REALM HIGH INCOME FUND

JULY 2022

REALM INVESTMENT HOUSE

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 (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	1.94%	1.99%	0.11%
3 Month	-0.18%	-0.07%	0.19%
6 Months	-1.66%	-1.45%	0.22%
1 Year	-1.41%	-0.98%	0.27%
3 Years p.a	2.26%	2.70%	0.34%
5 Years p.a	2.73%	3.17%	0.79%
Since Inception p.a*	4.18%	4.15%	1.49%

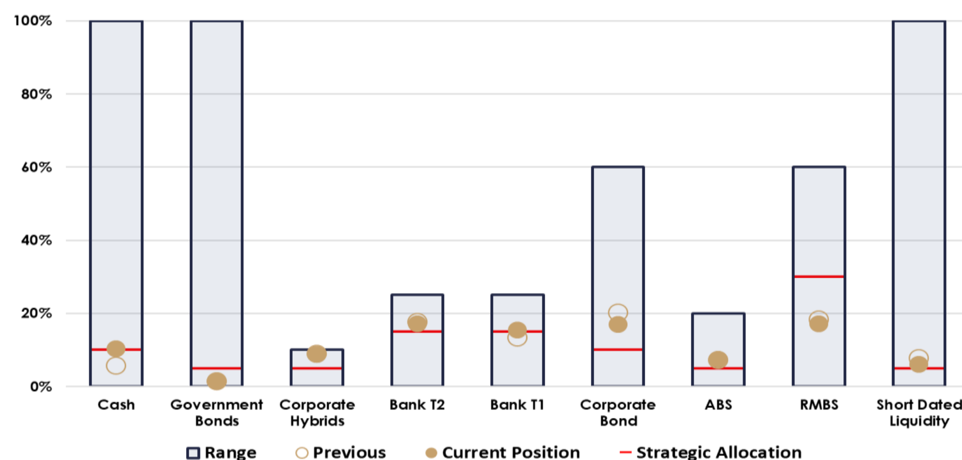
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

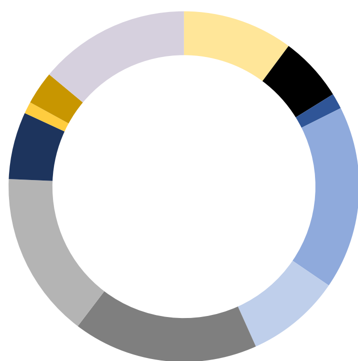
Running Yield	4.51%
Yield to Maturity	5.59%
Volatility†	1.91%
Interest rate duration	1.45
Credit duration	3.39
Average Credit Rating	BBB
Number of positions	324
Average position exposure	0.19%
Worst Month*	-1.99%
Best Month*	1.94%
Sharpe ratio∂	2.35

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

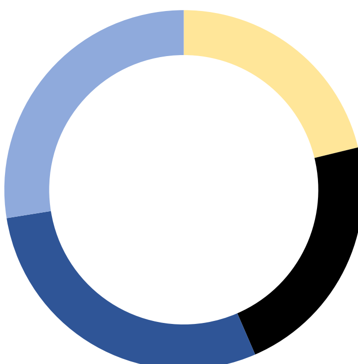


PORTFOLIO COMPOSITION



- Cash (10.18%)
- Commercial Paper (5.99%)
- Government Bonds (1.44%)
- Corporate Bond (16.92%)
- Corporate Hybrids (8.74%)
- Bank T2 (17.08%)
- Bank T1 (15.34%)
- ABS Public (6.20%)
- ABS Private (1.09%)
- RMBS Private (3.07%)
- RMBS Public (13.95%)

MATURITY PROFILE



- At Call to 6 Months (21.21%)
- 6 Months to 3 Years (22.27%)
- 3 Years to 5 Years (28.99%)
- 5 Years to 10 Years (27.53%)
- 10 Years + (0.00%)

