REALM HIGH INCOME FUND

OCTOBER 2024

REALM INVESTMENT HOUSE

FUND OBJECTIVE

The Realm High Income Fund is a fixed income strategy, that invests in domestic 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 $2.01 billion
Management Fees (Net of GST):
Ordinary Units - 1.1182%
Wholesale, Adviser, & mFunds Units - 0.7175%
Direct Minimum Investment:
Ordinary, Adviser Units - $25,000
Wholesale Units -$1,000,000
mFund Units - $10,000

Zenith RECOMMENDED

Recommended Lonsec Research

NET PERFORMANCE

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	0.83%	0.86%	0.36%
3 Month	2.12%	2.23%	1.09%
6 Months	4.55%	4.77%	2.16%
1 Year	12.17%	12.63%	4.35%
3 Years p.a	6.24%	6.67%	2.92%
5 Years p.a	5.13%	5.56%	1.85%
10 Years p.a	4.54%	4.96%	1.76%
Since Inception p.a*	5.04%	5.15%	1.92%

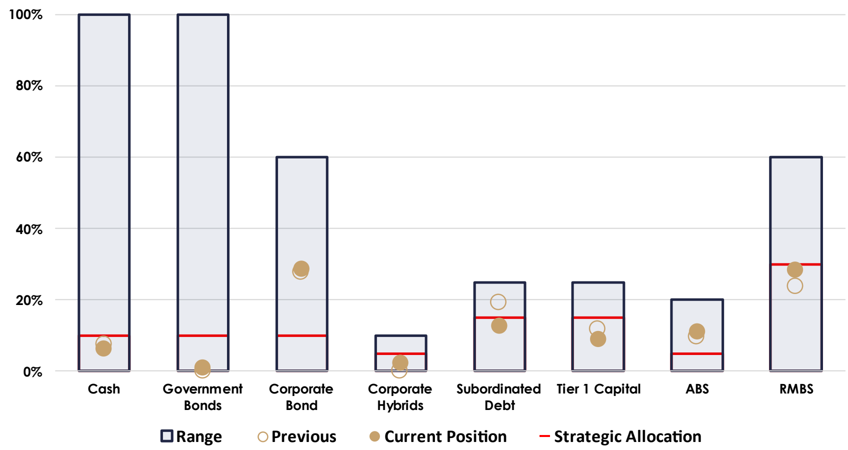
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	6.17%
Yield to Maturity	6.59%
Volatility†	1.18%
Interest rate duration	0.64
Credit duration	3.08
Average Credit Rating	A-
Number of positions	384
Average position exposure	0.15%
Worst Month*	-1.99%
Best Month*	2.09%
Sharpe ratio∂	2.22

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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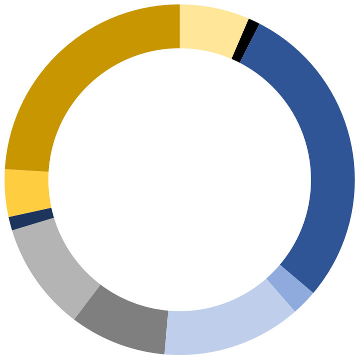
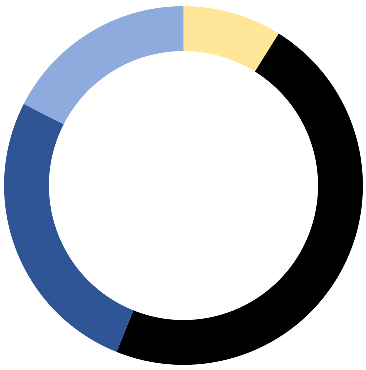
PORTFOLIO COMPOSITION



- Cash (6.46%)
- Government Bonds (1.08%)
- Corporate Bond (28.65%)
- Corporate Hybrid (2.37%)
- Subordinated Debt (12.84%)
- Tier 1 Capital (8.91%)
- ABS Public (10.03%)
- ABS Private (1.25%)
- RMBS Private (4.38%)
- RMBS Public (24.04%)

CREDIT DURATION PROFILE



- At Call to 6 Months (8.91%)
- 6 Months to 3 Years (47.16%)
- 3 Years to 5 Years (26.44%)
- 5 Years to 10 Years (17.48%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity: ↓ The allocation to highly liquid assets (cash and government bonds) decreased from 8.46% to 6.46%. This reflected increased allocations in corporate bonds and RMBS/ABS, which was partly offset by lower allocations to subordinated debt and Tier 1 capital.

