REALM GLOBAL HIGH INCOME FUND AUD

APRIL 2024

REALM INVESTMENT HOUSE

FUND OBJECTIVE

The Realm Global High Income Fund AUD is a fixed income strategy, that invests in global asset backed securities, bank-issued securities and corporate bonds. The objective of the Fund is to deliver investors a consistent return (net of fees and gross of franking) of 2.5 - 3.5% over the RBA cash rate through a market cycle.

FUND DETAILS

Distribution Frequency: Monthly
Liquidity: Daily
Buy/Sell: 0.05% / 0.05%
Inception Date: 16.11.2023
Management Fees (Net of GST): 0.7175%
Direct Minimum Investment: Ordinary Units - $25,000

NET PERFORMANCE

Period	Global High Income Fund AUD	RBA Cash Rate Return
1 Month	0.58%	0.35%
3 Month	3.00%	1.05%
Since Inception	9.34%	1.95%

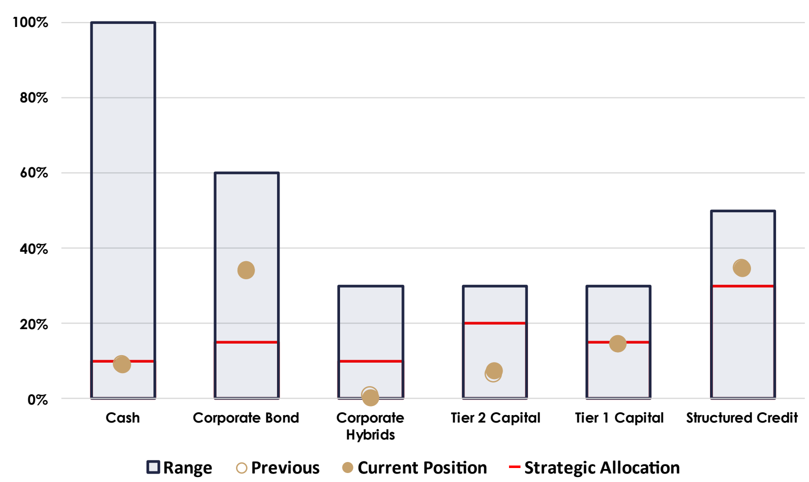
* Past performance is not indicative of future performance.
Inception 16 November 2023.

FUND STATISTICS

Running Yield	5.99%
Yield to Maturity	7.06%
Volatility†	N/A
Interest rate duration	0.22
Credit duration	3.58
Average Credit Rating	BBB
Number of positions	79
Average position exposure	0.51%
Worst Month*	0.58%
Best Month*	2.22%

†Trailing 12 Months Calculated on Daily observations. ªSince Inception Calculated on Daily observations

SECTOR ALLOCATION



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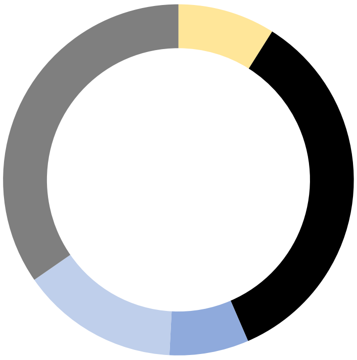
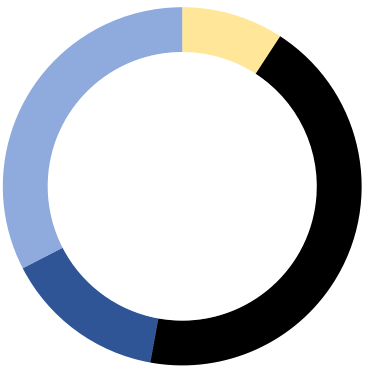
PORTFOLIO COMPOSITION



- Cash (8.98%)
- Corporate Bond (34.53%)
- Corporate Hybrids (0.00%)
- Tier 2 Capital (7.32%)
- Tier 1 Capital (14.54%)
- Structured Credit (34.65%)

CREDIT DURATION PROFILE



- At Call to 6 Months (9.19%)
- 6 Months to 3 Years (43.66%)
- 3 Years to 5 Years (14.58%)
- 5 Years to 10 Years (32.57%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity: ↓ The allocation to highly liquid assets (cash, commercial paper and government bonds) decreased marginally from 9.08% to 8.98%. This mainly reflected higher allocations to T2 capital and corporate bonds which was partly offset by lower allocations to corporate hybrids.