FUND UPDATE

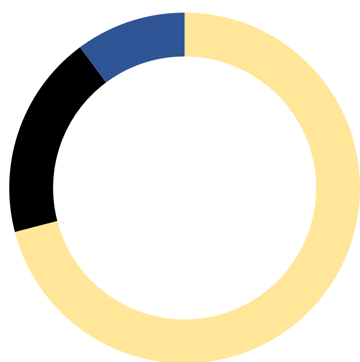
Cash and Short-Term Liquidity Weighting: ↑ The allocation to highly liquid assets (cash, commercial paper and government bonds) increased from 14.60% to 17.60%. This largely reflected lower allocations to corporate bonds and RMBS private which were partly reallocated to bank T1 and RMBS public.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) decreased from 46.63% to 42.74%. Global credit spreads rallied over the month, recovering about half of the spread underperformance from June. European credit markets outperformed strongly, supporting our tilt toward EUR securities and provided an opportunity to take some profits across senior financial and T2 paper. These funds were largely rotated into USD securities, notably bank T2, as the relative value across offshore markets normalised. Domestic credit markets outperformed modestly as new issuance activity remained muted. The exception was bank T2 spreads which underperformed off the back of NAB's A$1.25 billion dual-tranche fixed and floating rate T2 deal which priced at month end. Of note, the deal attracted significantly greater demand in the fixed line given the attractive coupon of 6.322%. Domestic bank T2 issuance continued in early August, with ANZ's A$1.75 billion dual-tranche fixed and floating rate T2 deal which also drew significantly greater demand in its fixed line which priced at a coupon of 5.906%.

Interest Rate Duration Position: ↑ IRD positioning increased from 1.43 to 1.45 years. Global government bond rates rallied over the month and as a result the fund took profits opportunistically. Global inflation prints continued to break barriers causing central banks to continue their interest rate tightening. The RBA and FED raised inline with market expectations while the ECB and Bank of Canada hikes surprised markets to the upside. Global rhetoric was to front load rate hikes in the hope of taming inflation and achieve a soft landing. However, significant reduction in European gas supplies from Russia; a US technical recession; global covid cases and the progression of monkeypox contributed to market volatility.

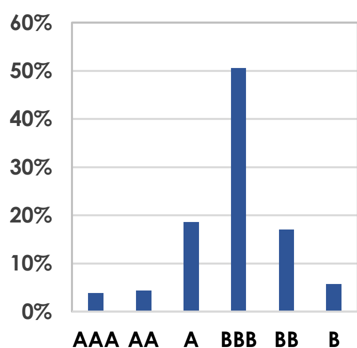
Residential Mortgage-Backed Securities (RMBS): ↓ Weighting to RMBS securities decreased from 18.33% to 17.02% over the month. Structured credit markets widened over the course of the month, with new primary activity remaining relatively muted as issuers opted for increases in private capacity, rather than issuing into term markets at relatively expensive levels. Secondary market flow was quiet, with senior markets (AAA rated) remaining weak as higher yields in international markets reduced demand for bonds onshore. Middle mezzanine markets (A and BBB rated) weakened further, having lagged the widening experienced by other credit sectors, while sub-investment grade yields remained relatively stable.

ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (70.96%)
- Foreign Domicilied Issuer (18.86%)
- Cash (10.18%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	7.56%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0%	10%
Gambling	0%	10%

Market performance in RMBS markets continues to be robust, with average prime arrears levels (SPIN) as reported by S&P improving in April by a further 6 basis point to 0.67%, with non-conforming arrears also improving 7bps to 2.34%. Both data prints remain very strong in comparison to historical arrears levels.

Additional Tier 1 (AT1) Exposures: ↑ AT1 exposure increased from 13.23% to 15.34%. We continue 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.

Asset Backed Securities (ABS): → Our ABS allocation remained inline at 7.29%. 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 2.36% to 2.56% as we added to our AT1 allocation and extended our interest rate duration slightly from 1.43 years to 1.45 years. Credit duration reduced slightly from 3.44 years to 3.39 years. The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

Corporate credit rallied during the month, recovering much of the ground lost in June. Australian Bank senior spreads improved, but Tier2 spreads did not follow suit. Structured credit markets remained weak, with recent issuance printing at wider spreads to clear. Bonds staged a solid rally and the expected path of cash rates eased. Swap spreads also tightened. Equity markets largely rallied as well and the VIX continued to settle from the recent peak in June. The AUD cycled over an approximately 3 cent range vs the USD and finished the month around a cent stronger at around 0.70.

Inflation continued to be a central organising theme. During the month, the ongoing energy crisis ensured attention was firmly focused on the NordStream gas pipeline between Russia and Germany.