Corporate Bond, Corporate Hybrids & Subordinated Debt: ↓ Weighting to corporate bonds, corporate hybrids and subordinated debt decreased from 45.69% to 43.86%. Australian credit spreads tightened in October, allowing the fund to take profit in subordinated debt and corporate hybrids, including Australian major bank T2 and the Scentre Group AUD fixed rate hybrid, which performed strongly after pricing in the prior month. This was partly offset by an increased allocation to corporate bonds, with the specific focus on more defensive opportunities given a tight spread environment. Local corporate issuance continued albeit at a more moderate pace, with the fund participating in new T2 transactions from Judo Bank and Hollards, along with a senior unsecured offering from AMP Bank.

Interest Rate Duration Position: ↑ IRD positioning increased from 0.30 to 0.64 years. A significant spike in volatility and yields were evident in global bond markets, with the US 10-year bond finishing the month 51bps higher at a level of 4.28%. The drivers of US volatility ranged from the possibility of a Trump re-election; higher inflation risks; and stronger economic data - resulting in the yield curve steepening towards the end of the month. Although the US was the main driver of Australian bond yields, they found a cause after the country's labour force data exceeded expectations. Other notable global drivers included central bank rate cuts in NZ, EU and Canada; while fiscal policy easing in UK resulted in Gilts selling off. By month end, markets were pricing in 5 rate cuts over the course of a year in the US and Australia's first rate cut was pushed back from February to May. Consequently, portfolio IRD was increased appropriately.

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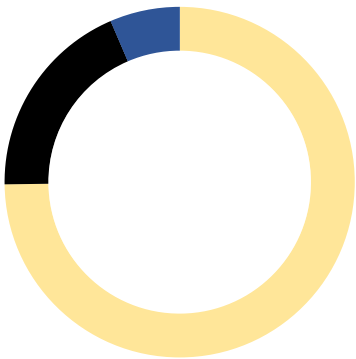
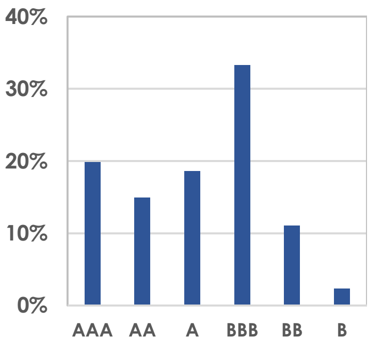
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (74.80%)
- Foreign Domicilied Issuer (18.74%)
- Cash (6.46%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	3.40%	10%
Non-Renewable & Nuclear Energy	0.00%	10%
Alcohol	0.10%	10%
Gambling	0.10%	10%

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 24.43% to 28.42% over the month. Structured credit markets rallied further over the month of October with a substantial amount of new transactions continuing to flood market, as issuers use tight credit spreads to issue transactions more economically. New transaction flow continues to be issued over a wide array of subsectors within the securitised market, including major and regional bank issuance, prime and non-conforming non-banks, and personal lending programs. Credit spreads tightened in the mezzanine (A-BBB) and junior mezzanine (Sub investment grade) tranches of the capital structure, with senior margins remaining stable over the month but wide in comparison to historic averages. Secondary market volumes continue to remain very weak as investors elect to hold stock instead of selling to the market and risk not being able to pick up more stock to fill the position.

With respect to market performance, Prime arrears as reported by S&P's SPIN index for September weakened 1bps to 0.90%. Nonconforming arrears improved 24bps to 4.01%. Arrears on auto loans as reported by S&P improved 4bps to 1.31%. All results remain strong in comparison to both market expectations and historic index levels.

