REALM HIGH INCOME FUND

REALM INVESTMENT HOUSE

SEPTEMBER 2022

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 $1.37 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	-1.21%	-1.18%	0.18%
3 Month	0.55%	0.66%	0.44%
6 Months	-2.26%	-2.06%	0.54%
1 Year	-2.99%	-2.58%	0.59%
3 Years p.a	1.58%	2.02%	0.39%
5 Years p.a	2.37%	2.81%	0.81%
10 Years p.a	3.98%	N/A	1.50%
Since Inception p.a*	3.97%	3.92%	1.50%

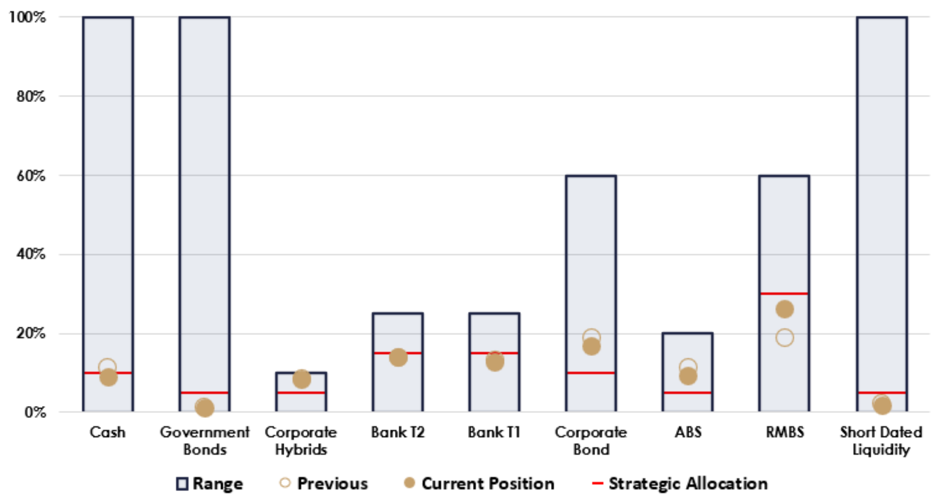
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	5.28%
Yield to Maturity	6.81%
Volatility†	2.31%
Interest rate duration	1.22
Credit duration	3.60
Average Credit Rating	BBB
Number of positions	334
Average position exposure	0.17%
Worst Month*	-1.99%
Best Month*	1.94%
Sharpe ratio∂	2.05

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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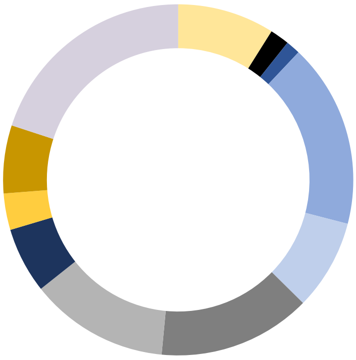
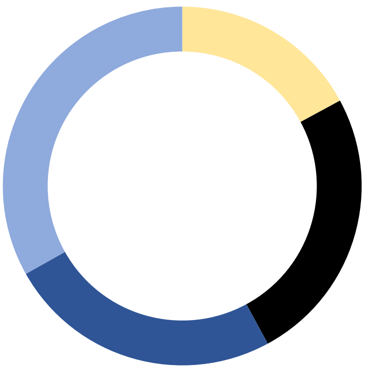
PORTFOLIO COMPOSITION



- Cash (8.95%)
- Commercial Paper (1.78%)
- Government Bonds (1.32%)
- Corporate Bond (16.98%)
- Corporate Hybrids (8.34%)
- Bank T2 (14.14%)
- Bank T1 (12.83%)
- ABS Public (6.06%)
- ABS Private (3.36%)
- RMBS Private (6.26%)
- RMBS Public (19.98%)

MATURITY PROFILE



- At Call to 6 Months (17.10%)
- 6 Months to 3 Years (24.99%)
- 3 Years to 5 Years (24.76%)
- 5 Years to 10 Years (33.15%)
- 10 Years + (0.00%)

