REALM GLOBAL HIGH INCOME FUND AUD

JUNE 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
Fund size: AUD $68.8 million
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	0.49%	0.35%
3 Month	2.52%	1.06%
6 Month	7.25%	2.14%
Since Inception	11.45%	2.68%

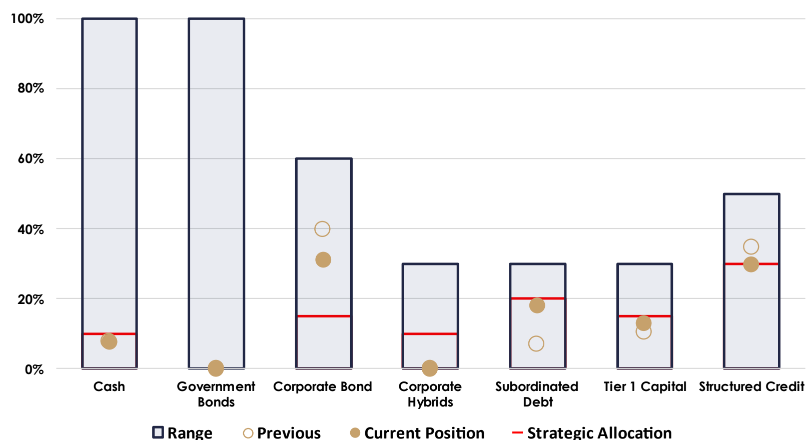
* Past performance is not indicative of future performance.
Inception 16 November 2023.

FUND STATISTICS

Running Yield	7.18%
Yield to Maturity	7.63%
Volatility†	N/A
Interest rate duration	0.20
Credit duration	3.74
Average Credit Rating	BBB
Number of positions	90
Average position exposure	0.49%
Worst Month*	0.58%
Best Month*	2.22%

†Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

SECTOR ALLOCATION



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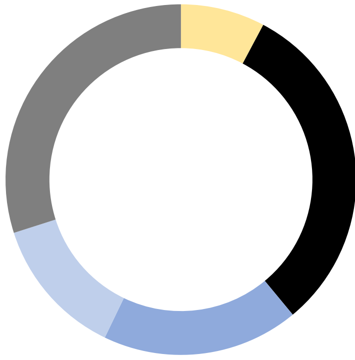
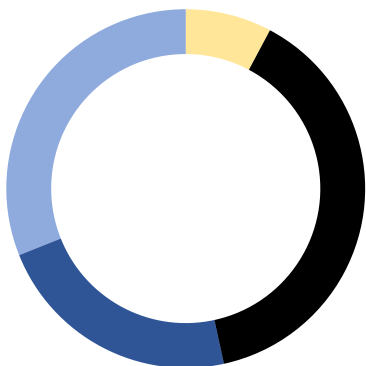
PORTFOLIO COMPOSITION



- Cash (7.78%)
- Corporate Bond (31.21%)
- Corporate Hybrids (0.00%)
- Subordinated Debt (18.15%)
- Tier 1 Capital (12.94%)
- ABS Public (29.91%)

CREDIT DURATION PROFILE



- At Call to 6 Months (7.78%)
- 6 Months to 3 Years (38.80%)
- 3 Years to 5 Years (22.36%)
- 5 Years to 10 Years (31.05%)
- 10 Years + (0.00%)

FUND UPDATE

Cash and Short-Term Liquidity: ↓ The allocation to highly liquid assets (cash and government bonds) decreased slightly from 7.86% to 7.78%. This mainly reflected higher allocations to T2 capital and T1 capital which was offset by lower allocations to corporate bonds and ABS public.

Corporate Bond, Corporate Hybrids & Subordinated Debt: ↑ Weighting to corporate bonds, corporate hybrids and subordinated debt increased from 46.58% to 49.36%. Following a solid performance YTD, global credit spreads had a weaker month due to government bond volatility and France's snap elections. The latter triggered a relative underperformance in EUR credit markets and provided an opportunity to step back into European bank T2 capital (allocation increased from 7.15% to 18.15%). This was partly funded by profit taking across corporate bonds which outperformed a relative basis (allocation decreased from 39.78% to 31.21%). Before the France snap elections, EUR primary markets remained active with notable deals from Heineken, Burberry, ITV, and Becton Dickinson.

