REALM HIGH INCOME FUND

MAY 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 $1.39 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	-0.09%	-0.05%	0.03%
3 Month	-1.32%	-1.21%	0.04%
6 Months	-1.44%	-1.22%	0.07%
1 Year	-0.31%	0.14%	0.12%
3 Years p.a	2.86%	3.31%	0.34%
5 Years p.a	2.88%	3.32%	0.80%
Since Inception p.a*	4.27%	4.24%	1.50%

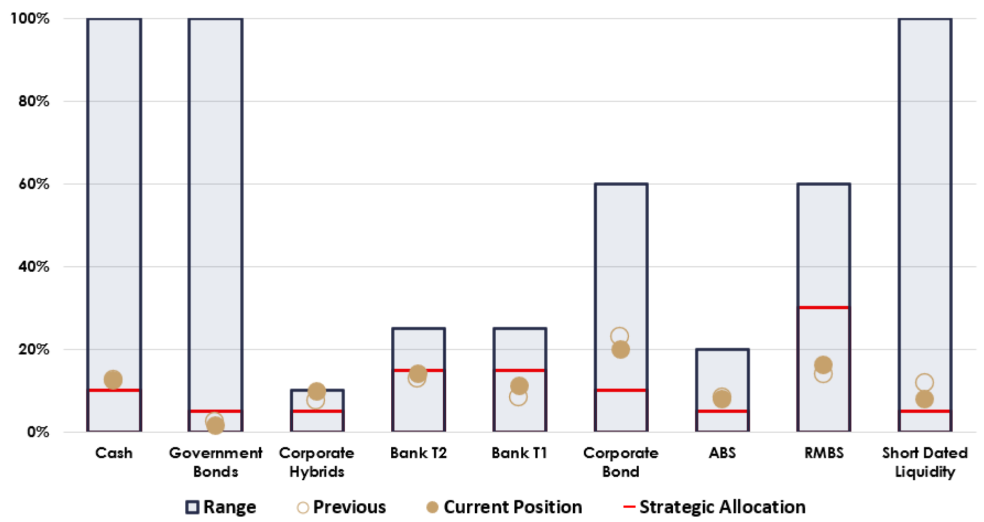
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	3.74%
Yield to Maturity	4.46%
Volatility†	1.38%
Interest rate duration	1.41
Credit duration	3.12
Average Credit Rating	BBB
Number of positions	340
Average position exposure	0.61%
Worst Month*	-1.19%
Best Month*	1.22%
Sharpe ratio∂	2.57

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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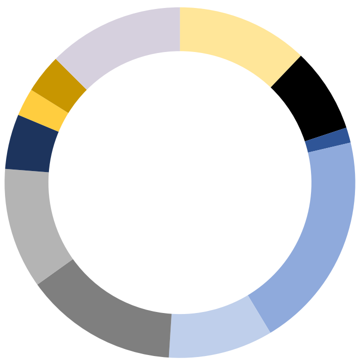
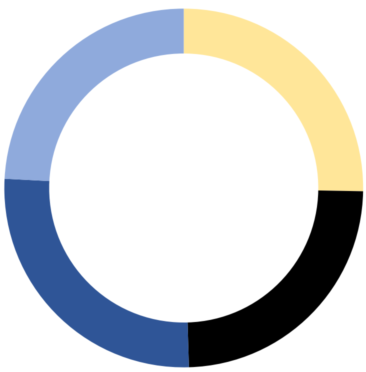
PORTFOLIO COMPOSITION



- Cash (12.12%)
- Commercial Paper (7.80%)
- Government Bonds (1.41%)
- Corporate Bond (20.04%)
- Corporate Hybrids (9.64%)
- Bank T2 (14.11%)
- Bank T1 (11.13%)
- ABS Public (5.07%)
- ABS Private (2.56%)
- RMBS Private (3.59%)
- RMBS Public (12.53%)

