REALM HIGH INCOME FUND

APRIL 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 $1.40 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

Zenith

RECOMMENDED

NET PERFORMANCE

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	-0.73%	-0.70%	0.01%
3 Month	-1.48%	-1.38%	0.02%
6 Months	-0.81%	-0.61%	0.05%
1 Year	0.10%	0.54%	0.10%
3 Years p.a	2.95%	3.39%	0.38%
5 Years p.a	2.95%	3.40%	0.83%
Since Inception p.a*	4.32%	4.28%	1.51%

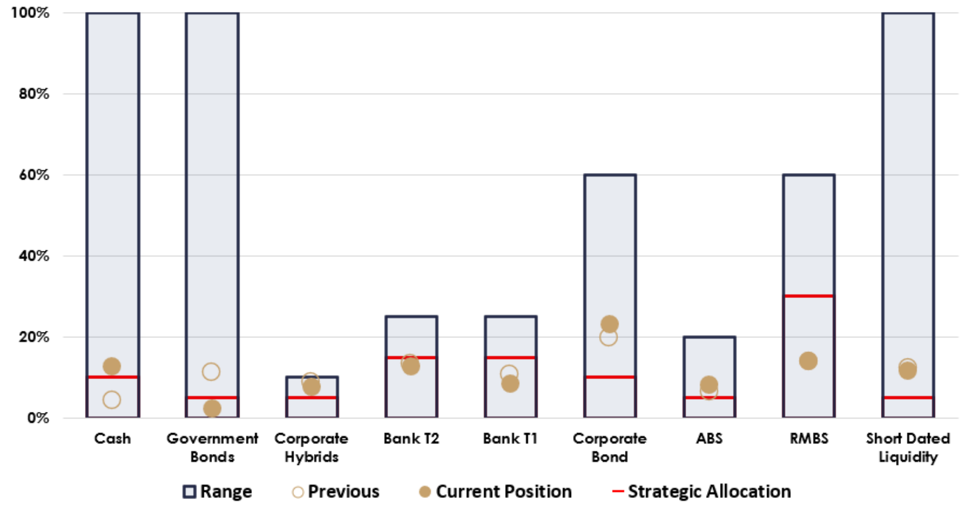
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

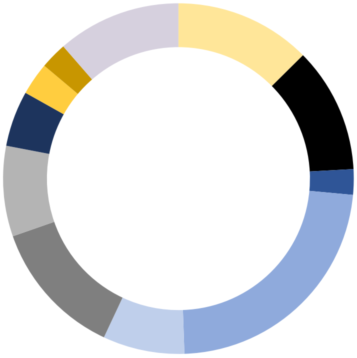
Running Yield	3.44%
Yield to Maturity	3.70%
Volatility†	1.11%
Interest rate duration	1.20
Credit duration	2.77
Average Credit Rating	BBB+
Number of positions	339
Average position exposure	1.01%
Worst Month*	-1.19%
Best Month*	1.22%
Sharpe ratio∂	2.67

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

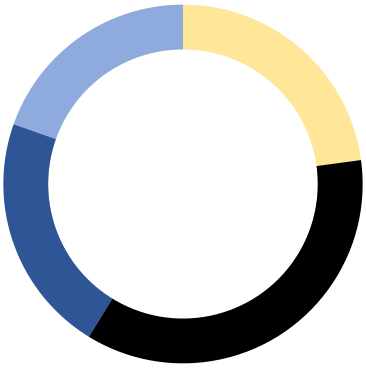


PORTFOLIO COMPOSITION



- Cash (12.57%)
- Commercial Paper (11.56%)
- Government Bonds (2.35%)
- Corporate Bond (22.97%)
- Corporate Hybrids (7.53%)
- Bank T2 (12.68%)
- Bank T1 (8.34%)
- ABS Public (5.13%)
- ABS Private (3.00%)
- RMBS Private (2.46%)
- RMBS Public (11.40%)

