Realm Short Term Income Fund
May 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	0.24%	0.02%
3 Month	0.49%	0.08%
6 Month	1.07%	0.26%
1 Year	2.35%	0.75%
2 Year	2.69%	1.12%
Since Inception	2.70%	1.19%

Fund Update

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 32.65% from 27.29%.

Interest Rate Duration Position: → 0.12 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: ↓ Decreased to 38.14% from 43.68%. Net reduction was skewed towards big four bank senior paper, which, in our opinion, have rallied into levels above fair value. 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 with last month, maintaining a AA- credit rating and a weighted average credit duration of 1.73 years. Spreads began to tighten towards the end of the month across RMBS markets with two new primary transactions pricing, in both non conforming and prime markets. Investor support also saw several large auctions for stock in secondary markets towards the latter part of the month.

Stress testing of the portfolio for an Unemployment and Market value decline shocks, as well as missed call i.e. extension of amortisation only puts approximately 0.03% of performance at risk.

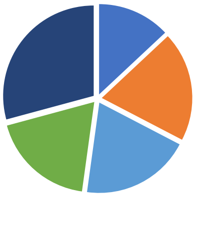
The Governments $15bn Structured Finance Support Fund (SFSF) has continued to allocate to non-bank financiers (NBF's), having publicly supported Australian issuers in both primary and secondary public markets. The SFSF continues to work through a mechanism to support COVID-19 related hardship claims for NBF's in both public term deals and private bank facilities. This explicit allocation to this market by the Australian Treasury shows the importance of securitisation and non-bank competition to government.

Fund Statistics

Running Yield	2.07%
Yield to Maturity	2.00%
Volatility†	0.38%
Interest rate duration	0.12
Credit duration	1.35
Average Credit Rating	A
Number of positions	49
Average position exposure	1.80%
Worst Month*	0.09%
Best Month*	0.34%
Sharpe ratio∂	17.04
Information Ratio∂	14.63

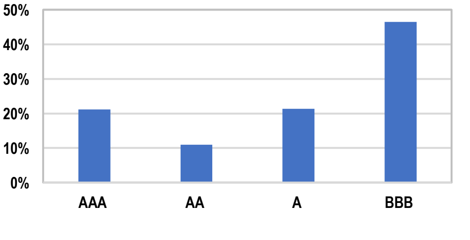
Calculated on Ordinary Units unless otherwise stated. *Since Inception 21 December 2017. †Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

Portfolio Composition



Maturity Profile

Credit Quality



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Targeted risk across the Fund: → Targeted risk decreased to 0.65% from 0.71%, reflecting the portfolio's reduction of senior financial paper. Meanwhile realised standard deviation is at 0.38%. 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 2.35% 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

The Realm Short Term Income Fund is a short duration low volatile strategy, providing sector diversity coupled with weighted credit duration of less than 1.5 years. In addition, an investment grade only credit quality limit will act to minimise portfolio volatility even during periods of heightened credit volatility.

While the portfolio can increase and decrease aggregate risk, this is managed in a tight band. The focus being on maintaining a competitive rate of return versus term deposits while guarding the portfolio against volatility and liquidity risk. In instances of market volatility, investors will find that the portfolio will perform adequately, with draw down risk mitigated by tight portfolio limits and portfolio diversity.

Markets moved their focus from the adverse developments of recent months towards the expected rebound in activity in the second half of the year. Whilst debate continued about the potential pathway of recovery, the outlook and preparedness to bear risk both improved significantly during May. This was reflected in the performance of major equity markets, credit markets, commodities like copper, the Australian dollar and also the lowering of the VIX level.

In Australia, following an excellent outcome on the management of COVID thus far, the markets reacted favourably to the plans to re-open the economy. The plans announced by the National Cabinet were at a faster pace than might have been anticipated, including by the RBA.

Consumer confidence improved strongly off its lows and this observation was further supported by observations from credit card data and the relatively low take-up of the early access to superannuation initiative. The pleasant surprise that the projected spend on the JobKeeper initiative was over-stated by an eye-watering $60bn was both welcome and also highlighted that the employment market was also stronger than had been feared. This observation which was also supported by household surveys where unemployment appears to have climbed by 3% of the population aged over 18yrs since early March, with a further 2.3% working less hours than they were paid for.

Although domestic developments were favourable, the increased political risk in the US heading into the November elections and also increasingly caustic disputes involving China and other countries, including Australia, are issues of global significance. Fortunately the risk of a European fragmentation arising to the financing of a recovery from COVID appear to be abating. The existing status of the portfolio is deemed appropriate for the purposes of delivering on a return in the middle to higher end of the products targeted range of 1.5 to 2.0% over cash, while managing portfolio volatility in an acceptable range.

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 $78 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

- Hub24
- Netwealth
- Powerwrap
- Praemium
- mFund Settlement Service - mFund code: RLM02

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