MATURITY PROFILE



- At Call to 6 Months (25.29%)
- 6 Months to 3 Years (24.25%)
- 3 Years to 5 Years (26.28%)
- 5 Years to 10 Years (24.18%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ The allocation to highly liquid assets (cash, commercial paper and government bonds) reduced from 26.48% to 21.33%. This was allocated to subordinated debt (corporate hybrids and bank T2), bank T1 and RMBS as we increased risk across the portfolio.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) increased from 43.18% to 43.79%. Compositionally, we reduced allocations to corporate bonds (-2.93%) as we took profits in shorter dated paper and rotated into higher yielding subordinated debt (+3.54%) in EUR and USD. Global credit spread performance was mixed over the month as markets continued to navigate through the impacts of the rising interest rate environment and inflation and growth concerns. Domestically, credit spreads widened for a fourth consecutive month. Offshore, EUR and USD credit markets reached YTD wides during the month, although a risk rally in the 2nd half saw USD close firmer month on month. New issuance was relatively modest and centered around financials. Three Australian major banks issued senior unsecured paper (ANZ/Westpac in AUD and NAB in USD) and Macquarie Bank issued a Tier 2 in AUD. Notably, Air New Zealand priced an inaugural AUD transaction with a dual tranche 4 and 7 year senior unsecured deal.

Interest Rate Duration Position: ↑ IRD positioning increased from 1.20 to 1.41 years. Volatility and inflation statistics around the globe continued its trend upwards during the month of May. The Russian invasion of Ukraine unarguably increased energy costs globally and has been one of major drivers of hawkish commentary from global central bank members. Additionally, unabating demand from consumers led to cash rate hikes from major central banks, including Australia, which surprised the market to varying degrees. As a result, volatility in government bond markets increased providing us opportunity to increase our interest rate position. Composition was increased towards the long end of the curve.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 13.9% to 16.12%. Public Structured credit markets continued to be weaker, with credit spreads widening alongside global credit markets. There were several transactions in market over the course of the month; most notable were three transactions issued by regional banks, who returned from being absent in the Australian market for some time. This increased supply led to further weakness in various portions of the structured credit complex, with senior (AAA) and senior mezzanine (AA) tranches continuing to weaken more than the mezzanine (A/BBB rated) and Junior mezzanine tranches (Sub investment grade).

Average prime arrears levels (SPIN) improved in February by 1 basis point to 0.78%, while non-conforming arrears weakened 4bps to 2.58%. Both data prints remain strong in comparison to historical arrears levels.

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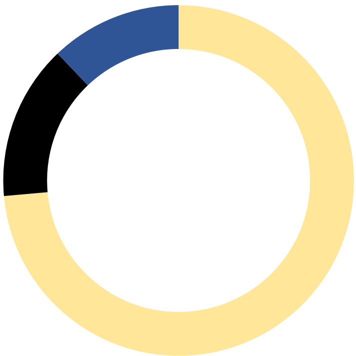
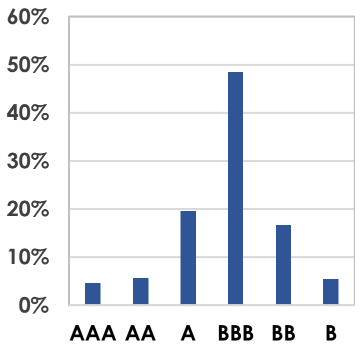
REALM INVESTMENT HOUSE

ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (73.58%)
- Foreign Domicilied Issuer (14.30%)
- Cash (12.12%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	7.42%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0%	10%
Gambling	1.04%	10%

Additional Tier 1 (AT1) Exposures: ↑ AT1 exposure increased from 8.34% to 11.13%. We continued to increase allocations to AT1s in EUR and USD as valuations remain attractive. The supply/demand dynamics of the domestic AT1 market remained supportive with no new issuance during the month. In early June, NAB announced a new NAB Capital Notes 6 offer (NAPBI) to refinance NABPD's.

