REALM SHORT TERM INCOME FUND

MARCH 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 $624 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	-0.26%	0.01%
3 Month	-0.09%	0.02%
1 Year	1.12%	0.10%
2 Year	2.01%	0.14%
3 Year	2.19%	0.41%
4 Year	2.36%	0.69%
Since Inception*	2.39%	0.74%

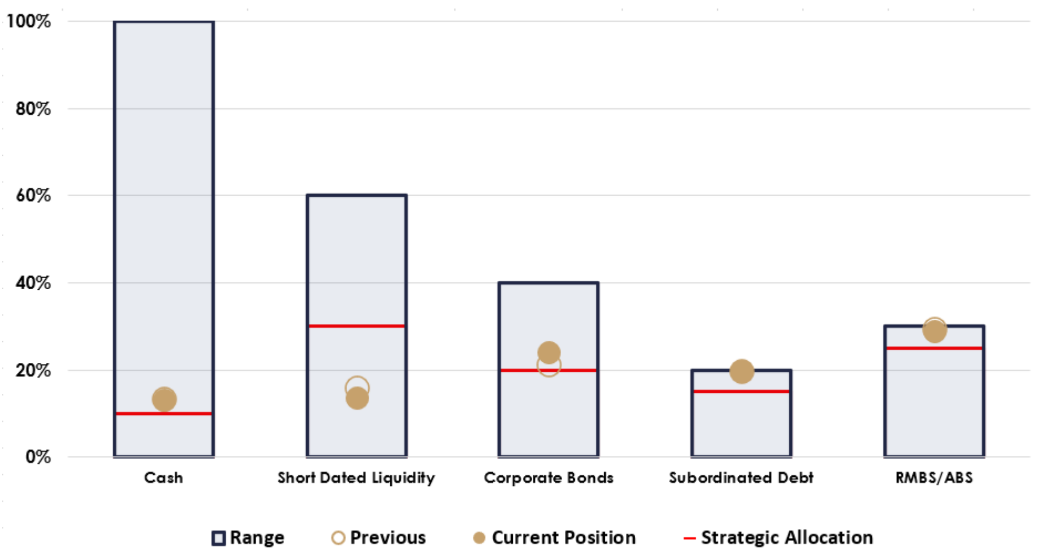
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	2.31%
Yield to Maturity	2.00%
Volatility†	0.29%
Interest rate duration	0.10
Credit duration	1.48
Average Credit Rating	A
Number of positions	169
Average position exposure	0.46%
Worst Month*	-0.26%
Best Month*	0.34%
Sharpe ratio∂	5.67

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



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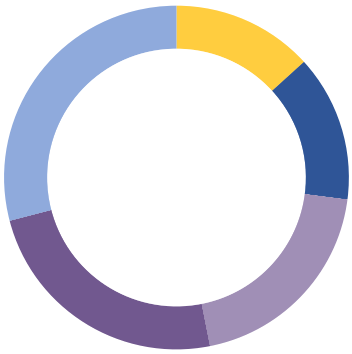
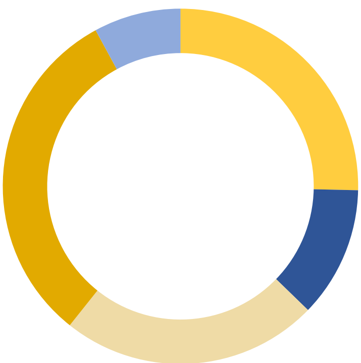
PORTFOLIO COMPOSITION



- Cash (13.25%)
- Short Dated Liquidity (13.78%)
- Sub Debt (19.86%)
- Corporate Bond (24.05%)
- RMBS & ABS (29.06%)

MATURITY PROFILE



- At Call to 6 Months (25.35%)
- 6 Months to 1 Years (11.91%)
- 1 Years to 2 Years (23.44%)
- 2 Years to 3 Years (31.37%)
- 3 Years to 3.5 Years (7.92%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 27.03% from 29.43%.

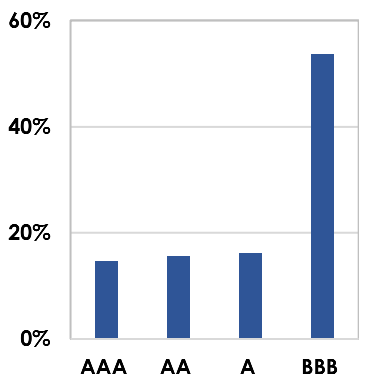
Interest Rate Duration Position: → 0.10 years. The strategy will maintain interest rate duration of approximately 3 months as an average. Having a low IRD number has limited the losses of the fund in March from a bond market sell-off, a level comparable to significant historical events. The strategy will as a rule only takes modest interest rate risk.