Corporate & Subordinated Debt: ↑ Weighting to corporate bonds and subordinated debt (corporate hybrids and T2 capital) increased from 41.65% to 41.85%. Global credit spreads were generally firmer month on month, brushing off the intra-month wobble due to geopolitical tensions and the spike in rates volatility. The weakness over the first half provided the opportunity to add to T2 capital and corporate bonds before the market recovered into month end. Despite the higher volatility, primary markets remained active, with the fund participating in senior deals from real estate companies Prologis and Vonovia; utility Duke Energy; and automaker Porsche.

Tier 1 Capital: ↑ Weighting to T1 capital increased slightly from 14.51% to 14.54%. Rising geopolitical tensions and higher rates volatility saw global T1's underperform month on month. However, it was a tale of two halves with the recovery over the 2nd half continuing into May. Primary market activity was relatively muted in April but has since bounced back in May with notable new deals from NatWest, Santander, Erste and Barclays. The fund did not participate in any of the new deals based on valuations.

Structured Credit (ABS/CLO): ↓ ABS/CLO weighting marginally reduced over the month from 34.76% to 34.65%. CLO spreads continued their grind tighter over April across all tranches, both the US and Europe, and is most evident in tighter primary levels from Tier 1 managers. The new issue market continues to be busy, particularly in the US. As has been the theme this year, reset and refinancing activity remains elevated. Supply is being well absorbed so far, with investors looking to keep on top of amortising deals and refinancing calls. The concentration of CCCs in CLOs increased over the month with the median rising to 5.9% from 5.7% in the US, and to 3.7% from 2.8% in Europe. The Morningstar LSTA US Leveraged Loan index retraced 7c to 96.64, and in Europe the index increased strongly by 50c to 97.16. New issue continues to be very active in refinancings and repricings, including add-on transactions, but towards the end of the month there were a handful of M&A related new issues to bring new money into the market.

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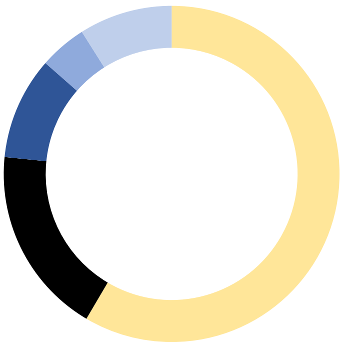
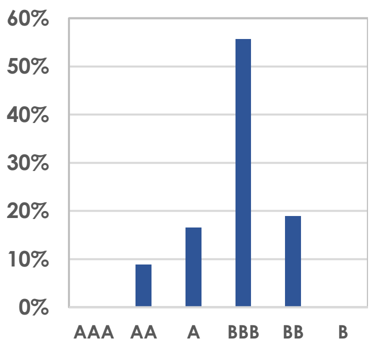
GEOGRAPHIC EXPOSURE



- Europe (58.48%)
- North America (18.13%)
- United Kingdom (9.86%)
- Australia/New Zealand (4.56%)
- Cash (8.98%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	0.59%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.00%	10%
Gambling	0.00%	10%

Interest Rate Duration Position: ↑ IRD positioning increased slightly from 0.20 to 0.22 years. A combination of macro and geo-political events contributed to the elevated volatility of global government bond markets. In the US, stronger than expected economic data releases - CPI, payrolls, consumption, and employment cost index - drove yields higher. Markets priced in less than 30bp of rate cuts in the US, which saw the 10Y government bond yield increase 45bp by month end. Domestically, the Australian CPI report produced a value much stronger than anticipated, resulting in the market pricing in the risk of a rate hike by end of the year. The geo-political concerns around Israel and Iran failed to influence bond yields materially. The term premium and relative value on offer from credit instruments outweigh those offered by global government bonds, and as a result, the IRD of the portfolio was maintained at a minimum level.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 1.79% to 1.90%. This partly reflects increases to both credit duration (from 3.45 years to 3.58 years) and interest rate duration (from 0.20 years to 0.22 years).