MATURITY PROFILE



- At Call to 6 Months (22.87%)
- 6 Months to 3 Years (35.90%)
- 3 Years to 5 Years (21.64%)
- 5 Years to 10 Years (19.59%)
- 10 Years + (0.00%)

FUND UPDATE

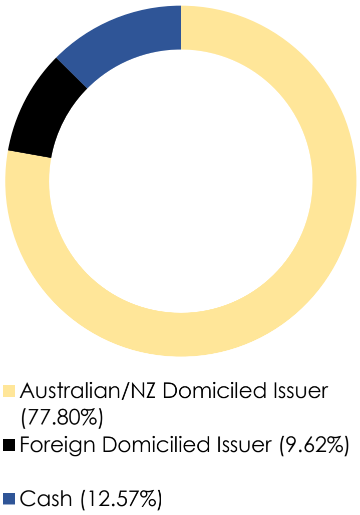
Cash and Short-Term Liquidity Weighting: ↓ The allocation to highly liquid assets (cash, commercial paper and government bonds) decreased from 27.60% to 26.48%. Compositionally, our cash holdings increased (from 4.26% to 12.57%) due to a reduction in government bond holdings (from 11.18% to 2.35%). By sector, we increased allocations to corporate bonds and ABS and reduced allocations to bank T1, corporate hybrids and bank T2.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) increased from 41.66% to 43.18%. Credit spreads materially widened over the month as sentiment continues to be dampened by rising government bond yields. Domestically, credit spreads widened for a third consecutive month while USD/EUR credit spreads gave back most of the gains achieved in the 2nd half of March and are now nearing YTD wides. At the start of April we took profits across subordinated debt, particularly in USD and increased allocations to senior ranking corporate bonds with longer dated maturities. We also continued to allocate to EUR corporate hybrids issued by global companies. Despite the challenged market conditions there was an interesting selection of new corporate issuance, mostly in the USD space. Notable issuances include CSL's inaugural US$4 billion muilti-tranche offering and a contingent of new issuance from Aussie miners including: South32, Fortescue and Mineral Resources. In early May, ANZ Bank issued 3 and 5 year senior unsecured notes in domestic markets.

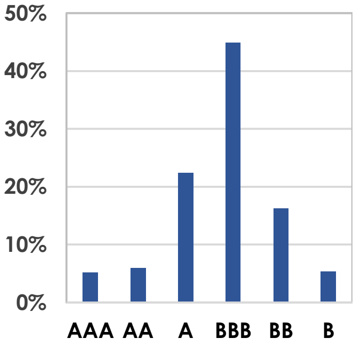
Interest Rate Duration Position: ↓ IRD positioning decreased from 1.39 to 1.20 years. There were no signs of volatility, uncertainty or risk abating over the month of April. Interest rate markets were dominated by progressively hawkish commentary from the major global central banks – concerns were around inflation and uncertainty caused by Russia. Russia had demanded gas payments in Rubles and subsequently cut off supply to Bulgaria and Poland. Ensuing uncertainty around European energy supply drove global interest rate volatility. An unexpected rate hike from the Swedish Riksbank and concerns around a possible Beijing lockdown amplified volatility domestically. IRD composition is still skewed to the short end, however, positions in the long end were built opportunistically.

Residential Mortgage-Backed Securities (RMBS): ↔ Weighting to RMBS securities remained inline this month at 13.9%. Structured credit markets continued to weaken alongside global credit markets as inflation headlines affected market sentiment. Transaction flow was quiet with only one prime issuance from Firstmac coming to market. The selloff in spreads continues to be driven by market factors rather than underlying credit concerns. Average prime arrears levels (SPIN) in January were slightly weaker. This was in line with expectations post the Christmas holiday period however, prime arrears levels remain significantly lower compared to historical levels.