Tier 1 Capital: ↑ Weighting to T1 capital increased from 10.44% to 12.94%. Global T1's underperformed over the month, providing the opportunity to re-allocate back to the sector. This follows a period of strong outperformance and profit taking which has seen the fund's allocation to T1 capital reduce from 21.13% in December 2023. There were a few notable deals over the month from Deutsche Bank, BBVA and Commerzbank, which the fund did not participate in due to valuations.

Structured Credit (ABS/CLO): ↓ ABS/CLO weighting reduced over the month from 34.70% to 29.91%. As CLO spreads continued their path tighter the fund took profit in several positions, in part to fund opportunities presenting in the Corporate & Subordinated Debt space. Of note was the move tighter in AAA primary spreads, consistently pushing through the 140bp mark in both Europe and the US. The number of resets and refinances continued to make up a large part of issuance, with investors continuing to absorb the supply as amortising and refinancings reduce their holdings. US CLO CCC concentrations moderated over May, with the median falling 0.1% to 5.8% in the US, and Europe rising by the same amount to 3.8%. The Morningstar LSTA US Leveraged Loan index fell 34c to 96.59; in Europe the index added 45c to finish at 97.61. Loan issuance had another busy month and as previously, largely for refinancings and repricings. Talk around potential now-money M&A-related deals continues.

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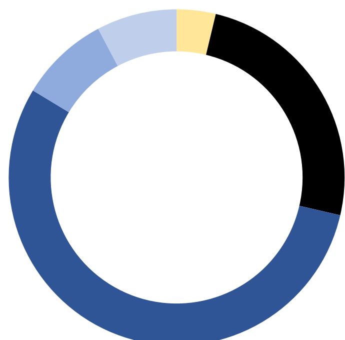
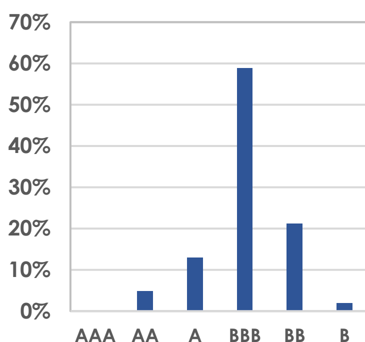
GEOGRAPHIC EXPOSURE



- Australian/NZ Domiciled Issuer (3.75%)
- North America Domiciled Issuer (24.86%)
- Europe Domiciled Issuer (55.04%)
- United Kingdom Domiciled Issuer (8.61%)
- Cash (7.74%)

CREDIT QUALITY



PORTFOLIO ESG RISK LIMITS

Sector	Portfolio Exposure	Portfolio Limit
Fossil Fuels	0.70%	10%
Non-Renewable & Nuclear Energy	0%	10%
Alcohol	0.00%	10%
Gambling	0.00%	10%

Interest Rate Duration Position: ↑ IRD positioning increased slightly from 0.19 to 0.20 years. Economic data, central bank commentary and actions highlighted the differences between global markets. Initially, US ISM manufacturing commenced a rally in bonds, but stronger than expected payrolls data led to yields increasing. However, the reversal occurred promptly with softer US CPI and PPI data, resulting in expectations of 45bps of rate cuts in 2024. US 10y yield ended the month 9bp lower. Dovish actions were witnessed as the BoC and ECB cut rates. The announcement of snap French elections limited bond volatility to France. Australian CPI release and the RBA's meeting minutes was skewed slightly hawkish with the potential for rate rises left open - resulted in markets pricing a 50% probability of a rate rise by end of year. 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 1.85% to 1.99%. This largely reflected the rotation to T2 and T1 capital from corporate bonds and ABS public; resulting in modest increases to credit duration (from 3.60 years to 3.74 years). Interest rate duration increased slightly over the month (from 0.19 years to 0.20 years).