Corporate & Subordinated Debt Allocation: ↑ Increased to 43.91% from 41.18%. 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, however, this value is eroding as bank senior bonds are repricing wider. Over the month short dated financial and corporate bonds experienced a sharp sell-off driven by global events, contributing to the fund's first negative return. The short, conservative nature of the sector aided in cushioning the significant market volatility in March.

Residential Mortgage-Backed Securities (RMBS) & ABS:
→ Allocation remained in line with last month at 29.1% as funds remained optimally deployed within the structured credit sector. As at month end, the portfolio maintained an A- average credit rating and a relatively short weighted credit duration of 1.76 years.

Structured credit markets were weaker alongside credit markets over the start of March on the back of Russian/Ukrainian tensions. The effect of this was most notable in the senior mezzanine (AAA/AA rated) and higher rated mezzanine (A rated) portions of the capital structure. Spreads remained wider into month end, lagging the tightening experienced by corporate credit markets. The sell off in spreads was driven by market factors, with prime arrears (SPIN) remaining at their lowest point since 2004.

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%	0.34%	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 0.29%. This has risen over the month due to increased volatility in mark to market valuations. The portfolio remains defensively positioned, despite this, the fund has performed relatively well over the last 12 months, delivering 1.12% 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

Market sentiment during March was adversely affected by the stagflationary impulse associated with the developments in Ukraine building upon pre-existing inflationary pressures. Whilst early signs were present that supply chain issues were beginning to resolve before the war erupted, labour markets remained exceptionally tight in the US and Australia. Australian 3-yr swap rates rose 85bps to 2.58% over the month, with 10-year bond yields rising 70bps to 2.84%. These moves largely followed a strong lead from the US.

During the month, a large surge in energy prices arose due to the effect of sanctions and concerns that European natural gas imports from Russia would be disrupted. Tighter financial restrictions threatened the ability of Russian firms to make payments on foreign currency debt. This was combined with ongoing voluntary behaviours to remove Russian exposures, creating even stronger risk aversion in credit markets. iTraxx indices reflected this, with the index reaching triple figures in Australia once again, a level not seen since H1 2020 when the stresses from the first covid wave were receding. The VIX surged to its highest levels for over a year.

Australian senior, Tier 2 bank debt and RMBS markets were very weak over the month, with spreads widening beyond the levels immediately before covid became prominent. Bank credit in Europe was even more affected, due to concerns over direct exposures to Russian assets as well as their proximity to strong stagflationary effects. Credit markets in the US also experienced significant weakness during the month but recovered this before it ended.

Whilst Australian bank debt recovered off intra-month lows, RMBS remained weak with spreads on higher-rated notes finishing wider, on a relative basis, than BBB or lower-rated notes. Importantly, this was not the outcome of any acute deterioration in credit quality. Australian corporate credit also remained soft through month-end, in contrast to the US.

Real yields on Australian 10-yr bonds moved into positive territory. Australian 10-yr bonds trade with higher real and nominal yields than the US despite our more contained inflation experience and exposure. The ongoing unwinding of the RBA’s prior rhetoric in relation to exercising patience with rate rises has damaged the credibility of their forward guidance and has contributed to an unusually low level of differentiation between nearer-term expectations for rate

PLATFORM AVAILABILITY

- Australian Money Market
- AMP North
- BT Panorama
- eXpand
- Firstwrap
- Hub24
- Macquarie Wrap
- MLC Navigator/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

rises over the coming year, relative to the Fed. At month's end, Australian cash rates were anticipated to rise to ~1.75% by December, which compares to the ~2.25% figure for the US.

Whilst the realised US inflationary experience is at levels not seen since the early 1980s, Australia's outlook is influenced more by indications of a very tight labour market which has yet to translate to significant, widespread wage rises. Nonetheless, the RBA has now clearly indicated a preparedness to raise rates in June, pending wage and price inflation readings which will be released in May. Meanwhile, discussions in the US have moved to how many 50 bps rate rises may be needed to quell inflation pressures and how fast the Fed balance sheet can be reduced without causing a mishap.

Broad equity markets fell during the month but recovered to finish higher. The potential for a peace settlement in Ukraine improved following a spirited defence and strong support from Western-aligned powers. The Australian dollar has been more strongly influenced by an improvement in the Terms of Trade than risk aversion. The pre-election Budget did not provide any material impact on financial markets, although projected deficits were far more limited than the MYEFO estimates released in December, reflecting the surprising resilience of the economy.

The Fund recorded its first negative calendar month return as the price performance of structured credit markets deteriorated in a manner that was reminiscent of the acute covid period of March 2020. As the Fund invests only in investment-grade credit, and no material change occurred to the outlook for the credit quality of structured credit, we expect these losses will be recouped over time via a higher forward-looking yield.

As markets deteriorated in the first half of the month, we deferred the investment of inflows to reduce portfolio risk. This helped to reduce the losses.

After an extended period where forward-looking return expectations were constrained by tight credit spreads, recent market moves have restored these towards more normal levels and they are consistent with our targets once again.

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REALM INVESTMENT HOUSE

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