REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

OCTOBER 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.

FUND DETAILS

Distribution Frequency: Monthly
Liquidity: Daily **Buy/Sell:** 0.00% / 0.00% **Direct Minimum Invest- ment:**
Ordinary Units - $25,000
mFunds Units - $25,000
Inception Date: 21.12.2017
Fund size: AUD $323 million
APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
Management Fees (Net of GST):
Ordinary Units – 0.3075%
mFunds Units – 0.3634%

NET PERFORMANCE

Period	Short Term Income Fund	RBA Cash Rate Return
1 Month	0.10%	0.01%
3 Month	0.41%	0.03%
1 Year	2.34%	0.10%
2 Year	2.42%	0.27%
3 Year	2.60%	0.61%
Since Inception*	2.63%	0.81%

*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	2.31%
Yield to Maturity	1.47%
Volatility†	0.29%
Interest rate duration	0.09
Credit duration	1.48
Average Credit Rating	A
Number of positions	122
Average position exposure	0.64%
Worst Month*	0.09%
Best Month*	0.34%
Sharpe ratio∂	6.29

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

PLATFORM AVAILABILITY

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

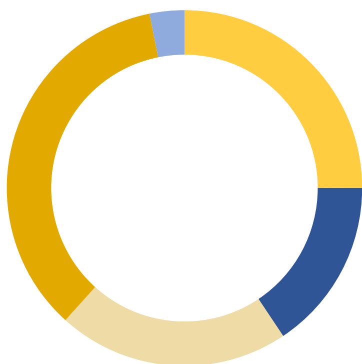
SECTOR ALLOCATION

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 COMPOSITION

- Cash (12.90%)
- Short Dated Liquidity (18.81%)
- Government Bonds (0.00%)
- Corporate Hybrids (0.00%)
- Sub Debt (19.33%)
- Corporate Bond (19.35%)
- RMBS & ABS (29.60%)

MATURITY PROFILE



- At Call to 6 Months (24.98%)
- 6 Months to 1 Years (15.65%)
- 1 Years to 2 Years (21.06%)
- 2 Years to 3 Years (35.16%)
- 3 Years to 3.5 Years (3.16%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 31.71% from 32.24%.

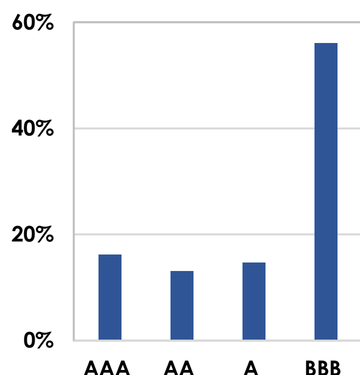
Interest Rate Duration Position: → 0.10 years. The strategy will maintain interest rate duration of approximately 3 months as an average. However, the manager can increase interest rate exposure to as high as one year under certain conditions. The strategy will as a rule only take modest interest rate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

Corporate & Subordinated Debt Allocation: ↑ Increased slightly to 38.68% from 37.96%. Investments within sector were skewed towards corporate debt and towards optimising credit duration within limits. Corporate bonds presented modest relative value over subordinated debt following the spread compression experienced by subordinated debt due to the Term Funding Facility (TFF). The corporate book is very conservatively positioned in short dated senior paper of Australian ADIs and investment grade companies - these assets experience very low levels of relative market volatility.

Residential Mortgage-Backed Securities (RMBS) & ABS: Allocation remained in line with last month at 29.6% as funds remained optimally deployed within the structured credit sector. The portfolio sits at an A- average credit rating and a relatively short weighted credit duration of 1.95 years.

Issuance over the month of October remained very strong with nine transactions pricing across several asset classes including regional banks, prime, non-conforming and asset backed securities. Further strong issuance is expected by the market into year-end as issuers lock in funding requirements over the Christmas period. With respect to market pricing, senior tranches (AAA/AA rated) and higher rated mezzanine tranches (A rated) have continued to moderate from their record tights due to supply from one of the strongest recorded yearly issuances to date. Market demand for the remaining mezzanine (BBB rated) tranches however is increasingly robust, with tranches currently presenting a high relative value in comparison to other sectors. Market performance continues to be strong with the S&P arrears index (SPIN) for August improving a further 8bps to 0.81%, a level that we would deem to be benign.