FUND OVERVIEW

The Realm Global High Income Fund outperformed cash this month. The Fund benefited from successfully positioning around the European elections. As spreads on the subordinated debt of European financials widened, the portfolio switched into these assets, reducing exposures in senior debt and ABS. Some reversion in subordinated spreads occurred later in the month which contributed to a favourable outcome overall.

The portfolio concluded the month at close to benchmark weights other than for an underweight in corporate hybrids and roughly equal and offsetting overweight in corporate senior bonds. This reflects our belief that spreads are presently tight, other than for what we expect to be a temporary opportunity in European financials and some pockets of the CLO market at the cusp of investment grade, which continue to offer significant carry.

Interest rate duration remained low with key yield curves still inverted and offering limited value in that regard. We unwound a risk overlay which sought to improve underlying geographic diversification. Whilst the portfolio favours European risk, the exposure is not as dominant as it had been in recent months.

Although broad market spreads appear unfavourably priced, our investment process continues to successfully identify areas of relative mispricing. These combine to produce a YTM of 7.63%, which is still well above the cash rate of 4.35% despite somewhat conservative settings at the portfolio level, and this highlights the benefits of drawing from a global investment universe. From this starting point, the probability of a negative return over a 12-month period is low.

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PLATFORM AVAILABILITY

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

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/

ECONOMIC AND OTHER DEVELOPMENTS

United States Industrial Production for May (0.9%) was stronger than the prior month (0%) and expectations (0.3%). However, core durables (ex Defence/Air) disappointed at -0.6% MoM (p0% e0.1%). Consumption continues to moderate with Retail Sales (May) ex Auto at -0.1% (p-0.2% e0.2%), The UMich Consumer Consumer Sentiment Index (Jun) came in at 68.2 (p69.1 e65.8) which remains below the long-term average and points to ongoing financial pressures. Existing home sales remain very low (4.1m units per month) as current mortgagees are reluctant to reset low fixed rate loans. The S&P/Case-Shiller House Price index rose 7.2% YoY. The S&P Composite PMI (54.8 p54.5) indicated robust activity levels in June, with a strong order book in place.

Inflation cooled with Core Inflation MoM (May) at 0.2% (p0.3% e0.2%) and Headline at flat (p0.3% e0.1%). Producer Price Inflation (May) was flat (p0.5% e0.3%). The Fed's preferred inflation gauge, the Core PCE, was reported at 0.1%. The UMich survey of inflation expectations (Jun) remained well anchored and showed a 1 year reading of 3% (p3% e3.1%).

The labour market also cooled with unemployment (May) rising to 4% (p3.9% e3.9%). Job openings, the quit-rate and participation rate also pointed to easing labour market conditions. Although the non-farm payroll survey reading of +272k jobs (e+185k) was strong, this survey has been subject to large downwards revisions and has become less important.

The Fed released an update of its economic projections. These showed an expectation of only one rate cut in 2024. The inflation profile was also lifted for 2024 to reflect recent outcomes, but still converged to target rates in 2026. FOMC members spoke of the need for data dependency and a surprisingly robust economy. Most awaited more data to support the case for further cuts. The market is expecting 2 rate cuts this year.

The first debate between Biden and Trump for the upcoming Presidential election produced a dramatic shift towards the prospects of a Republican outcome.

The Q1 GDP reading for Australia was 0.1% (e0.2%) which was the softest pace in 6 quarters due primarily to subdued domestic demand. GDP was -0.4% in per capita terms. The savings rate fell to 0.9%. The NAB Business survey suggested that corporations were increasingly pessimistic. The Composite PMI reading of 50.7 is consistent with very modest growth, and the inflation component of this survey moderated further. The Westpac Consumer Confidence Survey remained in distressed territory due to ongoing cost of living pressures which offset effect of the energy and rental benefits announced in the Federal Budget. Private house approvals (Apr) fell 1.6% and adds to evidence that housing supply will remain tight for years to come. The Composite PMI of 50.7 suggested that business activity for June was close to steady.

The monthly inflation print of 4% YoY (p3.6% e3.8%) saw a revision to rate path expectations and biased expectations towards a rate hike in September. Consumer inflation expectations for the coming year (4.4% p4.1%) also rose. However, the FWC minimum wage determination allowed for a 3.75% increase. This was below the 5.25% approved last year.

