REALM SHORT TERM INCOME FUND

FEBRUARY 2022

REALM INVESTMENT HOUSE

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 $574 million
APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
Management Fees (Net of GST):
Ordinary Units – 0.3075% mFunds Units – 0.3634%

Zenith RECOMMENDED

NET PERFORMANCE

Period	Short Term Income Fund	RBA Cash Rate Return
1 Month	0.00%	0.01%
3 Month	0.28%	0.02%
1 Year	1.65%	0.10%
2 Year	2.19%	0.16%
3 Year	2.38%	0.45%
4 Year	2.54%	0.71%
Since Inception*	2.50%	0.75%

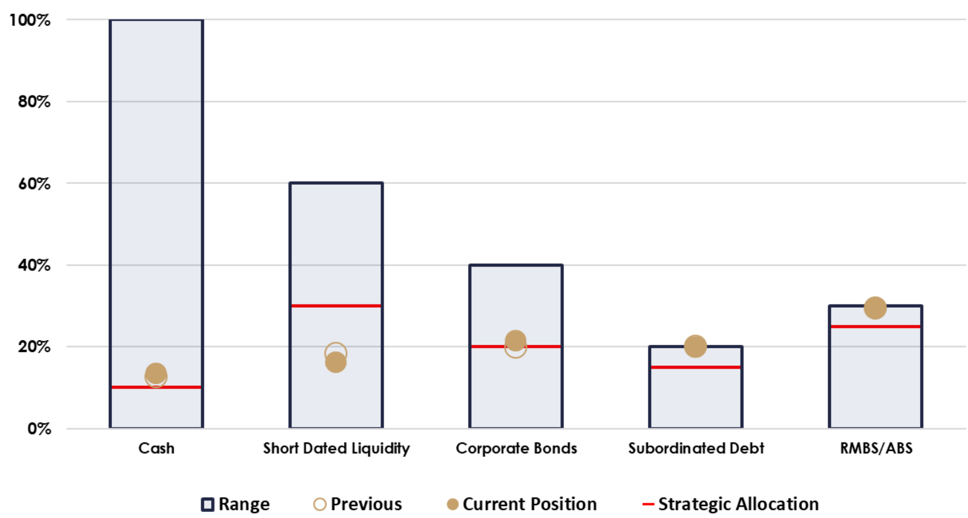
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

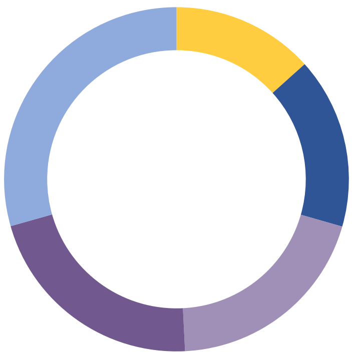
Running Yield	2.30%
Yield to Maturity	1.60%
Volatility†	0.22%
Interest rate duration	0.11
Credit duration	1.45
Average Credit Rating	A
Number of positions	162
Average position exposure	0.46%
Worst Month*	0.00%
Best Month*	0.34%
Sharpe ratio∂	6.01

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

SECTOR ALLOCATION

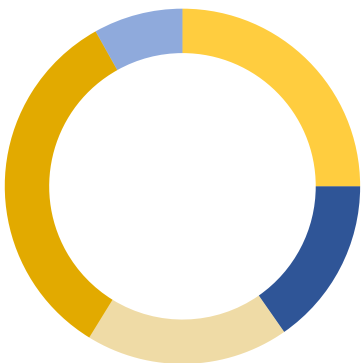


PORTFOLIO COMPOSITION



- Cash (13.34%)
- Short Dated Liquidity (16.09%)
- Sub Debt (19.78%)
- Corporate Bond (21.40%)
- RMBS & ABS (29.39%)

MATURITY PROFILE



- At Call to 6 Months (25.00%)
- 6 Months to 1 Years (15.30%)
- 1 Years to 2 Years (18.49%)
- 2 Years to 3 Years (33.08%)
- 3 Years to 3.5 Years (8.13%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 29.43% from 30.78%.

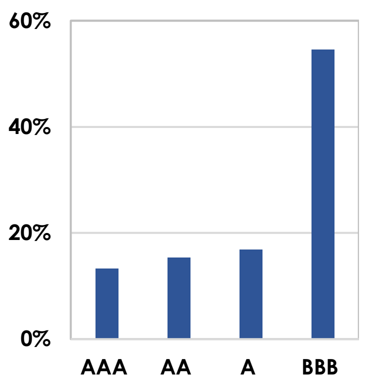
Interest Rate Duration Position: → 0.10 years. The strategy will maintain interest rate duration of approximately 3 months as an average. However, the manager can increase interest rate exposure to as high as one year under certain conditions. The strategy will as a rule only take modest interest rate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

Corporate & Subordinated Debt Allocation: ↑ Increased to 41.18% from 39.77%. Investments within the sector were skewed towards corporate debt and towards optimising credit duration within limits. Corporate bonds continue to present modest relative value over bank senior bonds 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 29.4% 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 1.78 years.