CREDIT QUALITY



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%	1.47%	2.5%
Gambling	0.0%	0.0%	1.36%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk decreased to 0.68% from 0.69%, reflecting the optimisation within portfolio limits. Meanwhile realised standard deviation is at 0.29%. This has risen over the year 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 2.34% 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. The fund remains compliant with the portfolio ESG risk limits.

MARKET OUTLOOK

Strong earnings outcomes helped developed equity markets to defy expectations of poor returns as bond yields surged over the month. The non-transitory inflation narrative took a firmer grip and proved especially potent in Australia where shorter dated bond yields rose well beyond the reach of fundamental justifications. Ongoing issues with energy supply affected commodity markets more broadly. The effect of tight LNG markets spilled into coal which, in turn, drove up prices for industrial metals. Yet energy and credit rationing in China drove iron ore prices lower. The Australian dollar appreciated. The domestic credit market was weaker as demand for bank senior paper fell away and this sentiment was also apparent in the senior tranches of structured debt. Nonetheless, the mezzanine tranches remained well supported despite significant primary market activity. Although volatility was elevated in the bond market, VIX fell over the month.

As economies continued to accelerate out of the Delta wave, ongoing supply chain issues led central bankers to acknowledge that their effects would be longer lasting and more significant than hoped earlier. An increasingly hawkish rhetoric arose from the Fed and BoE and stirred a particularly strong reaction in the Australian bond market, especially in the front end of the term structure. Although the fundamental rationale for the non-transitory inflation risks in Australia is far less compelling than for the US or the UK, and the RBA repeatedly emphasised that its criteria for the first rate rise would not likely be met until 2024, the Australian market found its way to price it as early as March next year. Along the way, the interest rate swaps market became detached from the bond market and the RBA's anchoring of the April 2024 bond, which was briefly defended, was swept aside after a higher than expected CPI reading. As the borrowing costs for banks are strongly influenced by swap market prices, fixed rate mortgages have started to rise and will exert a much stronger influence on housing than APRA's recent increase to the precautionary buffer for affordability.

Australia's vaccination coverage has exceeded expectations and has brought forward the projected economic recovery. This will be met with a labour force which is much diminished by the reduced foreign student population and lack of net inwards migration since borders were first closed in early 2020. Whilst this will place upwards pressure on wages and prices for a time, we expect that Australia's migration patterns will result in a population level which converges towards its pre-covid trajectory over a period like 3 years. In the absence of a

OTHER FUND DETAILS

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

new, potent, variant which meaningfully escapes the vaccination efficacy, it is likely that there will be a significant normalisation of movement within Australia and across borders by the first half of next year. This will probably avert the establishment of a durable wage-price spiral which is an important ingredient for inflation to become entrenched and require precautionary rate rises in the near term.

The world was reminded of China's financial system risks when deliberate efforts to reduce speculative excess put strain on Evergrande, a major developer. This drained confidence from lenders and property buyers, and other developers soon came under strain. Additionally, a combination of emissions budgets and supply chain difficulties relating to the transportation of thermal coal resulted in a series of rolling power shortages which affected businesses. Another outbreak of covid is presently being addressed in accordance with China's ongoing zero covid policy.

The Biden stimulus packages continued to be tied down with internal debate within the Democratic party. Whilst the infrastructure package has cleared Congress, the outlook for the Families' Plan remains uncertain and recent developments are somewhat puzzling. There is a risk that the outcome might be even smaller than the $1.75tr price tag currently being communicated, which has already been significantly pared back from an opening figure of $3tr.

We believe the extent of detachment from fundamentals in the Australian swap and government bond market is extreme and has been materially driven by hedging demand at a time where supply of risk capital was impaired due to high volatility levels and lower than usual liquidity. A speculative element was also clearly apparent. This will eventually pass and we expect shorter dated bonds to rally. The outlook for credit remains less attractive in general and we remain defensively postured, with a preference for shorter dated bank and corporate exposures. Mezzanine tranches of structured debt remain our preference at this time.

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