REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

NOVEMBER 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 Investment:
Ordinary Units - $25,000
mFunds Units - $25,000
Inception Date: 21.12.2017
Fund size: AUD $378 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	0.02%	0.01%
3 Month	0.24%	0.02%
1 Year	2.09%	0.10%
2 Year	2.34%	0.24%
3 Year	2.54%	0.57%
Since Inception*	2.58%	0.79%

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

FUND STATISTICS

Running Yield	2.30%
Yield to Maturity	1.45%
Volatility†	0.28%
Interest rate duration	0.10
Credit duration	1.45
Average Credit Rating	A
Number of positions	136
Average position exposure	0.58%
Worst Month*	0.09%
Best Month*	0.34%
Sharpe ratio∂	6.16

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%

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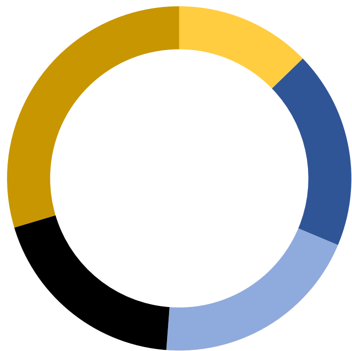
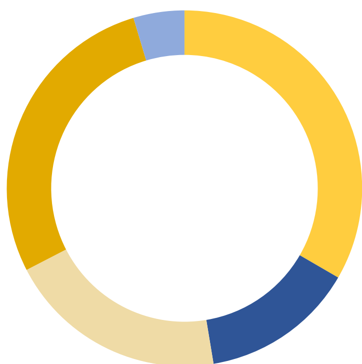
PORTFOLIO COMPOSITION



- Cash (12.75%)
- Short Dated Liquidity (18.58%)
- Government Bonds (0.00%)
- Corporate Hybrids (0.00%)
- Sub Debt (19.87%)
- Corporate Bond (19.19%)
- RMBS & ABS (29.61%)

MATURITY PROFILE



- At Call to 6 Months (36.89%)
- 6 Months to 1 Years (15.50%)
- 1 Years to 2 Years (22.15%)
- 2 Years to 3 Years (30.90%)
- 3 Years to 3.5 Years (5.12%)

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 39.06% from 38.68%. 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 general risk market weakness over the month. 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 1.82 years.

While issuance in the period from June to October was one of the strongest on record, issuance for November was softer, with transactions beginning to slow into the Christmas period. There were 5 transactions pricing over the month, across prime and non-conforming loans, personal loans and small ticket commercial mortgage-backed securities. With respect to pricing, the senior and senior mezzanine (AAA/AA rated) parts of the capital structure have softened from their record tights due to a combination of very strong supply recently seen in market, and softer funding markets extending beyond structured credit. Mezzanine tranches (in particular BBB) continue to price with strong demand and present good relative value in comparison to other assets. With respect to market performance, the S&P arrears index (SPIN) for September continued its improvement over the past few months, falling a further 2bps to 0.79% for prime loans, the lowest level recorded by the index since 2004.

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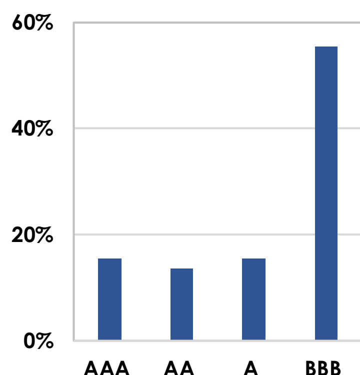
CREDIT QUALITY



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%	1.46%	2.5%
Gambling	0.0%	0.0%	1.24%	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 0.28%. 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 2.09% 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

Risk aversion asserted itself over the month as reflationary sentiment slowed and the arrival of Omicron provided a reminder of the challenge ahead as we adjust to living with covid. Risk assets were weaker with equities, the AUD and credit trading lower. Commodities were mixed with LNG and thermal coal prices remaining elevated although coking coal and oil traded lower. Bonds yields fell, partly reversing movements of the prior month.

Whilst the themes relating to tight labour markets and supply chain difficulties remained in place, the idea that the most acute phase of the inflationary impulse may be nearing is gaining some airtime. Whilst frictions may remain, if they become less troublesome with time, the rate of inflation declines. Break-even inflation rates in the US and Australia finished the month well off their peak as Omicron concerns gained traction.

The RBA retired its Yield Curve Control policy as the bond and swap market (which is more relevant for bank borrowing costs) became fragmented. Economic developments increased the plausibility that cash rates would be raised before the maturity of the April 2024 bond, which was the anchor point of the strategy, and the swap market became increasingly detached as risk capital was drained following large reported losses by hedge funds and a reduction in risk bearing capacity due to heightened volatility. Maintaining the policy was no longer viable after the September qtr CPI result was released. The various central banks have highly divergent outlooks for their policy rates in the coming year with the Fed now on an accelerated path and the ECB unlikely to move. Balance sheet activities are generally being wound back.

The AUD swap market priced up to four rate rises in 2022. However, we would not characterise this as an expectation given the current dysfunction in this market. Mainstream economists expect the first rate rise to be between late 2022 and mid 2023 with the position in the range largely dependent on the outlook for wage growth and beliefs regarding the importance the RBA will place on this before declaring that inflation will sustainably be within the target band. The near end of these expectations is more consistent with the pricing of the bond market. However, it is still well before the central case expectations communicated by the RBA of around 2024. Australian bonds remain very attractive to many foreign investors relative to their domestic alternatives.

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

Reports of the Omicron variant created a risk-off event as markets sought to avoid uncertainty. The transmissibility appears to be much higher than Delta, but the severity of infection appeared to be lower. A great deal hangs off the effectiveness of existing vaccines to slow the spread and manage severity and some results shall be provided in the coming week. Nonetheless, as the better-than-expected Australian September quarter GDP release showed, economies are becoming more resilient against the restrictions required to manage covid.

Although the Biden Infrastructure Plan was finally passed, the passage of the larger Families Plan remained mired in internal rivalry within the Democratic Party. The debt ceiling concerns remain an issue, but the threat of shut down has been deferred to February. The Chinese property market ructions continue, but the market appears confident that this will be within the capacity of the government to manage.

Domestic bank credit weakened as the prospect of re-financing the proceeds of the Term Funding Facility together with the resumption of ongoing regular issuance became more evident. Bank subordinated debt also traded more tenuously. Overall, the corporate and bank capital market was fickle over the month, with longer maturities trading weaker. Issuance activity in the structured credit market provided more evidence that senior tranches are now receiving less support given tight pricing. Junior mezzanine remains well supported and continues to provide the best value.

The outlook for credit markets remains weaker than average as a period extraordinary monetary policy support moves further towards normalisation. With this theme in mind, our outlook is consistent with reducing our emphasis on parts of the market which benefited most greatly, and we are generally defensively postured. Nonetheless, we are finding selective value in some parts of the subordinated debt market and our pipeline of private debt assets remains robust and at acceptable margins.

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