High energy prices have driven near-term inflation expectations even higher with the Australian Treasury and RBA recently indicating that CPI will almost reach 8% later this year and further monetary tightening remains in store. However, although the outlook for property is now weaker, the RBA released research that suggested that households are well generally placed to absorb rate increases and a disorderly outcome is not expected.

The rally in risk markets was partly driven by suggestions that the economy is slowing on its own due to demand destruction relating to negative real wages growth.

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/

Reports are also emerging that labour market conditions have begun to improve, and supply chain congestion is easing. In aggregate, this suggested that the central banks have less work to do when seeking to cool the economy. Most major central banks still believe that a recession can be avoided in 2023. One key exception to this is the UK where the BoE which now expects the economy will enter recession later this year. Driven by energy prices, inflation is expected to peak at an astonishing 13%. Inflation psychology has taken hold with wage growth likely to be 6% in the year ahead.

The Fed raised rates a further 75bps during the month and a dovish tone from Powell gave the market a reason to stage a rally and produce an expectation that cash rates will decline sharply from H2 2023. These reactions were rebuked by Fed speakers in the following days. The ECB raised rates for the first time in over a decade. It is notable that both have refused to provide forward guidance.

Economic outcomes are presently reliant on too many large unknowns which have resulted in large re-assessments in short periods of time. Forecasting is particularly fraught and market reactions to economic announcements have been large. Significant uncertainties exist about how much the labour market needs to soften to contain wages growth and what the neutral cash rate is at this time. Core services inflation, which is largely driven by wages, is expected to become the more dominant driver of inflation in the coming years.

China's internal difficulties with its property market continue. A mortgage strike has emerged where owners of units under construction, where this has stalled, have refused to make payments. In recent announcements, it is notable that China has stepped away from the near-term growth objectives as covid lockdowns have made these essentially unattainable.

The war in Ukraine continues to grind onwards. The conflict can be expected to drag on for many months to come although the recent agreement to allow grain exports is welcomed.

We note the developments in Italy's parliament where an upcoming election will likely see right-leaning parties assume power and they are more sympathetic to Russian relations. Additionally, they are less likely to produce policies that meet the conditions necessary to receive considerable covid recovery funds. Concern for European monetary fragmentation has come to the fore again although the ECB has created a backstop.

The pervasive uncertainties in the market are understandably producing risk-averse behaviour in the credit markets. Liquidity is also more challenging. Credit spreads on offer reflect a materially higher risk of recession than would be reasonable on central case considerations. They are comparable to those reached during the initial wave of covid and in 2015/16 when China's economy was in turmoil.

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High beta markets are offering better value. These conditions are acute in structured credit where foreign demand has been drained despite strong performance in the underlying collateral and its capability to withstand extreme shocks. Primary issuance spreads in this market are near all-time high levels which suggests strong returns are in prospect. The outlook for bonds is more uncertain, but the diversification potential within a portfolio is better today than it has been for years.

Despite the uncertainties in the geopolitical environment, the prospect of a widespread banking crisis and the emergence of sovereign risk in a major economy is presently remote. We are constantly reviewing the quality of our holdings and are not exposed to areas where the uncertainties extend to a level that challenge solvency. Whilst markets are pricing strong aversion against the possibility of negative developments in the near term pricing of credit, market pricing is such that investors with a medium-term investment horizon presently have strong prospective returns available to them.

Given credit conditions are showing signs of distress, our contrarian approach continues to lead us to maintain higher risk exposures. For many Australian issuers, spreads on their credit in EUR and the USD offer considerable relative value compared to those in AUD. We are also holding foreign bank and corporate exposures where spreads have been impacted by deteriorating economic conditions in Europe. The default risks remain manageable and we are generally holding investment grade exposures in these areas.

We successfully avoided building material exposures into structured credit as the market weakened, however these have now reached compelling levels. In the private debt segment, conditions have become particularly attractive and we are expecting to develop our exposures here as negotiation and deal documentation proceed through our strong pipeline. Despite concerns for weaker property prices and a slowing economy, the terms on these transactions are such that they can withstand scenarios far more extreme than anything experienced in Australian history since 1900.

Our combined exposure to cash and short dated corporate bonds is high and this provides considerable flexibility to reposition ourselves. We are maintaining a modest hedge against an adverse development in Europe via Stoxx futures. This was deployed ahead of the maintenance period for NordStream 1 and reduced as flows recommenced. As the yields on bonds has normalised, we feel more comfortable relying upon them for portfolio diversification.

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