ISSUER DOMICILE



CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	7.91%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0%	10%
Gambling	1.05%	10%

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 10.61% to 8.34%. Over the month we took profits across AUD and USD AT1's and continued to tactically allocate to EUR AT1s issued by global banks. The supply/demand dynamics of the domestic AT1 market remains supportive with no new domestic issuance during the month.

Asset Backed Securities (ABS): ↑ Our ABS allocation increased from 6.2% to 8.13%. Fund ABS 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 was steady at around 1.48% as increased credit duration (from 2.67 to 2.77 years) was offset by reduced interest rate duration (from 1.39 to 1.20 years). The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

The month was a challenging one for risk markets. As the list of issues which contribute to a higher and longer lasting inflation outlook persisted and grew, the market implied path for central bank cash rates steepened in many countries as conviction increased that they will seek to address inflationary developments more forcefully. The expected RBA interest rate for December rose from approximately 1.75% to 2.50% over the month. This is an exceptionally far cry from the guidance provided as recently as October last year, where the possibility of rate rises this year were seen to be remote. Expectations for the rate path rose significantly as FOMC members openly considered the merits of a 75bps move in May and the RBA dropped any mention of remaining 'patient' as they awaited evidence that inflation had sustainably returned to its target band. Yield curves generally rose across global bond markets and increased consideration was being given to the scenario that some central banks may elect to sell their bond holdings rather than allow them to mature.

As monetary accommodation is being removed, credit spreads have widened further. These had been a beneficiary of search for yield behaviour in recent years and now had to contend with an improving opportunity to secure returns from interest rate term premia instead. Naturally, the impact to confidence from an increased likelihood of a hard landing in the coming year has played a role. Unsurprisingly, the EU/UK credit markets have been more significantly impacted. The large market moves, including in currency markets where the USD has been especially strong, have also created uncommon technical developments. For example, a meaningful volume of Japanese investors in Australian credit, who generally invest on an unhedged basis, determined that it was an opportune time to take profits from currency driven gains as the Yen had substantially depreciated.

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/

Structured credit markets remained weak with new issues being deferred in some cases. Those who did launch into the market were forced to do so at much higher spreads than previously the case. Senior and mid-mezzanine markets have been most affected. Commentators are forecasting an orderly weakening of property prices and serviceability buffers will be eroded as interest rates rise. Nonetheless, there is no indication that the credit quality of these assets has shifted in a material way. The Australian labour market outlook remains robust and many households are well ahead of scheduled mortgage payments.

These developments had the expected impact on equity markets, which were broadly weaker. Growth and tech stocks fared poorly with the Nasdaq falling 13.3% over the month. The net loss of subscribers reported by Netflix during the month was one indicator that the stay-at-home theme had seen its best days.

The global economy is presently afflicted by a confluence of stagflationary influences. Although supply chains had shown some signs of stabilisation, new lockdowns in the important port city of Shanghai fouled up the flow of trade once again. The lockdowns contributed to iron ore and natural gas prices falling over the month, despite Russia ceasing to supply natural gas to Poland and Belarus, although coal and oil prices rose. Food prices are also being directly affected by the war in Ukraine, which is a key exporter of grain. The interconnectedness of the world economy continued to be demonstrated in other ways, such as the production of microprocessor chips, which was impacted by the uncertain supply of Neon. Approximately half of the world's semi-conductor grade gas is produced by Ukraine and Russia.

The effects of inflation have become broader based, and more evidence is arriving that wages are reacting. Australia's headline annual CPI was reported at 5.1%, the highest in 21 years. In the US, the figure was 8.5%. Labour markets remain exceptionally tight.

There is an array of uncertainty regarding the resilience of household consumption in the face of declining real wages. Furthermore, the ability to negotiate higher wages or the preparedness of households to reduce their savings rate, is also unclear. Uncertainties continue to persist in other areas like the fragile state of China's property market and the implications of the recent announcement from President Xi of an 'all-out' infrastructure stimulus package to help achieve the targeted growth trajectory. Furthermore, developments relating to the EU's efforts to wean itself further off Russian energy exports will also have flow-on effects.

