# Realm Short Term Income Fund
# November 2020

## Fund Objective

The Realm Short Term Income Fund seeks to produce a return (net of fees) that exceeds the total return of the RBA Overnight Cash Rate by 1.50%-2.00% p.a. over rolling three-year periods.

## Net Performance

| Period | Ordinary Units | RBA Cash Rate Return |
|---|---|---|
| 1 Month | 0.27% | 0.01% |
| 3 Month | 0.68% | 0.05% |
| 6 Month | 1.50% | 0.11% |
| 1 Year | 2.59% | 0.38% |
| 2 Year | 2.76% | 0.80% |
| Since Inception | 2.75% | 1.03% |

## Fund Update

**Cash and Short-Term Liquidity Weighting:** ↑ Cash and Short dated liquidity increased to 34.71% from 34.04%.

**Interest Rate Duration Position:** → 0.10 years. The strategy will maintain interest rate duration of approximately 3 months as an average. However, the manager can increase interest rate exposure to as high as 1 year under certain conditions. The strategy will as a rule only take modest interest rate risk.

**Corporate & Subordinated Debt Allocation:** → Remained in-line with last month at 36.79%. Securities in this sector were rotated to maximise credit duration within limits. The corporate book is very conservatively positioned in short dated senior paper of Australian ADIs, these assets experience very low levels of relative market volatility.

**Residential Mortgage-Backed Securities (RMBS) & ABS:** → RMBS allocation remained in line over the month, with the strategy continuing to take advantage of the strong market conditions to optimise the portfolio into year-end and deploy new funds into high quality assets. The credit rating of the book sits at A- and holds a weighted average credit duration of 1.78 years. Spreads once again continued to track tighter in public markets, driven by aggressively bid primary transactions, in particular the investment grade tranches, which are being well supported by a market view of low supply into 2021, strong flows into income based products searching for yield and a strong offshore presence in our market. While markets remain active, there was less primary issuance over November in comparison to October, and we expect this issuance to continue to abate into year end.

The Government's $15bn Structured Finance Support Fund was not used to support any public deals in either primary or secondary markets over the month but continues to exist to support the market where needed. The Forbearance SPV saw one additional subscriber being Arch Finance (commercial loans) accessing forbearance support alongside OnDeck, Redzed, Sapphire, Pepper and Metro issuer programs.

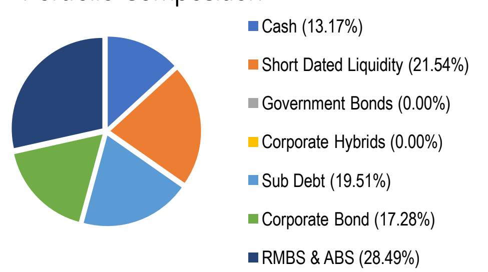
## Fund Statistics

| | |
|---|---|
| Running Yield | 2.14% |
| Yield to Maturity | 1.78% |
| Volatility† | 0.45% |
| Interest rate duration | 0.11 |
| Credit duration | 1.45 |
| Average Credit Rating | A |
| Number of positions | 77 |
| Average position exposure | 1.16% |
| Worst Month* | 0.09% |
| Best Month* | 0.34% |
| Sharpe ratio∂ | 5.94 |

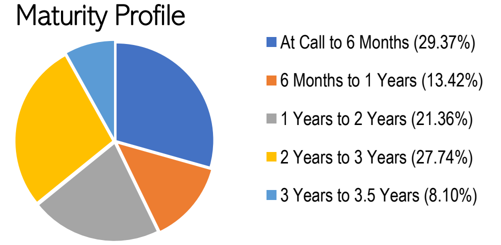
Calculated on Ordinary Units unless otherwise stated. *Since Inception 21 December 2017. †Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