FUND UPDATE

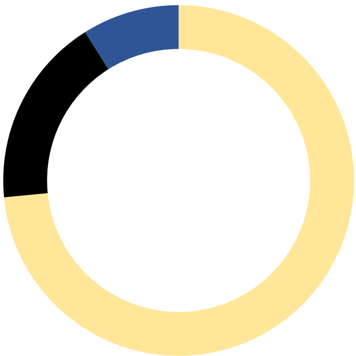
Cash and Short-Term Liquidity Weighting: ↓ The allocation to highly liquid assets (cash, commercial paper and government bonds) decreased from 15.09% to 12.05%. This largely reflected increased allocations to both public and private RMBS and lower allocations to ABS private and corporate bonds.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) decreased from 41.30% to 39.46%. The market weakness from mid-August continued over September as credit spreads meaningfully underperformed, breaching the year-to-date wides experienced in July. The sell-off was driven by aggressively higher government bond yields as the market continued to price in more hawkish central banks and increased recession risks. Notably, the sell-off accelerated in the second half of the month as extreme volatility in UK gilts and rumours of a Credit Suisse failure spooked markets. Domestically, T2 credit spreads were resilient and outperformed on a relative basis. This enabled the slight pick-up of new T2 issuance, including: ANZ's A$900m T2 (7 years to call) at a fixed coupon of 6.405%; Challenger's A$400m T2 (5 years to call) at a fixed coupon of 7.186%; and AMP's A$200m T2 (5 years to call) at a floating-rate coupon of 3-month BBSW plus 465bps. Participation in these deals saw our allocation to T2s increase slightly while our allocation to corporate bonds reduced modestly as we took profits on various airline bonds which have outperformed on a relative basis.

Interest Rate Duration Position: ↓ IRD positioning decreased from 1.41 to 1.22 years. Government bond volatility continued its positive trajectory driven by a combination of global monetary and geopolitical developments. Most global central banks delivered aggressive rate hikes - including the RBA which raised by 50 basis points while the FED raised by 75 basis points. The focus turned to terminal cash rates and the possibility of a recession globally. The cessation of gas to Europe through the Nord stream pipeline; Ukrainian forces regaining lost land and the referendum in Russian controlled parts of Ukraine led to increased tensions and volatility in Europe, feeding into global markets. The mini budget announced by the newly elected UK PM, Liz Truss, sent shock waves in global bond markets. As a result, our positioning was quite active to capitalise on the increased volatility.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 18.82% to 26.24% over the month. Public structured credit markets were relatively flat over the month, with primary issuance remaining low as lenders opted to increase private funding capacity than issue into the market volatility. Secondary market activity remains heightened in the senior part of the capital structure (AAA rated) driven by offshore investors searching for liquidity from high quality assets, while middle mezzanine (A/BBB rated tranches) continue to display good relative value against other market sectors.

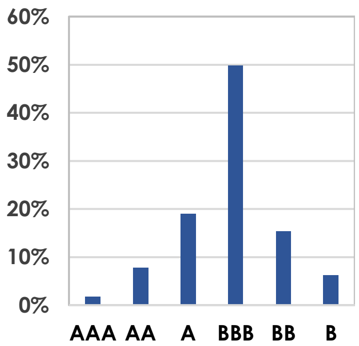
ISSUER DOMICILE



Australian/NZ Domiciled Issuer (73.47%)
Foreign Domicilied Issuer (17.59%)

Cash (8.95%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	6.63%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.17%	10%
Gambling	0.08%	10%

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 13.38% to 12.83%. Domestic listed AT1's firmed slightly as global AT1's sold-off in line with broader credit markets. This allowed us to take profits in AUD AT1's as valuations continue to look expensive in a global context. The supply/demand dynamics of the domestic listed AT1 market remained supportive with no new issuance during the month. CBA have indicated their intention to issue a new PERLS Capital note to refinance the CBAPD's which become callable in December 2022.

Asset Backed Securities (ABS): ↓ ABS allocation decreased from 11.41% to 9.42%. 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 increased slightly from 2.80% to 2.86%. This reflected lower cash holdings and increased credit duration from 3.52 years to 3.6 years. Interest rate duration decreased from 1.41 years to 1.22 years. The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Equity markets finished well down during the month. The VIX finished the month at elevated levels, having moved materially higher. Bond yields trended upwards and experienced a material disruption late in the period. Flight to safety effects were evident in currency markets, with USD strength continuing to be a significant feature in markets. Credit spreads moved consistently with increased risk aversion. Commodity prices weakened further. Central banks across the world, other than Turkey, raised official cash rates by larger than usual amounts.

Key developments over the month included a higher-than-expected US CPI print and PMI figures. These suggested ongoing robustness in the US economy which may require more vigorous efforts to contain inflation. Australia's Q2 GDP figures also revealed ongoing strength in the household sector which is a key uncertainty in forward projections. Employment remained robust.

The most significant development, however, was the appointment of Liz Truss as the UK's new PM, with Kwasi Kwarteng as her Chancellor.

Their release of an enormous economic package consisting of tax cuts and caps to energy prices produced significant dysfunction in the market. This was severe enough to require intervention from the BoE. The end of QE has lowered liquidity in key markets and this served as one warning of potential fragility ahead. The BoE is still expected to commence QT shortly despite these recent ructions whilst the ECB is deferring consideration of this until cash rates have moved closer to normalization.

