

MARCH 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 \$1.38 billion

Management Fees (inc. GST):

Ordinary Units - 1.20%

Wholesale Units - 0.77%

Adviser Units - 0.77%

mFunds Units - 0.77%

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	-0.51%	-0.47%	0.01%
3 Month	-0.81%	-0.70%	0.02%
6 Months	-0.74%	-0.53%	0.05%
1 Year	1.35%	1.80%	0.10%
3 Years p.a	3.47%	3.88%	0.41%
5 Years p.a	3.15%	3.59%	0.85%
Since Inception p.a*	4.43%	4.41%	1.52%

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

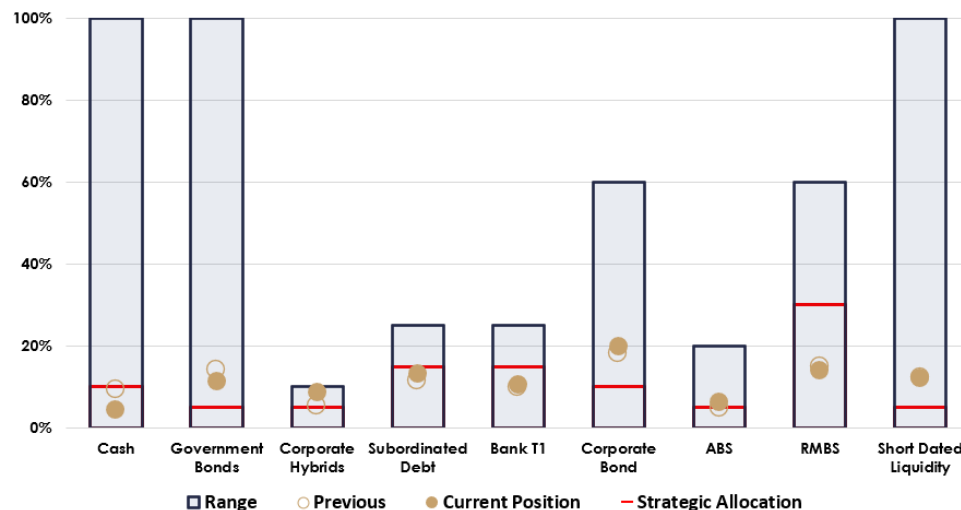
FUND STATISTICS

Running Yield	3.77%
Yield to Maturity	3.46%
Volatility†	1.01%
Interest rate duration	1.39
Credit duration	2.67
Average Credit Rating	BBB+
Number of positions	326
Average position exposure	0.99%
Worst Month*	-1.19%
Best Month*	1.22%
Sharpe ratio‡	2.80

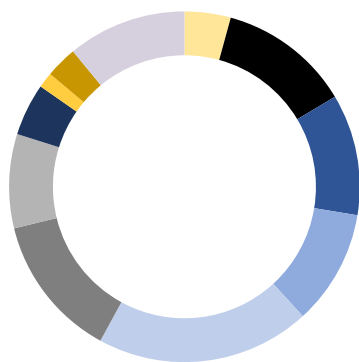
Calculated on Ordinary Units unless otherwise stated. *Since Inception 26 September 2012.

†Trailing 12 Months Calculated on Daily observations. ‡Since Inception Calculated on Daily observations

SECTOR ALLOCATION

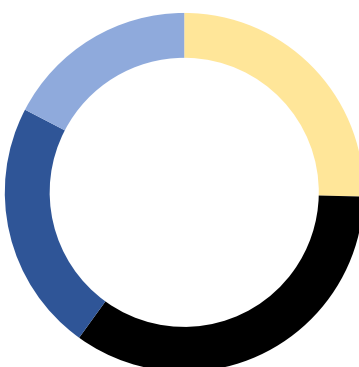


PORTFOLIO COMPOSITION



- Cash (4.26%)
- Commercial Paper (12.16%)
- Government Bonds (11.18%)
- Bank T1 (10.61%)
- Corporate Bond (19.75%)
- Subordinated Debt (13.23%)
- Corporate Hybrids (8.68%)
- ABS Public (4.83%)
- ABS Private (1.43%)
- RMBS Private (2.92%)
- RMBS Public (10.96%)

MATURITY PROFILE



- At Call to 6 Months (25.38%)
- 6 Months to 3 Years (34.59%)
- 3 Years to 5 Years (22.66%)
- 5 Years to 10 Years (17.38%)
- 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 35.66% to 27.60%. During the first half the month, we continued to tactically increase risk across the Corporate and Bank Capital book, particularly to bonds denominated in EUR and USD.

