REALM HIGH INCOME FUND

AUGUST 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 $1.38 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

Zenith RECOMMENDED

NET PERFORMANCE

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	-0.16%	-0.13%	0.15%
3 Month	-0.25%	-0.14%	0.32%
6 Months	-1.57%	-1.36%	0.37%
1 Year	-1.74%	-1.32%	0.41%
3 Years p.a	2.10%	2.54%	0.36%
5 Years p.a	2.67%	3.11%	0.79%
Since Inception p.a*	4.13%	4.10%	1.34%

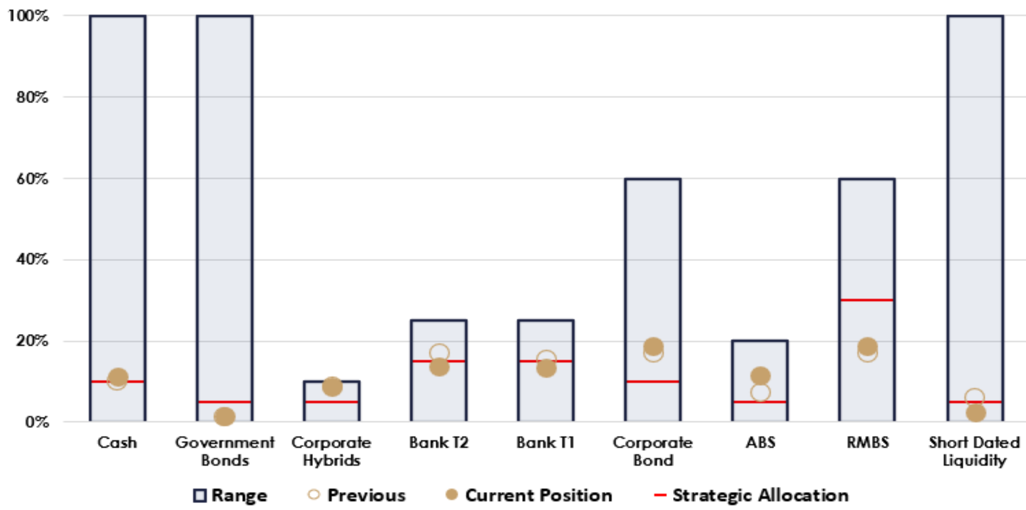
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

FUND STATISTICS

Running Yield	4.68%
Yield to Maturity	5.93%
Volatility†	2.06%
Interest rate duration	1.41
Credit duration	3.52
Average Credit Rating	BBB
Number of positions	328
Average position exposure	0.16%
Worst Month*	-1.99%
Best Month*	1.94%
Sharpe ratio∂	2.26

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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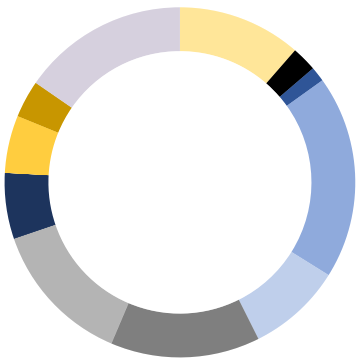
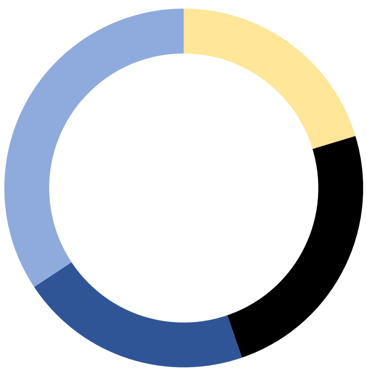
PORTFOLIO COMPOSITION



- Cash (11.40%)
- Commercial Paper (2.31%)
- Government Bonds (1.38%)
- Corporate Bond (18.79%)
- Corporate Hybrids (8.73%)
- Bank T2 (13.78%)
- Bank T1 (13.38%)
- ABS Public (6.08%)
- ABS Private (5.33%)
- RMBS Private (3.44%)
- RMBS Public (15.38%)

MATURITY PROFILE



- At Call to 6 Months (20.32%)
- 6 Months to 3 Years (24.43%)
- 3 Years to 5 Years (20.95%)
- 5 Years to 10 Years (34.30%)
- 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 17.61% to 15.09%. This largely reflected increased allocations to ABS, RMBS and Corporate bonds with reduced allocations to Bank T2 and T1.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate bonds and subordinated debt (corporate hybrids and bank T2) decreased from 42.74% to 41.30%. Monthly global credit spread performance was mixed with modest outperformance in AUD and USD while EUR underperformed. Volatility was significant in offshore credit markets which continued to rally into mid-August before selling-off again to month-end as the market narrative returned to higher recession risks and hawkish central banks - similar to the sell-off we experienced in June. Domestic credit markets experienced more stability with notable outperformance in Bank T2s following the glut of T2 supply around the end of July. Over the month we reduced allocations to Bank T2 and increased to AUD Corporates. New domestic issuance was relatively modest and concentrated around senior bank issuance in the 1-3 year maturity bucket.

