory. However, if productivity does not recover, more may be required. Housing prices continued to rise and are close to new highs.

The outlook for China's economy will be governed by government policy decisions which have been relatively restrained thus far. After a slow start to the year, more recent readings have surprised to the upside. GDP growth was 4.9% yoy, ahead of the 4.4% previously expected. Credit creation was robust, as was household spending. Consumer inflation fell to 0% over the year and PPI fell 2.5%, slightly below expectations. PMI indicators suggest the economy is treading water. The economy continues to face challenges relating to the financing of property developers as buyers have become scarce. Authorities are seeking to support completions of housing currently in the development pipeline to create cashflow for these entities. Whilst this has downstream impacts on the financial condition of local governments, the prevailing belief is that China can prevent a credit calamity for now. The prime loan interest rates were unchanged over the month. China dismissed its defense minister.

The European economy appears to have contracted in Q3 with the flash estimate at -0.1%, below expectations for a flat outcome. Retail sales and industrial production shrank by more than expected. PMI readings suggest a very poor outlook. This is reflected in surveys of credit intentions where both demand and standards attached to lending suggest a difficult economic environment ahead. Core CPI came in at 4.5% yoy, which was in-line with expectations. The ECB is expected to have reached the peak rate for this cycle and President Lagarde is pushing back on discussions relating to the prospect of rate cuts. The BoE appears to be at the peak rate for this cycle and cutting in 2024 is likely.

The immediate outlook suggests technical recession is on the verge of probable. Lending surveys do point to the potential for downside risk. However, the consensus is for inflation to trend relatively quickly towards target levels from here although the last mile could be challenging. Unemployment levels are only expected to rise modestly.

The Bank of Japan has been softening its position on yield curve control over the 10-year bond yield. Markets have pushed yields up towards 1% as Governor Ueda's commitment to restraining the yield has been progressively withdrawn. Whilst the BoJ loosened the parameters in July, expressing the 1% level as an upper limit, this has now become a reference point. An exit from negative interest rates on official cash rates is expected in 2024. The economy performed well over the month with retail sales at 5.8% yoy and core inflation at 2.8%. Unemployment remains relatively tight at 2.6%. Along with the pass-through effect of a weaker currency, these have contributed to the BoJ's increase in inflation expectations for the 2024 Fiscal Year from 1.9% in July to 2.8% most recently. Sustaining inflation at the target 2% level over the long term remains an elusive goal.

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