Tier 1 Capital: ↓ Weighting to T1 capital decreased from 12.73% to 8.91%. Global T1's continued its strong performance from the prior month which allowed the fund to take profit and reallocate to Corporate Bonds. The tightening was aided by stronger risk markets (few negative surprises from 3Q reporting), along with a slowdown of T1 issuance relative to previous months. Meanwhile, domestic T1 markets continued to provide value as spreads underperformed the rally in offshore T1 markets.

Asset Backed Securities (ABS): ↑ ABS allocation increased from 8.69% to 11.28%. 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 1.47% to 1.57%. This reflected a movement higher in interest rate duration from 0.29yrs to 0.64yrs.

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PLATFORM AVAILABILITY

- Australian Money Market (Retail Units)
- AMP North
- 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/

FUND OVERVIEW

The Fund achieved a return of 0.86% and outperformed the 0.36% return from RBA cash. As credit spreads have tightened further, it is more challenging for the Fund to achieve its targeted margin of outperformance in the near term. The YTM of 6.53% remains favourable in an absolute sense and the RBA is not expected to cut in the near term. We expect spreads to widen over the coming year and this may create a headwind. However, our trading activity offers a reasonable prospect that overall returns will still provide a reasonable margin above cash.

As credit markets rallied further and offer less value in our assessment, we have moved to enhance the portfolio's defensiveness. The exposure to subordinated debt and Tier 1 Capital were reduced and both are underweight relative to benchmark. The Fund's foreign issuer exposure has become more focused on corporate bonds and structured credit as spreads on regulatory capital have narrowed significantly. The portfolio maintains a ~13% exposure in sub-IG and this is largely held in global money-center banks and structured credit which can withstand extreme events.

The portfolio's interest rate duration has modestly extended as the Australian yield curve has steepened.

Although portfolio performance can suffer from deteriorating market conditions, the likelihood of recording a negative return over a 12-month period is low as risk bearing is towards the conservative end of our historical practices.

KEY MARKET DEVELOPMENTS

Bond yields rose significantly over the month [Aust 10yr +0.53 to 4.50, US 10yr +0.50 to 4.29]. There were several drivers. Whilst polls suggested the outcome of the US Presidential election was a statistical tie, markets moved to price in a Trump victory as the end of the month approached. Inflation expectations climbed, as did risk compensation. Data releases suggested the US economy remains robust. Further, although the Middle East conflict grew to include direct action in Lebanon and a significant missile exchange with Iran, concerns about a major escalation were contained and safe-haven demand eased. For a time, the first budget of UK Chancellor Reeves created nervousness as it swept away an opportunity for fiscal consolidation in favour of a greater role for the State and increased borrowing.

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The Chinese stock exchange fell [CSI 300 -3.2%] as markets were disappointed at the lack of official announcements relating to direct fiscal support for the economy. The market had rallied 21% in September when stimulus was announced in something of an emergency. However, the various monetary measures released during the month were seen as insufficient. Fiscal announcements may have been withheld pending the outcome of the US elections and greater clarity on tariffs.

Gold rallied 5.5% as US interest rate cuts are forthcoming. Along with a strong rally in Bitcoin, these moves could also have been driven by expectations for a Trump victory.

The VIX index rose to reflect the expansion of conflict in the Middle East and the approaching US elections.

CREDIT MARKET DEVELOPMENTS

The Bloomberg US Corporate Baa-rated Option Adjusted Spread closed the month another 7bps tighter at 1.01%. Confidence grew that a recession will be avoided due, in part, to a commitment from the Fed to defend the economy from an unwelcome contraction. Fed speakers were increasingly confident that inflation will be tamed and felt that risks to employment and inflation were roughly balanced. Spreads may also have compressed as rising total yields (government bond yields rose) made investors less discerning about pricing for credit risks.

The narrowing of spreads occurred across all key markets despite very high levels of issuance. As left tail economic risks have diminished in the minds of investors, the dispersion of spreads in the HY market narrowed further. The spreads on offer are very tight by historical standards. Few pockets of the market could be regarded as offering fair value for risk without heroic assumptions for productivity or an over-inflated belief in the precision of economic forecasts for idyllic outcomes in late 2025.