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 economic outlook continued to soften. The Fed's revised dot plots showed an ongoing stagflationary impulse with strong downside risks. Nonetheless, they continue to expect to avoid recession albeit an increasing share of professional economists and commentators are less optimistic. One key assumption behind the Fed's relative optimism is the belief that (wage) inflation can be contained without a significant increase in unemployment. Although somewhat heterodox, some evidence in support of this is emerging as vacancies are dropping quickly whilst unemployment rates continue to tighten and wage growth is not accelerating further. The ECB's forecasts showed an expectation that the region would skirt recession in the coming year. The IMF has warned that a third of the world economy is expected to be in recession in 2023.

Whilst the possibility of inflation expectations becoming unanchored increases the longer that realized inflation remains above target, the current indications are this is not occurring. Market based measures and survey-based measures are showing limited signs of drift in expectation and are declining in the US and Australia. Along with supply chain frictions now only modestly ahead of pre-covid levels, much of the initial wave of inflation developments are settling. What remains primarily relates to the stickiness of core inflation and the uncertainties associated with this.

Whilst most monetary authorities continue to condition the market to expect strong monetary action into and throughout 2023, including to the point of inducing recession, the prices components in business surveys are showing favourable trends.

Australia has been something of an outlier recently. In contrast to introducing additional fiscal and other measures to contain cost of living, Treasurer Chalmers allowed fuel subsidies to lapse and contained speculation that stage 3 tax cuts would be cancelled. Further, the RBA indicated that smaller rate rises of 25bps were to hand and surprised the market by only making a move of that size in October.

China continues to struggle with its covid zero policies and other difficult economic issues have not been resolved. The CNY has weakened below the threshold of 7 to the USD, but authorities there have downplayed the significance of that line. The strength of the USD may create difficulties in other Emerging Markets where foreign currency reserves are limited in some cases.

Australian home prices continue to fall under the weight of increased mortgage costs and lower real disposable incomes. Nonetheless, whilst pockets of distress are expected to emerge over time, the current loan performance remains very strong.

S&P's recent examinations, which included a scenario where property prices fall by 18% from peaks over the next 12-18 months, suggest these are not sufficient to cause any material concern. The RBA's most recent Financial Stability Report largely aligns with this finding. Indeed, RMBS issuance increased materially during the month and was well supported.

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Europe has successfully built gas storages to over 90%, a remarkable achievement, despite lack of supply from Russia. This will provide some resiliency through the coming winter. It is notable that energy prices for natural gas declined over the month. Oil prices also declined far enough for OPEC to react by reducing target output.

Economic risks are significant. The ongoing strength in economies and fiscal measures to socialize inflation imply more aggressive monetary action and this has increased the risk of a recession in 2023. Considerable uncertainties remain which are difficult to resolve via traditional analysis. Given forecasts have proven very wide of the mark in both directions in recent years, it is important that expectations of a recession are not simply translated to imply an overwhelming likelihood that one will emerge. To that end, credit markets continue to provide what we identify to be an elevated risk aversion premium. This is also visible via the divergence in spreads offered by the same investment grade issuers in EUR and USD markets, which is approaching highs last seen during the European debt crisis. High Yield issuance remains very constrained and corporate treasurers have favoured tapping bank lines than issuing credit into a weak market. Risk bearing by investment banks is also constrained at present. Nonetheless, it may be some time before the aversion dissipates and it is certainly possible that it proves to have been predictive.

We continue to build structured credit exposures into the portfolio as our pipeline of private deals is progressively finalized and financed. The significant volume of new public issuance over the month, also provided good entry points to return exposures towards benchmark levels again. The pipeline will continue to progress.

We reduced exposures to corporate credit and bank capital as price targets for some lines were reached. We are prepared to extend the exposures again if markets become dislocated.

We have reduced our interest rate duration exposure. As cash rates rise and the term structure flattens, the relative benefit of long duration bonds declines relative to credit spreads. Further, supply side shocks have had large impacts on markets recently and are likely to be influential for the time being. Bonds offer less diversification benefit under these circumstances.

Cash and near-liquid exposures remain comfortably above benchmark levels and we continue to hold a portfolio with considerable latent liquidity. We continue to hold some portfolio hedges, which are largely concentrated in Europe.

Our sub-investment grade exposures are primarily in structured credit where they have been rigorously stress tested against very severe outcomes, and also European AT1 in names including systemically important banks like BNP, ABN Amro and ING.

Forward-looking returns appear favourable for medium term investors even if risk aversion should remain elevated and, with yield to maturity now above 6% per annum, provides some buffer against capital losses should spreads continue to widen.

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