FUND OUTLOOK

Credit spreads remained tight and rallied further in key markets. The Bloomberg US Agg Baa Average Option-Adjusted Spread compressed further to 1.07%pa, a level which has rarely been seen in the last three decades. In prior times, such levels were recorded during favourable economic environments as opposed to during what is presently expected to be a cyclical trough. It is arguable that this was the result of ongoing easing in the estimated probability of US recession (down 5% to 30% during the month) over the next 12 months and explicit support from the Fed in the event employment outcomes should deteriorate faster than expected. Less discriminate buying in the presence of high all-in yields may also be contributing. Nonetheless, forward looking reward for risk is uncompelling in absolute terms, although it is more reasonable if compared to equity valuations.

The exchange of hostilities between Iran and Israel was a key risk event. Direct confrontation proved short-lived but risk measures spiked to levels last seen shortly after Israel launched military operations into Gaza in October 2023. Spreads moved in concert, albeit with less magnitude. These retraced materially into month-end and credit related derivatives inferred that volatility would remain low. Nonetheless, concerns for economic stress are visible in the dispersion of spreads in the high yield market, which are now at similar levels as the initial covid period. Options on European credit synthetics and EURUSD, together with derivates related to gold suggest that an outlier risk event remains a concern.

More broadly, risks are seen to be better balanced. Downside risks include geopolitical concerns and sticky inflation. The upside risks relate to easing supply chains, a spending boost associated with a relatively high number of elections in the near term and the productivity potential for AI.

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The US economy is expected to grow at an above trend pace for the rest of this year as a whole. Consumer spending, which has been surprisingly strong, is expected to slow and a recovery in private investment and industrial production will not be sufficient to prevent growth from dipping slightly below trend for a couple of quarters straddling year-end. Fears of a hard landing last year have disappeared and been replaced by expectations of the gentlest of convergences to ideal economic settings. Inflation is expected to grind lower and payrolls are expected to continue expanding although a slower rate of labour absorption will see unemployment rates rise slightly to 4.1% and see wage pressures ease.

The US economy is differentiated from much of the world by the strong performance of the household sector. Elsewhere, consumption has been hampered by weak real wage growth and high interest rates and economic growth is already close to the expected lows for this cycle. As for the US, unemployment is expected to rise modestly and inflation is expected to converge towards target levels in 2025 although labour productivity and targeted corporate profit margins are key uncertainties. Household consumption in Australia is expected to be supported by improving real wages and decreasing interest costs as time passes. Inflation is anticipated to be back within the target band in 2025 and to the mid-point in 2026.

Investment grade bond issuance remains strong, albeit this is now easing from the high levels since start of year. High yield gross issuance has been very strong, reflecting a catch-up from weak issuance over the prior two years. Although senior US investment grade spreads rallied, the subordinated, European and high yield corporate bond markets were closer to flat.

Issuance activity in domestic structured credit remained strong. RMBS issuance from smaller banks, attracted by relatively competitive pricing of RMBS relative to senior bonds, and ABS issuers are driving volumes. Spreads continued to tighten despite elevated issuance activity, in concert with the broader market.

The volume of CLO creation is also elevated, driven by heightened reset and refinance activity. Loan issuance volumes have remained high since January, with spreads narrowing on CLO demand, competition from private debt providers and outright demand from institutional investors and ETFs. Mezzanine CLO spreads continued to tighten. The conditions for providers of CLO equity have become favourable given the relatively tight pricing of CLO tranches relative to the spreads on their underlying loans.

Credit markets appear to be in an optimistic state and we are more likely to see spreads widen than narrow over the next 12 months. The ability for central banks to cut rates quickly and significantly should a demand shock emerge is evident and provides a measure of tail risk protection, but a supply shock remains a vulnerability.

The portfolio was largely unchanged over the month in terms of broad characteristics.