Interest Rate Duration Position: ↓ IRD positioning decreased from 1.45 to 1.41 years. Government bond volatility increased even further in the month of August - reflected by the higher trading ranges for both US (68 basis points) and AUS (78 basis points). Initially, geo-political events dominated market sentiment, especially the US house speaker Pelosi's visit to Taiwan. The risk-off sentiment submitted to hawkish tone from central bank officials following strong economic data and the prospect of prolonged inflation requiring higher terminal cash rates. The various drivers of interest rate volatility provided us the opportunity to be more active in our positioning over the month – taking profits tactically.

Residential Mortgage-Backed Securities (RMBS): ↑ Weighting to RMBS securities increased from 17.02% to 18.82% over the month. Public structured credit markets were relatively flat over the month. A significant amount of primary issuance resumed post the relatively muted issuance in July, as global credit spreads stabilized and issuers used the market strength to resume issuance of public funding programs. This also resulted in a higher level of secondary market activity, with AAA markets beginning to tighten from the wides experienced last month. Middle mezzanine tranches (A and BBB rated) also tightened and continue to display good relative value against other market sectors.

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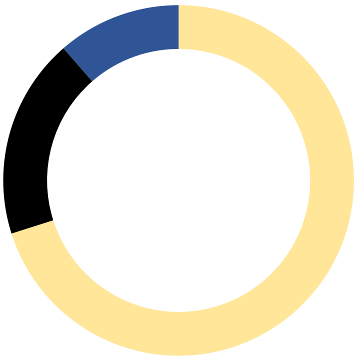
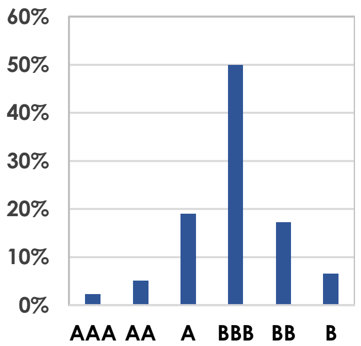
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (70.10%)
- Foreign Domicilied Issuer (18.50%)
- Cash (11.40%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	7.45%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.04%	10%
Gambling	0.04%	10%

Market performance in RMBS markets continues to be robust, with average prime arrears levels (SPIN) as reported by S&P improving in June by a further 1 basis point to 0.64%, with non-conforming arrears also improving 6bps to 2.18%. Both data prints remain very strong in comparison to historical arrears levels.

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased from 15.34% to 13.38% due to profit taking in global AT1s which continued its march tighter to mid-August. Most of the outperformance since July has been returned in the recent market sell-off and valuations look attractive in EUR and USD. Domestic listed AT1 credit spreads firmed modestly over the month and 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.

Asset Backed Securities (ABS): ↑ ABS allocation increased from 7.29% to 11.41% driven predominately by the implementation of a new private facility. 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 from 2.56% to 2.80% as we increased allocations to ABS/RMBS and extended credit duration from 3.39 years to 3.52 years. Interest rate duration decreased slightly from 1.45 years to 1.41 years. The fund remains compliant with the Portfolio ESG risk limits.

MARKET OUTLOOK

The bear market equity rally lost momentum mid-month. Whilst the ASX and Nikkei climbed, other world markets generally lost value with the S&P500 down over 4% in total return terms. These moves weren't driven by near-term earnings revisions but reflected a material upwards move in bond market yields and a rise in risk aversion. Although the VIX fell to below 20 for the first time since April, it ended the month around year-to-date average levels.

In the UK, 10-year bond yields moved up nearly 1% over the month, as the annual rate of inflation passed 10% and surprised to the upside. Goldman Sachs made headlines by suggesting inflation could reach 22% in January if energy prices remained elevated. Although US inflation surprised to the downside and gave rise to a peak inflation narrative, Fed officials were quick to push back heavily on the market's expectations that cash rates would revert in 2023. In a highly anticipated speech at Jackson Hole, Chair Powell reiterated a singular commitment to achieving the inflation objective and the need to maintain cash rates at contractionary levels for some time. These combined to increase expectations for the rate path and defer the anticipated timing of a pivot.

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 RBA and Bank of England both raised cash rates by 50bps in August. The USD strengthened materially against major currencies and the relative weakness of the Chinese Yuan drew attention as portfolio flows have also weakened.