Asset Backed Securities (ABS): ↓ Our ABS allocation decreased from 8.13% to 7.63%. 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 market and well bid.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 1.48% to 1.98% as we added risk through lengthening both credit duration (from 2.77 years to 3.12 years) and interest rate duration (from 1.20 years to 1.41 years). The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Financial markets produced mixed outcomes over the month although they were generally characterised by a mid-month bout of risk aversion which was subsequently unwound.

Equity markets returns diverged. The S&P500 moved into bear market territory during the month but recovered to close marginally higher. The Nasdaq fell as much as 8.7% over the month, but recovered to record a loss of 2.1%. The ASX 200 recorded a 3% loss with small capitalisation stocks down 7.1%. Whilst the European STOXX 600 finished marginally lower, the UK FTSE and Japanese Nikkei 225 gained. The VIX was elevated during the month as equity markets weakened, but closed lower into month-end.

Australian 10-year bond yields traded over a 40bps range to finish slightly lower, although 3-year bonds were largely unchanged. Global bond markets rallied during the month as the possibility of a Fed pause in September gained support, but this expectation was subsequently unwound as several FOMC members spoke out against this. Australian bonds benefited temporarily as the Wage Price Index reading came in slightly below expectations. The markets were largely unmoved by the Federal election outcome. The RBA surprised the market by raising rates by a 'business as usual' 25bps in early May, bringing rates to an unusual 0.35% level. Despite a protracted period of communicating that they would be patient and await actual evidence of wage pressure before raising rates, the RBA ultimately decided that enough information was available from business liaison activity. They went on to surprise the market again by lifting rates by 50bps in June, citing upward revisions in inflation outcomes from gas and energy prices which had emerged and ongoing resilience in expected household spending.

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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/

The ECB conditioned the market for an end to the negative interest rate policy and asset purchases by Q3. German CPI recorded a 50-year high at 8.7% for the year.

Australian Credit softened along with global markets for much of the month but, unlike global credit markets, did not rally towards the end of the month. A significant volume of senior bank debt was issued which required relatively high concessions to clear, and this saw spreads widen. Subordinated and hybrid debt followed suit. Banks are recording solid lending growth but are issuing at an elevated rate as they seek to refinance their Term Funding Facility borrowings from the RBA. Corporate debt took a lead from the performance of financials and their performance is further constrained by the weight of issuance which had been deferred as markets weakened in recent months. Issuance of structured credit is at the highest year to date volume in 10 years and spreads are also widening as the market is finding better value in foreign markets. Recent issuance has generally arrived in the market substantially pre-placed to limit pricing risks in a weak market. Arrears remain limited, but we are early in the rate tightening cycle. Property prices declined over the month at a national level, led by the major capital cities.

Commodity markets were driven by two separate themes. China's ongoing lockdowns associated with their zero covid policy have softened spot prices for iron ore, coking coal and industrial metals. Premier Li called for additional stimulus as the Chinese economy appeared at risk of shrinking in Q2. On the other hand, energy and agricultural prices were elevated as supply from Ukraine/Russia was impaired and Europe took additional measures to wean itself off Russian energy. An agreement was struck to reduce Russian oil imports by 90% by end of the year, of which most will be implemented in the near term for seaborne supplies. Russian output is already 1.2mbpd lower and OPEC appears unable to fill the gap despite increased output guidance. A ban on Russian coal imports will be implemented in August. Replacing gas imports will prove more challenging and will require creating infrastructure to receive and distribute seaborne LNG.

The AUD cycled over the month in alignment with global risk appetite, falling below USD 69 cents for a time, a level last seen in July 2020. Differentials in interest rates continued to be a significant driver of exchange rates in key currencies. The USDJPY is at multi-decade highs.