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The portfolio is underweight corporate hybrids and Tier2 exposures. The portfolio holds a material overweight in corporate bonds where sector diversification is significant. With the US market offering limited value, most exposures are in the UK and Europe, with a small allocation also to Australian REITs. The exposure within this sector has a credit duration slightly above 6 yrs demonstrating that, even in an environment of tight spreads, the market offers occasional pockets of value. This contributes to the portfolio's overall credit duration of 3.58 years, which remains elevated, because this level of risk bearing would otherwise be difficult to justify by observation of aggregate market spreads alone.

There remains some value in idiosyncratic situations within European AT1, where some sub-IG exposures in money center banks continue to screen as having reasonable value. These banks are well capitalized and the sub-IG exposures are geographically diverse within a European context.

The structured credit exposures are held in a well-diversified book of CLOs managed by top echelon investment organisations. Our sub-IG exposures here make up approximately 1/3rd of the portfolio's total and can withstand extreme and extended loss scenarios.

Interest rate duration remains minimal at 0.2yrs, reflecting inverted term structures which make it somewhat expensive to hold risk from this source. We added credit synthetics, via a spread involving European bank subordinated vs senior credit default swaps, to protect the portfolio's AT1 exposures as Iran launched a drone and missile attack at Israel. These were removed once it became clearer that escalation was unlikely to occur in the near term. We retain additional credit synthetics to enhance geographic exposure by reducing structural credit exposure in Europe in favour of the US to some degree.

The portfolio's yield to maturity has declined to 7.06% but it remains very unlikely to record a negative return over a six or twelve month period. Whilst the margin over cash has tightened, it remains relatively favourable within the context of very narrow market spreads more generally.

MARKET DEVELOPMENTS

Spreads on credit synthetics finished higher, selling off mid-month during an exchange of fire between Israel and Iran. Whilst conditions settled quickly, spreads did not fully revert. The performance of equity markets was mixed and these were also impacted. Japanese equities consolidated after strong gains in Q1 whilst higher interest rates were a headwind for US equities. Bond yields in major markets finished higher with the US inflation outcome surprising to the upside. The improved economic outlook in Asia supported Chinese (incl HK) stocks whilst the UK equity market performed strongly on higher earnings expectations.

PLATFORM AVAILABILITY

- Netwealth IDPS
- Powerwrap
- Australian Money Market (AMM)

OTHER FUND DETAILS

Responsible Entity: One Managed Investment Funds Ltd
Custodian: State Street Australia Limited
Unit Pricing and Unit Price History: https://www.realminvestments.com.au/our-products/realm-global-high-income-fund/

The VIX moved from 13 to 15.65 over the month and spiked over 19 for a time, a level not seen since October 2023 when US Treasury interest rates reached 5% and the Israel/Hamas conflict erupted. The MOVE index followed a similar pattern.

The divergence between economic cycles and projected cash paths across major economic blocs presents a source of risk in the currency market. The USDJPY climbed 4% and reached 160, the strongest in 34 years and prompted intervention by the BoJ.

Despite geopolitical risks, oil prices were steady and derivatives markets appear unphased by the backdrop. Copper prices rose strongly on the improved outlook for the Chinese economy and the closure of the Cobre mine in Panama. Gold rose and this is attributed to PBoC buying.

OTHER DEVELOPMENTS

The United States economy continues to surprise to the upside. Retail spending rose 0.7% over the month (consensus 0.3%). Excluding gas/auto, the result was an even greater upside surprise (1.0% c0.3%). Monthly growth in durable goods (ex transport/defence) orders matched expectations at 0.2%. Inflation readings were elevated with Core Inflation for the month at 0.4% c0.3%. The Advance estimate of quarterly PCE also surprised at 3.7% SAAR c3.4%. The employment cost index also surprised to the upside (1.2% c1.0%). The labour market remained highly resilient with the non-farm payrolls at +303k c200k and unemployment coming in at 3.8% c3.9%. Both ISM surveys pointed to contracting economic circumstances.