February saw heightened issuance activity in structured credit markets as transactions that were not able to come to market over the Christmas/January break began to sound the market to launch. In total, there were ten trades in primary markets, spanning both prime and nonconforming assets, with one large regional issuer also sounding the market. Over the course of the month, spreads in the senior parts of the capital structure (AAA/AA rated) were weaker alongside credit funding markets more generally, as the Russian/Ukrainian War headlines continue to affect sentiment. This weakness began to push into the top part of the mezzanine (A rated) given the very small differential in spread that exists between ratings bands at the top of the capital structure. The remaining mezzanine (BBB rated) also widening but to a much lesser extent. The market widening is sentiment driven rather than credit driven, with underlying performance within the sector remaining very strong. Prime arrears as shown by the S&P SPIN index for December improving 2bps to 0.74%, while the non-conforming index improved 21bps to 2.32%.

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%	0.38%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk remained inline at 0.64%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.22%. 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 1.65% 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

The strength of economic performance in the developed world continued to surprise to the upside. The extent to which the outlook for Australia's recovery has been revised was starkly presented in the RBA's update to economic forecasts in the February Statement of Monetary Policy where expectations printed in November, before Omicron took hold, were effectively brought forward by a year. In an ongoing retreat from strong assurances that rates were unlikely to rise until 2024, Governor Lowe acknowledged that cash rates could plausibly rise in 2022. The Bond Purchase Plan ceased and the scarcity of certain lines, where the RBA holds a large proportion, stopped deteriorating.

Whilst the RBA continued a dovish line despite developments, reiterating the desire to see wage rises at a level consistent with inflation being sustainably within the target band, other central banks did not. The BoE surprised the market when the minutes for the December meeting revealed a divided Monetary Policy Committee such that just one vote determined whether the rate tightening cycle began with a single notch, as occurred, rather than a double from the outset. The ECB is on a very different trajectory but, even there, ECB's Lagarde toned down her arguments on transitory inflation. In the US, where inflation reached over 7% yoy, some Fed officials were openly arguing for a 50bps rate rise in March and, for a time, the market priced the possibility of a 75bps hike. Ultimately, the Fed's decision was to increase rates by 25bps, which was lower than what the market was initially anticipating. It also seems likely that central bank balance sheets will be reduced at a faster rate than had been seen in the post GFC period.

The level of uncertainty already being experienced was further increased when Russia launched a 'special military operation' into Ukrainian territory. This was met with a range of sanctions which included cutting some Russian banks off SWIFT and the seizure of assets from Putin associates. Public pressure and desire to protect reputations then led to more widespread isolation of Russia with luxury brands, payment system providers, pension funds, market index providers and energy companies withdrawing from Russian activities. With inflation concerns already high and energy markets already tight, the threat of disruption in European energy supply and also for metals (notably high-grade Nickel) and minerals where Russia is a major exporter, in addition to disrupted grain exports from Ukraine, produced a surge in inflationary expectations. At the same time, although the direct equity and debt exposures to Russia is relatively small, risk markets generally fell away on weaker sentiment and stagflationary concerns.

PLATFORM AVAILABILITY

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

OTHER FUND DETAILS

Responsible Entity: One Managed Investment Funds Ltd

Custodian: Mainstream Fund Services Pty Ltd

Unit Pricing and Unit Price: https://www.realminvestments.com.au/our-products

As an energy and materials exporter, Australian equities and the AUD performed stronger than might be expected for a generic risk-off market.

Credit markets weakened, with European and US markets selling off and producing excellent relative value opportunities for Australian issuers, particularly for longer maturities, whose foreign-denominated debt now trades far cheaper than the AUD denominated comparatives. Signs of moderate distress or risk aversion have emerged in the inter-bank market. Understandably, energy and materials names have fared better in a weak market. Overall, the Australian market has held up relatively well as our exposure to stagflationary risks from this development are lower.

The structured credit markets returned from holidays and issuance commenced into a notably weaker tone. We generally avoided longer WAL senior notes and were also hesitant on other investment-grade lines, expecting better opportunities to come. We have also stress-tested our portfolios for the effects of the significant floods that Australia has experienced and have limited concerns for the credit quality of the portfolio from this source although upcoming rate rises will exert downwards pressure on housing prices.

Price action on bond markets showed a divergence between whether their traditional role as a safe haven would dominate or whether the inflationary impulse would prove more influential. Whilst the initial reaction saw the defensive reflex demonstrated first, following the end of the month, the inflationary concerns proved more enduring.

Trade imbalances between energy/materials importers and exporters will become large in the coming months and may reveal weaknesses in the flow of credit. Whilst a Russian default contributed to the fall of LTCM in 1998, which was a threat to the financial system at the time, financial leverage has become more restrained in the post GFC environment, banks are far better capitalised, and the appetite for Russian political risk was tempered following the Crimean annexation. Nonetheless, stresses of this kind can result in sudden and extreme outcomes arising.

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