The probability of recession has increased around the world as monetary accommodation is being withdrawn. Australian consumer confidence has been significantly impacted, although actual expenditure remains solid. The Bank of England's GDP estimate for June 2023 is for zero growth. Importantly for the banking system, the legacy of the GFC is a far better capitalised network. The ECB's latest stress tests included a severe scenario involving three consecutive years of negative growth. They conclude the system will readily withstand an even worse outcome. The same could not be said for cryptocurrencies with the TerraUSD stablecoin failing to sustain its linkage. More locally, APRA's investigations suggest there is no systemic issue with unsound mortgage lending as we proceed into a rapid rate tightening cycle.

As energy prices spiked elsewhere, it had been argued that Australia was less affected due to the segmentation of our energy market. This theory was laid to rest when coal supplies to Origin Energy's Eraring Coal-fired power station were interrupted and the effect cascaded through gas and electricity markets more generally. Given the constraints of Australia's energy infrastructure prevent quick restitution, inflation expectations for the coming year rose materially. Differing beliefs on Australia's future energy infrastructure also played out with the cancellation of the AGL Demerger proposal after superannuation fund HESTA sided with the arguments put forward by Grok Venture's (and Atlassian co-founder) Michael Cannon-Brookes, putting the threshold required under the Scheme of Arrangement out of reach.

Elsewhere in the world, evidence continued to mount that peak inflation may be close. Apart from some easing in supply chains, shares of retailers in the US like Walmart and Target were marked down sharply when they were unable to maintain their margins, absorbing inflation rather than fully passing it to consumers. They also noted that changes in consumption habits which illustrated some measure of financial distress is accumulating. Amazon is looking to release excess warehouse capacity. It still appears that inflation will decline materially in 2023, although central banks are keen to ensure that inflation expectations do not become entrenched in wage-setting behaviour. To that end, it appears that wage settlements in Australia will not keep pace with inflation on the whole but households have significant financial resources to sustain their expenditure for now if they choose to.

There are many significant uncertainties. Failure to secure safe passage for grain from Ukraine could lead to instability in some emerging market economies as food prices escalate and other exporters protect home markets. China's Zero Covid Policy and impaired property market can produce large swings in trade, growth outlook and supply chain inflation. Although under official pressure to lend to support the property market, Chinese banks are concerned about the security of their loans and reportedly circumvent these targets by swapping loans with each other in some cases. China's recent efforts to extend its influence into the Pacific Islands are noteworthy, as were the first actions of our new Foreign Minister. The resilience of household spending and wage negotiations are very large unknowns and could shift the path of interest rates significantly as they develop. Removing policy accommodation so quickly, amidst an environment where forecasting has even less value than usual certainly comes with a high risk of policy error. The task of finding the neutral cash rate within this backdrop, when moving rates at this pace, shares more commonality with guesswork than settled science.

As spreads have widened, our contrarian approach has led us to redevelop exposures into selected situations where we can identify value. Although spreads have now widened beyond their pre-covid levels, we believe this may continue as a recession is not fully priced. Nonetheless, we are finding excellent value in foreign banks whose spreads trade materially wider than Australian alternatives after allowing for currency hedging.

The rapid moves in relative prices are also providing elevated opportunities to trade and we have been absorbing market weakness and selling into relative strength. Although structured credit spreads for public securities have widened materially, these still do not appear compelling for the most part, given the better alternatives available to globally oriented structured credit investors. Private structured credit opportunities still look compelling and we have a solid and high-quality pipeline to be drawn in the coming months. Interest rate duration is primarily determined with risk budgeting in mind rather than attempting to rely on forecasts when uncertainties are so overwhelming. Should a policy error develop, causing a recession to be more likely, our credit positions will be well cushioned. The rise in bond yields experienced recently is the largest in nearly a century. We maintained duration at close to average levels until late March, and have retained it at close to current levels since, despite higher yields being on offer. We removed our short AUDUSD currency defensive hedge close to the lows.

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