Circumstances in Europe were complicated further when Russia ceased supplying gas through Nordstream 1 in retaliation for a planned introduction of price caps for Russian oil. The hardship caused by higher energy costs has resulted in windfall taxes and subsidies to contain inflation and other measures to socialise the impacts. Newly installed UK PM Truss announced a package valued at an astonishing 5-6% of GDP to shield UK households from upcoming energy price hikes. Finland and Sweden have had to provide support for energy utilities struggling to post sufficient collateral behind their derivatives positions. If it seemed things could not get worse, water levels in the Rhine fell to such levels that barges containing coal to power stations could not deliver it.

Eurozone credit spreads rose sharply in response. Key markets tested recent lows in July. US credit fared relatively better as a whole but finished the month softly. Australian credit performed reasonably well. Australian structured credit markets found a firmer footing.

China's economic performance continues to be hampered by its covid-zero policy and difficulties in the property sector. This contributed to lower oil and bulk commodity prices.

Australian inflation remains well above target levels and, on the RBA's estimates, is only expected to return to the band in late 2024. Nonetheless, in contrast to steps being taken in Europe/UK, Treasurer Chalmers has indicated that the petrol subsidy will lapse in September and has guided away from expectations of handouts or other measures to assist with the cost of living in the upcoming October Budget. RBA Governor Lowe also seeks to pursue a return to more normal circumstances whilst keeping the economy on an even keel. This task will be challenging in light of continued strength in the household sector, despite very low outcomes in consumer confidence surveys. Further, the Jobs Summit has opened the door to stronger bargaining for wage rises, which have already become increasingly evident.

Housing prices fell 1.6% in August, the largest monthly decline since 1983. Turnover was assisted by a growing acceptance by vendors of weaker conditions. The repayment performance of mortgages continues to improve despite higher interest rates. However, given delays in the transmission of movements in the official cash rate to households, it seems unlikely that this trend will persist for long although incomes continue to be supported by a strong labour market. Indeed, Australia's Q2 GDP showed that household incomes grew in real terms and cash buffers increased further.

Whilst supply chain frictions have begun to ease, the US and European/UK central banks have generally strengthened their commitment towards achieving their inflation targets. In Europe/UK, the task is more complex given the significant challenges relating to gas prices and supply. The stagflationary impulse strengthened over the month. Overall, this has darkened their economic outlook and this effect has rippled through other economies and markets.

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Whilst the Fed continues to maintain that a recession can be avoided in 2023, it has a narrower path to navigate than Australia given the proportion of job openings to unemployment is almost two-times and wage growth is much higher. The Fed's perceived pathway to a soft landing has been dubbed an 'immaculate disinflation', in part because of the unusual assumptions required to avoid recession. In the view of some influential Fed members, a relatively minor easing in economic conditions can eliminate a significant number of unfilled jobs, without affecting unemployment materially, and therefore contain wage growth. In contrast, their more standard econometric models point to a material chance of a recession. The most recent update from the ECB also suggests that the European economy is skirting the edge of recession.

Economic management is currently focused on avoiding the possibility that inflation expectations become unanchored. Whilst longer term expectations remain well behaved for now, there is significant fear that ongoing labour market tightness will create a wage-price spiral that will be hard to extinguish. Estimating the sensitivities is speculative given there is no recent experience of these extreme conditions to help calibrate policy. The stagflationary forces at play further complicate the matter as does the resilience of household spending given many still have substantial financial buffers. On top of this are the immediate geopolitical risks related to Ukraine, although US Speaker of the House of Representatives Pelosi stirred regional tensions with a visit to Taiwan. China's economic difficulties, led by weakness in the property sector and also the effects of the ongoing covid-zero policy, are also significant contributors to uncertainty.

Whilst credit markets have been weak, and could weaken further, we identify value in Australian assets. Recent economic stresses have also created opportunities in overseas bank capital. As structured credit markets are now finding more support, we are optimistic about the outlook in these assets, despite falling housing prices.

We have developed a strong pipeline of private structured credit assets which are being progressively funded. As we expect this to continue, we are holding relatively high cash and cash-like balances in anticipation. Liquid exposures were bolstered as we reduced holdings in Australian issued sub-debt on valuation grounds. We retain a significant overweight in an idiosyncratic book of corporate debt which is largely invested in Australian issuers. Our non-Australian issuer exposure, which is focused on financials, remains close to the upper bound of our operational limits.

We do not expect spreads for bank capital to contract in the near term and believe further down-side risk exists for corporate credit, particularly in sub-investment grade categories. In contrast, our outlook for structured credit is now favourable as bid tone has improved throughout much of the capital structure.

As we believe supply shocks will continue to be a greater influence on markets than had been the case in the decades prior to covid, bonds are expected to provide less diversification benefit to the portfolio. Interest rate duration remains modest and is held almost entirely in Australia where real yields are towards highs recorded for several years, other than during a brief period in June.

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