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DISTRIBUTION

Broc McCauley
Head of Distribution
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
Business Development Manager
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Finbarr Warren
Business Development Analyst
T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

In the labour market, employment increased by 40k (e30k), and the unemployment rate slightly declined to 4% (p4.1%). The outlook continued to be for a softer labour market with the ANZ-Indeed Job Ads count for May dropping by 2.1%.

The last payment from the $188bn Term Funding Facility, an emergency measure to protect bank liquidity and profitability during covid, was returned.

Europe's Q1 GDP figure of 0.3% was the strongest since Q3 2022, with net trade making a solid contribution. However, more timely indicators suggest a slower outcome in Q2. April readings for retail sales, trade and industrial production were weaker.

The ECB cut the deposit rate to 3.75% and associated rates by 0.25%. This was despite core inflation readings accelerating in May (2.9% YoY p2.7%). The BoE left rates unchanged at 5.25%.

The strong outcome for hard/far right parties in the European parliamentary elections, and French President Macron's decision to call an election, shook bond markets with distress in French sovereign debt being a key focus. Whilst Ursula von der Leyen remained as President of the European Commission, governance in France was challenged by a lack of a clear majority in the Parliamentary elections. This complicates the selection of a PM and hampers efficient law-making in domestic activities. S&P had downgraded French debt by a notch to AA- ahead of the elections.

China's economic releases suggested ongoing difficulties with generating growth. The PMIs suggested that business activity was close to unchanged in June. House prices have declined 3.9% in the year to May. Unemployment was steady at 5%. However annual retail sales growth accelerated (3.7% p2.3% e3.0%). Whilst much of the world seeks to contain inflation, China's consumer inflation was -0.1% for May.

The PBoC left rates unchanged but has taken increasing steps to control the government yield curve as it develops its practices under Governor Pan Gongsheng. Immediate priorities include stabilizing the Yuan exchange rate, which has weakened considerably, and also protecting the profitability of its banks (which prefer a steeper yield curve). The date for the 3rd Plenum, a critical forum for policy development, was announced for mid-July.

Japan's economic performance continues to challenge efforts to normalize monetary policy. Q1 GDP fell 0.5% (p0.1%, e-0.5%). Industrial production fell in April (-0.9% p4.4% e-0.1%) and contracted by 1.8% over the year. Whilst wage growth is evident, consumption is restrained by an even higher rate of inflation, which has been driven by a significant depreciation in the JPY. Unemployment remained at 2.6%.

The BoJ left policy settings unchanged but will be looking to reduce the volume of regular government bond purchases (outside of QE activities).

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E: broc.m@realminvestments.com.au

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T: 0424 837 522
E: matthew.b@realminvestments.com.au

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In other developments, the IEA warned of a significant oversupply of oil by 2030 as US production rises. The G7 met and called for a comprehensive deal leading to a ceasefire in Gaza. Israeli PM Netenyahu, who dissolved the war cabinet after centrist members resigned, made intonations that the end of major combat operations may be near. However, focus shifted to a potential escalation in efforts against Hezbollah.

China sought to restore relations with Australia and President Xi called for the global south for play a bigger role in world affairs. Notably, Thailand and Malaysia have recently joined the BRICS organization. Europe increased tariffs on Chinese EVs.

MARKET COMMENTARY

The European elections stirred markets over the month. The voting outcomes were favourable for the far/hard right parties with populist agendas. The Green vote was materially weaker. Whilst control of the European parliament remained with the centrist parties and Ursula von der Leyen was re-appointed as European Commission President (held since 2019), French President Macron called an early Parliamentary election to stall the further advance of Le Pen's National Rally party.

Markets were concerned that National Rally and its allies, with its significant spending agenda, would control the parliament. French/European risk sold off. The OATS-Bunds spreads widened to levels last seen during the European debt crisis in 2012. Members of the ECB even felt compelled to mention that the Transmission Protection Instrument, a backstop to prevent disorderly bond market moves that were evident in the peak of the debt crisis, remained available. Markets eventually settled as the prospect of an absolute majority for the far right party receded.