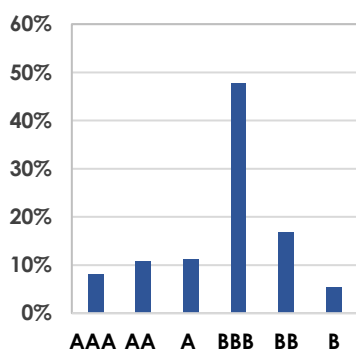
Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate bonds, corporate hybrids and bank sub-debt increased from 34.91% to 41.66%. Global credit spread performance was mixed over the month. EUR and USD credit markets continued to sell-off sharply over the first two weeks of the month before rallying strongly into month-end, recovering all of the credit spread underperformance experienced since Russia's invasion of Ukraine in late February. This supported our tactical rotation from AUD into EUR and USD denominated securities, which significantly ramped up during the first half of March. In contrast, domestic credit markets – who were largely shielded from Russia/Ukraine headlines -- remained soft as rising government bond yields dampened market sentiment. New corporate issuance remained light with notable issuance from Suncorp and CBA, both coming to market with Tier 2 securities. We now see more balanced relative value between domestic and offshore credit markets and have started to rotate back into AUD denominated assets.

Interest Rate Duration Position: ↑ IRD positioning increased from 1.02 to 1.39 years. The month of March was dominated by volatility stemming from the Russian invasion of Ukraine; ensuing sanctions; accelerating global inflation; increased hawkish commentary from FED members; Chinese covid lockdowns, strong global economic data and pessimistic consumer sentiment. The global bond market sell-off of March is comparable to significant historical events and was the major driver of domestic rates. In our view, the correlated rates movement domestically isn't warranted by the economic conditions nor outlook, hence, IRD was extended in the portfolio, skewed to the front end.

Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS securities decreased this month from 14.8% to 13.9%.

Structured credit markets were weaker alongside credit markets over the start of March on the back of Russian/Ukrainian tensions. The effect of this was most notable in the senior mezzanine (AAA/AA rated) and higher rated mezzanine (A rated) portions of the capital structure. Spreads remained wider into month end, lagging the tightening experienced by corporate credit markets. The sell off in spreads was driven by market factors, with prime arrears (SPIN) remaining at their lowest point since 2004.

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	8.17%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0%	10%
Gambling	1.05%	10%

Additional Tier 1 (AT1) Exposures: ↑ AT1 exposure increased from 9.84% to 10.61%. We continued to switch from shorter dated ASX listed AT1's into USD AT1's over the first two weeks. At the start of the month, we opened up a small proportion of the fund to tactically invest in global credit issuers. We took this opportunity to invest in AUD over-the-counter AT1s issued by French Banks Societe Generale and BNP Paribas, which significantly underperformed since the start of the Russian invasion of Ukraine - these lines have since outperformed strongly.

Asset Backed Securities (ABS): ↑ Our ABS allocation increased from 4.8% to 6.2%. Fund exposures continue to perform well, with shorter duration assets limiting the impact of weaker credit markets, which makes them highly sought by market and well bid.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 0.99% to 1.48%. This increase is driven by a reduction in our cash holdings and an increase both credit duration (from 2.01 to 2.67 years) and interest rate duration (from 1.02 to 1.39 years). The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Market sentiment during March was adversely affected by the stagflationary impulse associated with the developments in Ukraine building upon pre-existing inflationary pressures. Whilst early signs were present that supply chain issues were beginning to resolve before the war erupted, labour markets remained exceptionally tight in the US and Australia. Australian 3-yr swap rates rose 85bps to 2.58% over the month, with 10-year bond yields rising 70bps to 2.84%. These moves largely followed a strong lead from the US.