President-elect Trump takes office in January and his nominees for cabinet positions suggest that we will be in for some strong policy shifts. Whilst the Senate is not filibuster-proof, and the House is held by a narrow majority, a Red Sweep has occurred. Although central banks have committed to defend the economy against unwanted shocks to demand, they have little power to manage the effect of supply shocks. Lifting tariffs and mass deportations of a significant fraction of a labour force are supply shocks. Many other risks exist to the global economy as well.

We believe that spreads will be wider a year from now.

ECONOMIC DEVELOPMENTS

As the path towards normalization of official interest rates is underway, albeit not yet in Australia, attention has turned to where the nominal neutral rate is. For key Western markets, the consensus is that the neutral level is now higher than it was prior to covid. Notably, the RBA believes this may be as high as ~3.5% in Australia, which infers only 3-4 cuts may be forthcoming for this cycle.

Developments in major economies:

United States: The economy continues to remain robust. Although manufacturing activity is in a lull, the larger services component remains in strong expansion [ISM Services PMI (Oct) 56 prior 54.9 expected 53.8] and household consumption exceeded expectations [Retail Sales MoM (ex Auto) (Sep) 0.5 p0.2 e0.1, Personal Spending MoM (Sep) 0.5 p0.3 e0.4]. The labour market grew strongly [NFP (Sep) 245k p150k e140k]. Expectations for cuts to the Fed cash rate were pared back.

China: Economic growth is falling short of official targets [GDP Q3 YoY 4.6 p4.7 e4.5] as excesses in the property market and the debt burden of local governments hamper the economy. Efforts to create growth via exports is creating a glut in some industries and hurting profitability. PMI readings suggest there has been no immediate recovery in activity [NBS Manu (Oct) 50.1 p49.8 e50.0, NBS Non-Manu (Oct) 50.2 p50.0 e50.4]. Interest rates were lowered to support the economy [Loan Prime Rates -0.25]. However, sentiment in property continues to be weak [House price Index YoY (Sep) -5.7 p-5.3]. Foreign capital remains scarce [FDI(YTD) YoY (Sep) -30.4 p-31.5].

Australia: The economy is strengthening as hoped with the NAB Business Survey reporting current conditions have returned to normal levels [NAB Current 7 p4]. Consumer confidence is improving off low levels as cost-of-living pressures ease and the RBA is expected to lower interest rates [Westpac ConsConf 89.8 p84.6]. However, the labour market remains tight [U/e 4.1 p4.1 e4.2] and more workers are being drawn in [Participation Rate 67.2 p67.1 e67.1]. Inflation appears stickier than expected [Trimmed Mean CPI QoQ (Q3) 0.8 p0.9 e0.7]. Expectations for a rate cut were pushed well into 2025.

Europe/UK: The market is looking for a shallow economic recovery whilst inflation recedes despite historically low unemployment rates. Whilst the services sector is improving [Services PMI (Oct) 51.6 p51.4 e51.2], the manufacturing sector is suffering along with the global slump [Manu PMI (Oct) 46 p45 e45.9], with autos faring badly due to strong competition from China.

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The ECB cut the deposit rate by 0.25% to 3.25%. The overall outlook is supported by the latest survey of bank officers which suggests that credit standards are no longer tightening and loan demand is increasing. Unemployment in the UK fell [u/e (Aug) 4 p4.1 e4].

Japan: Economic management remains focused on retaining gains on inflation and trying to stop this from falling below its 2%pa target. However, the economy is not performing as well as hoped. Household spending is weaker than expected [Retail sales YoY (Sep) 0.5 p3.1 e2.3]. Business output suggests a moribund economy [Manu PMI (Oct) 49.2 p49.7 e49, Services PMI (Oct) 49.7 p53.1 e49.3]. Yet the demographic challenges of an ageing workforce can be found in very tight labour markets [U/e (Sep) 2.4 p2.5 e2.5]. The BoJ elected to keep rates on hold. The Ishiba government is now a minority following a snap election.

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