Despite the brief bout of risk aversion, sentiment amongst fund managers remained bullish overall. Inflation risks were seen to be the most pressing medium term concern.

KEY MARKET DEVELOPMENTS

The Bloomberg BBB OAS widened (1.37% prior 1.25%) following developments in European politics. European credit synthetics were particularly impacted with iTraxx Main at 61bps (p53bps) and iTraxx XO at 319bps (p296bps).

Equity markets were mixed. Chinese equities underperformed with the CSI down 3.3% on concerns for an economic slowdown. Whereas the S&P500 rallied 3.5%, driven by the Tech sector. Developments in Europe did not create much of a fuss in the VIX (12.4 p12.9), which traded within a tight range.

The USDJPY (161 p157) reached levels last seen during the Paris Accord in 1986, when the JPY was deliberately depreciated in an ultimately failed effort to reduce the US bilateral trade deficit. Major Western bond markets rallied with Australian 10yr bond yields at 4.31% (p4.41%) and US 10yr bonds at 4.40% (p.4.50%).

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WTI rose 6.0% to $81.54bbl partly due to an increasing likelihood of significant Israeli military conflict with Hezbollah. Ukraine also launched drone attacks against Russian refineries. The US summer driving season commenced and OPEC extended production cuts. On the other hand, Copper fell 4.4% to USD 9599/ton on higher than expected Chinese inventory accumulation.

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

ECONOMIC OVERVIEW

Nowcasts from the New York and Atlanta Federal Reserve Banks suggested that US Q2 GDP was at healthy levels albeit slightly below consensus estimates. The outlook for growth remains robust and is expected to approximate potential. As labour market conditions ease, some concerns are arising that labour hoarding practices may unwind suddenly and cause unemployment to rise disproportionately to any economic slowdown. At present, the US economy is projected to continue to add jobs despite experiencing a rising unemployment rate. Commentators focused on the Federal Budget following the Congressional Budget Office's update which estimated that the deficit would reach 7% of GDP for 2024 (2025: 6.5% deficit).

European households are expected to underpin a recovery, supported by rising real wages. Productivity improvements and net inward migration are expected to deliver growth without altering the rate of unemployment. Nonetheless, there is considerable uncertainty in how the links between wages, productivity and corporate profitability will play out.

China continues to generate growth which is commensurate with a 5% target for 2024. This is despite ongoing liquidity issues amongst property developers and increasing hostility to its export-oriented trade policies.

Australia's inflation outcomes, labour force figures and significant upwards revisions to prior estimates on tourism expenditure led to a strengthening reassessment of household economic resilience. Despite some distress amongst households emerging, economists revised the probability of a recession in the coming 12 months from 30% to 22.5%.

CREDIT MARKET OVERVIEW

Credit spreads remain near historical tights despite a bout of risk aversion related to the European and French elections. Historically, IG spreads at these levels were associated with the development of bubbles or the result of QE. Although HY spreads in the US are also tight, allowance for economic risks arising from tight monetary policy results in these spreads being less extreme relative to its history. Within the HY universe, concern for credit distress can be found most prominently in TMT and healthcare sectors. President Macron's decision to call a parliamentary election to fend off a significant improvement in Le Pen's RN party created risk aversion for the debt of French banks which saw their capital stack sell off and subsequently revert.

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Derivative markets are anticipating a low level of price volatility. However, an elevated risk of a left-tail event is priced into credit related options markets in the US and Europe.

Australian structured issuance has been very strong and spreads are narrow and relatively undifferentiated within IG rated notes. Australian ADI issuance has been very notable with banks tapping the market in relatively high volumes. ABS issuance, primarily Auto, has also be strong this year. Spreads continue to compress, with the BBB-AAA premium now tighter than in 2021. S&P's arrears analysis on RMBS suggests these have been reasonably stable at pre-Covid levels.

Within CLOs, spreads have rallied over recent months with BBB lines tightening further in June. Although refinance and reset activity has been high, creating considerable gross issuance, net issuance is limited. As spreads in underlying levered loans have not compressed as much in recent months, the incentive to form CLOs has improved.

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