During the month, a large surge in energy prices arose due to the effect of sanctions and concerns that European natural gas imports from Russia would be disrupted. Tighter financial restrictions threatened the ability of Russian firms to make payments on foreign currency debt. This was combined with ongoing voluntary behaviours to remove Russian exposures, creating even stronger risk aversion in credit markets. iTraxx indices reflected this, with the index reaching triple figures in Australia once again, a level not seen since H1 2020 when the stresses from the first covid wave were receding. The VIX surged to its highest levels for over a year.

Australian senior and Tier 2 bank debt and RMBS markets were very weak over the month, with spreads widening beyond the levels immediately before covid became prominent. Bank credit in Europe was even more affected, due to concerns over direct exposures to Russian assets as well as their proximity to strong stagflationary effects. Credit markets in the US also experienced significant weakness during the month but recovered this before it ended.

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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/>

Whilst Australian bank debt recovered off intra-month lows, RMBS remained weak with spreads on higher-rated notes finishing wider, on a relative basis, than BBB or lower-rated notes. Importantly, this was not the outcome of any acute deterioration in credit quality. Australian corporate credit also remained soft through month-end, in contrast to the US.

Real yields on Australian 10-yr bonds moved into positive territory. Australian 10-yr bonds trade with higher real and nominal yields than the US despite our more contained inflation experience and exposure. The ongoing unwinding of the RBA's prior rhetoric in relation to exercising patience with rate rises has damaged the credibility of their forward guidance and has contributed to an unusually low level of differentiation between nearer-term expectations for rate rises over the coming year, relative to the Fed. At month's end, Australian cash rates were anticipated to rise to ~1.75% by December, which compares to the ~2.25% figure for the US.

Whilst the realised US inflationary experience is at levels not seen since the early 1980s, Australia's outlook is influenced more by indications of a very tight labour market which has yet to translate to significant, widespread wage rises. Nonetheless, the RBA has now clearly indicated a preparedness to raise rates in June, pending wage and price inflation readings which will be released in May. Meanwhile, discussions in the US have moved to how many 50 bps rate rises may be needed to quell inflation pressures and how fast the Fed balance sheet can be reduced without causing a mishap.

Broad equity markets fell during the month but recovered to finish higher. The potential for a peace settlement in Ukraine improved following a spirited defence and strong support from Western-aligned powers. The Australian dollar has been more strongly influenced by an improvement in the Terms of Trade than risk aversion. The pre-election Budget did not provide any material impact on financial markets, although projected deficits were far more limited than the MYEFO estimates released in December, reflecting the surprising resilience of the economy.

In line with our contrarian approach, we increased portfolio risk as markets weakened. Of note, we added exposures into USD denominated Australian Bank issues, where pricing had become detached from domestic levels. We also added USD denominated bonds of selected Australian corporate names. We continued to increase our exposure to European issuers, including SocGen, Rabobank and Bayer as this market exhibited some distress. We added selectively to structured credit exposures as new deals came to the public market. We expect to be funding a material volume of wholesale private credit facilities in the coming weeks as documentation is finalised. We sold positions in domestic hybrids.

As Australian bonds weakened closely in line with the US, we also added to our interest rate duration exposures. Our exposures are concentrated in bank bills and 3-year bonds, where we believe the inferred rate path should not be tracking as closely to the US. We continue to hold some protection against a material deterioration in the economic environment.

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After an extended period where forward-looking return expectations were constrained by tight credit spreads and our highly defensive positioning in this environment, recent market moves have restored these to more normal levels once again. As we deploy funds to increase exposure to wholesale private credit in the coming weeks, forward-looking return expectations will move back towards target levels again.

This part of the interest rate cycle is very challenging to negotiate and our positioning has served to limit portfolio losses that have arisen as the war in Ukraine erupted, but had been avoided up until that point.

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