Bond yields and credit spreads have now reverted beyond their pre-covid levels and this signals, to a significant extent, that the period of monetary accommodation has now largely ended. Yields to maturity are once again indicative of forward-looking returns. Part of these moves can be attributed to a need to contain runaway inflation, risk aversion due to heightened geopolitical risks and an elevated possibility of a policy error. Whilst recent portfolio returns have been disappointing in an absolute sense, they have been consistent with the market environment. Geopolitical developments have caused the timetable for monetary normalisation to be placed on an accelerated schedule but the markets are now pricing a restrictive monetary setting in the near term and 10 year bond yields, in Australia, which are consistent with a normalisation of monetary settings.

The volatility in markets has presented considerable relative value opportunities in corporate and bank debt. We have progressively increased exposure to foreign issuers and foreign denominated debt, with a particular emphasis on the European market, where we believe risk aversion is especially elevated.

DISCLAIMER

Realm Investment Management Pty Ltd ACN 158 876 807, a corporate authorised representative (number 424705) of Realm Pty Ltd ACN 155 984 955 AFSL 421336 (Realm) is the investment manager of the Realm High Income Fund (ARSN 159 673 533) (Fund). One Managed Investment Funds Limited (ABN 47 117 400 987) (AFSL 297042) is the responsibility entity of the Fund (OMIFL). The information contained in this document was not prepared by OMIFL but was prepared by other parties. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information contained therein cannot be warranted or guaranteed. Anyone reading this report must obtain and rely upon their own independent advice and inquiries. Investors should carefully consider each of the Product Disclosure Statement for the Ordinary Units, mFund Units and Wholesale Units dated 12 November 2018 or the Product Disclosure Statement Adviser Units dated 12 November 2018 (together with the Additional Information Booklet dated 12 November 2018) (PDS) and Target Market Determination (TMD) issued by OMIFL before making any decision about whether to acquire, or continue to hold, an interest in the Fund. Applications for units in the Fund can only be made pursuant to the application form relevant to the Fund. A copy of the PDS for the Ordinary Units, mFund Units and Wholesale Units dated 12 November 2018 and the PDS for the Adviser Units dated 12 November 2018, TMD dated 1 October 2021, continuous disclosure notices and relevant application form may be obtained from https://www.oneinvestment.com.au/realm/ or https://www.realminvestments.com.au/our-products/realm-high-income-fund/. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. Realm believes that the information contained in this document is accurate when issued. Realm does not warrant that such information or advice is accurate, reliable, complete or up-to-date, and to the fullest extent permitted by law, disclaims all liability of Realm and its associates. This document should be regarded as general information only rather than advice. In preparing this document, Realm did not take into account the investment objectives, financial situation and particular needs of any individual person. The information contained in this document must not be copied or disclosed in whole or in part without the prior written consent of Realm, and Realm accept no liability whatsoever for the actions of third parties in this respect. It is presented for informational purposes only and is not to be construed as a solicitation or an offer or recommendation to buy or sell any securities. Any opinions expressed in this document may be subject to change. Realm is not obliged to update the information. The information must not be used by recipients as a substitute for the exercise of their own judgment and investigation. Neither Realm nor any of their directors, employees or agents accept any liability for any loss or damage arising out of the use of all or part of, or any omission, inadequacy or inaccuracy in, this document. OMIFL and Realm do not guarantee the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither OMIFL nor Realm, including their directors, senior executives, employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Realm only provides services to wholesale clients, as defined in section 761G of the Corporations Act. Past performance is not indicative of future performance. Information in this document is current as at 30 April 2022.

ZENITH DISCLAIMER

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned June 2021 referred to in this document is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at http://www.zenithpartners.com.au/RegulatoryGuidelines