The FOMC Minutes flagged a reduction in the rate which the balance sheet will reduce treasury bond exposures. The Fed intends to fully run-off their MBS holdings and only hold treasury bonds for such purposes. Despite valuation concerns they note that credit for CRE remains readily accessible. It was interesting to note that they judged economic uncertainty as in-line with the 20-year average, albeit risks are tilted towards a stagflationary outcome. FOMC member Bostic indicated that the next move could be a hike, but Chair Powell subsequently voiced a high threshold for that potential as labour markets move more into balance. Fed speak generally related to the time frame until the next cut and the drivers of uncertainty.

President Biden has raised the prospect of a significant increase in tariffs for Chinese exports to the US as Treasury Secretary Yellen sought to discourage China from pursuing a strongly export focused growth policy. Although the Trump era tariffs have contributed to lowering the direct trade deficit with China, re-routing of trade via Asia has meant that the Chinese trade surplus has ultimately mirrored the US trade deficit.

US home prices rose 0.9% for the month and 7.3% over the year. However, existing home sales remains moribund.

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Household consumption in Australia is materially weaker than for the US. Preliminary retail sales were -0.4% mom (c0.2%). Consumer confidence fell further into highly pessimistic territory as cost-of-living concerns and ongoing high interest rates weigh. The NAB business survey indicated that activity is expected to slow. This survey also showed the rate of labour cost growth is slowing. The trimmed mean inflation reading exceeded expectations (4.0% yoy c3.8%) and pushed back expectations for a rate cut from the RBA. Under Governor Bullock the Bank's recognition of uncertainty is clearly visible and, as newly characterized, it has indicated that it could neither rule in nor rule out a rise or fall for the next move in interest rates. The RBA has also adjusted some technical details relating to the implementation of monetary policy, electing to use an 'ample reserves' regime and retiring the former 'corridor' approach utilized before covid. House prices rose by 0.6% over the month.

Inflation readings in Europe continued to taper with the Core reading at 2.9% yoy, down from 3.1%. Subsequent flash readings suggested that these continued to fall although some reversion is expected as energy subsidies are discontinued later this year. The ECB has indicated that an interest cut is forthcoming in June, but refuses to be drawn on subsequent moves. The labour market is easing (unemployment 6.5% c6.4%) but the path of inflation will also depend on labour productivity and the price setting behaviour of corporates. Whilst economic growth is presently subdued, it is expected to strengthen later in the year as real income growth recovers along with exports. Whilst domestic inflation pressures remain elevated, they are expected to continue easing. Manufacturing activity continues to slow (Manufacturing PMI 45.7) but the German ZEW Economic Sentiment Index rose for the 9th month in sequence and is back to levels before the invasion of Ukraine. The Services PMI remained at a healthy 53.3.

The Bank of England received the results of a review undertaken by former Fed Governor Bernanke. A series of 12 recommendations were tabled including an overhaul of their key econometric models and modifications to the manner in which uncertainty is communicated. The unemployment rate was 4.2% (c4.0). Inflation is expected to fall rapidly towards the targeted level.

Credit creation in China was close to expectations with Total Social Financing increasing by CNY 4,870Bn. GDP in Q1 came in at 5.3% yoy (c5.0%) although household expenditure continued to be soft with retail expenditure at 3.1% yoy (c4.5%). The official PMI readings suggested that economic activity grew slightly in manufacturing and non-manufacturing. Unemployment fell slightly to 5.2%. The PBoC left monetary settings unchanged. President Xi's plans for an export-oriented growth model have met with significant resistance. A possibility exists that officials might intervene in the property market to acquire excess stock and convert it to rental accommodation, which may improve affordability. This would do nothing to improve over-supply and the IMF expects new housing demand will fall by almost 50% over the next decade.

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The decision to hold interest rates by the Bank of Japan led to further currency weakness. The BoJ intervened to provide support. Whilst industrial production was -0.6% MoM (c-0.1%), a strong reading for machinery orders (7.7% mom) was notable. Core inflation was reported at 2.6% yoy (c2.7%). The Manufacturing PMI showed a virtually flat outcome at 49.6. Services PMI increased to a healthy 54.3.

Zimbabwe introduced a new gold-backed currency, the ZiG (Zimbabwe Gold), in an attempt to contain runaway inflation. Initial acceptance remains challenged given the level of distrust with the government.

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