HIGHLY RECOMMENDED
Recommended
APPROVED
NOT RATED
REDEEM

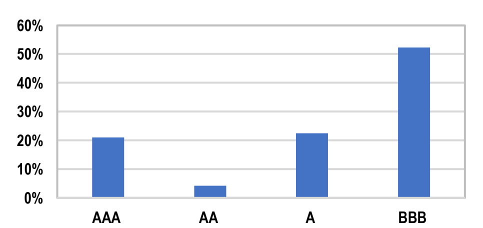
## Portfolio Composition




## Maturity Profile




## Credit Quality

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**Targeted risk across the Fund:** ↓ Targeted risk decreased slightly to 0.68% from 0.69%, reflecting the overall reduction in market volatility. Meanwhile realised standard deviation is at 0.45%. This has risen recently due to increased volatility in mark to market valuations. The portfolio remains defensively positioned, despite this, the fund has met its return objective over the last 12 months, delivering 2.59% after fees. This is evidence that the strategy is well designed, and that it delivers a reasonable premium over cash while maintaining a very tight distribution of returns month on month.

## Market Outlook

Markets celebrated an outcome in the US Presidential election which appears likely to produce a divided Congress after the Senate runoffs are completed in January. Markets looked favourably upon a Biden victory but, at the same time, were relieved that a Blue Sweep did not emerge. Three successful results from stage 3 covid vaccine trials were also reported. In aggregate, the outcomes were more favourable than hoped and markets looked through deteriorating infection rates through much of the developed world, with Australia being a notable exception.

Equity markets, currency and commodities generally reflected an increased preparedness to consider a scenario of wide-spread vaccination by H2 2021. China's ongoing economic recovery was also a driver. The VIX declined but remains some way from post-GFC average levels. Markets are pricing default risks at a similar level to pre-covid. This appears overly optimistic at first sight, but the official sector has clearly acted to defend solvency and has the capacity to do more if needed. Furthermore, the favourable vaccine outcomes have reduced the downside economic risks. Whilst high quality debt has seen liquidity premia eroded following the RBA's liquidity injections, the lower end of investment grade debt continues to offer value. There is significant interest in Australian debt from offshore investors.

The RBA cut cash and other reference rates, and also introduced a QE program for longer dated maturities. The strength of the domestic recovery continued to surprise to the upside. Employment outcomes materially exceeded estimates made in the Federal Budget in early October which will assist with improving the projected cash deficit for FY 21 of $213bn. Housing markets are performing strongly in terms of prices, general turnover and construction activity. The credit quality of mortgages continues to improve. Consumer sentiment is elevated, and business sentiment is catching up. Capex plans are showing increased signs of confidence. The Australian economy is surging off its lows and Victoria's economic recovery from lockdown has been rapid.

In terms of risks to the outlook, Australia's diplomatic relationship with China continues to deteriorate as additional sources of friction arise regularly. This is despite both countries being signatories of the landmark Regional Comprehensive Economic Partnership which was also signed during the month. Businesses are also reporting issues with supply chains and logistics which are increasing prices of their inputs and compressing profit margins. On a horizon which extends beyond two years, unless net inward migration catches up with the effects of the housing stimulus, prices and rents may suffer.

## Sector Allocation

| Sector | Asset Allocation Range | SAA Target |
|---|---|---|
| Cash | 10% - 100% | 10% |
| 31 Day Notice Account | 0% - 20% | 10% |
| Government Bonds | 0% - 90% | 0% |
| Corporate Bonds | 0% - 40% | 25% |
| Sub Debt/Corporate Hybrids | 0% - 20% | 10% |
| RMBS & ABS | 0% - 30% | 25% |
| Short Dated Liquidity | 0% - 60% | 20% |

## Fund details

**Distribution Frequency:** Monthly
**Liquidity:** Daily
**Buy/Sell:** 0.00% / 0.00%
**Direct Minimum Investment:**
Ordinary Units - $25,000
mFunds Units - $25,000
**Inception Date:** 12.12.2017
**Fund size**: AUD $132 million
**APIR Codes:**
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
**Management Fees (inc. GST):**
Ordinary Units – 0.33%
mFunds Units – 0.39%
**Responsible Entity:** One Managed Investment Funds Ltd
**Custodian:** Mainstream Funds Services Pty Ltd
**Unit Pricing and Unit Price:**
https://www.realminvestments.com.au/our-products/realm-short-term-income-fund/

## Platform Availability

- BT Panorama
- BT Wrap
- Hub24
- Macquarie Wrap
- Netwealth
- Powerwrap
- Praemium
- Australian Money Market
- mFund code: RLM02

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