# Realm Short Term Income Fund
# March 2021

## 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 | 0.76% | 0.02% |
| 6 Month | 1.55% | 0.06% |
| 1 Year | 2.91% | 0.19% |
| 2 Year | 2.73% | 0.57% |
| 3 Year | 2.77% | 0.88% |
| Since Inception | 2.78% | 0.93% |

## Fund Update

**Cash and Short-Term Liquidity Weighting:** ↓ Cash and Short dated liquidity decreased to 31.9% from 37.39%.

**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 one year under certain conditions. The strategy will as a rule only take modest interest rate risk.

**Corporate & Subordinated Debt Allocation:** ↑ Increased to 38.64% from 34.84%. Investments were skewed towards corporate bonds and towards optimising credit duration within limits. The corporate book is very conservatively positioned in short dated senior paper of Australian ADIs and corporates. These assets experience very low levels of relative market volatility.

**Residential Mortgage-Backed Securities (RMBS) & ABS:** ↑ RMBS and ABS allocation increased from 27.76% to 29.47% over the month as funds were deployed into new public issuance. The structured credit portfolio is well optimised with new funds continually deployed into high quality assets. The credit rating of the book sits at A and holds a weighted average credit duration of 1.80 years. COVID hardship numbers continue to perform well across the vast majority of issuers. Yields continued to tighten aggressively in public markets, as several issuers brought transactions to market across both RMBS (5 transactions priced during the month spanning regional, prime and non-conforming assets), and ABS assets (3 transactions priced, including personal loan and auto portfolios). Coverage across each of these transactions demonstrated the continued strong appetite for RMBS product. RMBS/ABS markets can now be characterised as presenting fair value over a long term basis, despite this structured assets still compare favourably versus unsecured markets. In terms of asset performance COVID hardship numbers continue to perform well and are now at levels which present very little concern to the market. Meanwhile the S&P arrears index weakened slightly over January which is a seasonal effect and normally expected for the post Christmas period.

## Fund Statistics

| | |
|---|---|
| Running Yield | 2.17% |
| Yield to Maturity | 1.42% |
| Volatility† | 0.33% |
| Interest rate duration | 0.10 |
| Credit duration | 1.49 |
| Average Credit Rating | A |
| Number of positions | 94 |
| Average position exposure | 0.91% |
| Worst Month* | 0.09% |
| Best Month* | 0.34% |
| Sharpe ratio∂ | 6.35 |

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

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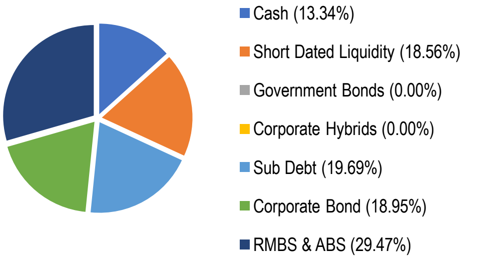
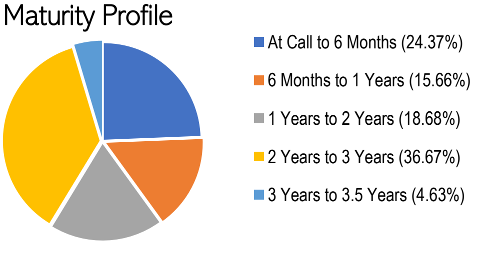
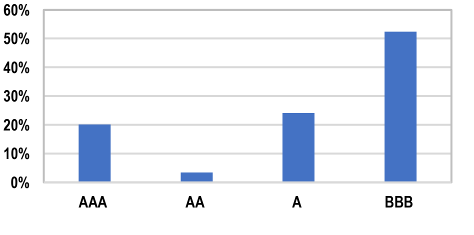
## Portfolio Composition




## Maturity Profile




## Credit Quality





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REALM investment house

**Targeted risk across the Fund:** ↑ Targeted risk increased slightly to 0.70% from 0.68%, reflecting the overall stable market volatility. Meanwhile realised standard deviation is at 0.33%. 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 2.91% 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. We have introduced Portfolio ESG risk limits which the portfolio remains in compliance.

## Market Outlook

Stability returned to the Australian 10-year bond market during the month although yields on US Treasuries continued to rise, bringing global bond yields higher with them. Equity markets rallied as the economic outlook continued to improve and it became more apparent that some economies could stage a complete recovery from covid within a few years. The USD rallied materially against a backdrop of a reduction in the VIX, which fell to its lowest point since the outbreak of covid, and consolidation in prices for iron ore and copper. Domestic RMBS spreads narrowed as demand for these assets strengthened at the same time as the presence of the RBA's Term Funding Facility encouraged banks to retain more risk on their balance sheets.

The passing of the USD $1.9tr American Rescue Plan led to a significant revision to economic projections in the US. The economy is now expected to run at a level which exceeds the pre-covid baseline within the next 12 months and drive a move to full employment by mid-2022. Inflation expectations are firmly pricing this outcome and, yet, Fed Governor Powell has refused to discuss the outlook for QE in any detail. In Australia, the RBA has not pre-committed to extending the 3-year yield curve control window although markets are increasingly pricing a likelihood that this will not occur. The divergence between market expectations for the cash path over the next three to four years and central bank statements in the US and Australia is notable. As economic conditions continue to improve, monetary policy support provided for credit markets will inevitably wane and a regime change in the supportive relationship between bonds and credit is increasingly in prospect.

The Australian job market continues to recover strongly albeit the closure of the JobKeeper scheme may see a slight uptick in unemployment. The housing market remains robust and the performance of mortgage related assets, including bank capital, has not been impeded by the closure of the temporary loan repayment deferrals arrangement. The outlook for the Australian economy remains favourable.

The Kent variant and other highly contagious covid mutations have taken hold in Europe, forcing another round of curbs. As before, the market has largely looked through this development and focused on the longer-term recovery supported by vaccines and stimulus. In the US, the rate of vaccinations has exceeded prior expectations by some margin. Although the variants of concern are now around half of new cases in the US, they will likely reach herd immunity in the next few months. On the geopolitical front, recent military developments in the Ukraine have our attention.

## 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% |

## Portfolio ESG Risk Limits

| Sector | Direct Exposure | Direct Limit | Indirect Exposure | Indirect Limit |
|---|---|---|---|---|
| Fossil Fuels | 0.0% | 0.0% | 0.0% | 2.5% |
| Non-Renewable & Nuclear Energy | 0.0% | 0.0% | 0.0% | 2.5% |
| Alcohol | 0.0% | 0.0% | 0.8% | 2.5% |
| Gambling | 0.0% | 0.0% | 0.7% | 2.5% |
| Mining | 0.0% | 0.0% | 0.0% | 2.5% |

## 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 $183 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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