Realm Short Term Income Fund
May 2021

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.

Net Performance

Period	Ordinary Units	RBA Cash Rate Return
1 Month	0.22%	0.01%
3 Month	0.66%	0.03%
6 Month	1.38%	0.05%
1 Year	2.91%	0.16%
2 Year	2.63%	0.46%
3 Year	2.76%	0.80%
Since Inception	2.76%	0.89%

Fund Update

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased slightly to 30.82% from 31.05%.

Interest Rate Duration Position: → 0.11 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 39.43% from 39.08%. Investments were slightly skewed towards corporate bonds and in maintaining optimal credit duration within limits. The corporate book is very conservatively positioned in short dated senior paper of Australian ADIs and corporates. These assets experience very low levels of relative market volatility.

Residential Mortgage-Backed Securities (RMBS) & ABS: ↑ RMBS and ABS allocation remained inline at 29.74%, and continues to maintain a weighted average credit rating of A- with a weighted credit duration of 1.79 years. Securitisation markets were active with several transactions launching, including 2 regional bank transactions (ING and AMP), a personal loan transaction, a prime mortgage transaction and an auto transaction domiciled out of New Zealand. Participation was very strong across all transactions with strong demand forcing some transactions to close to new orders up to several days earlier than anticipated. This continues to provide a positive tailwind for pricing which has seen yields tighten across all parts of the capital structure, but notably within shorter dated bonds. This was seen through a range of secondary market auctions taking place over the course of month. Securitised assets continue to present good value on a relative basis against other sectors. With respect to market performance, the S&P arrears index (SPIN) showed a solid 4bp improvement over the month of March to 0.94%.

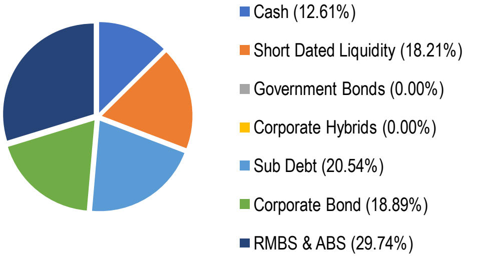
Fund Statistics

Running Yield	2.29%
Yield to Maturity	1.36%
Volatility†	0.30%
Interest rate duration	0.11
Credit duration	1.48
Average Credit Rating	A
Number of positions	98
Average position exposure	0.86%
Worst Month*	0.09%
Best Month*	0.34%
Sharpe ratio∂	6.42

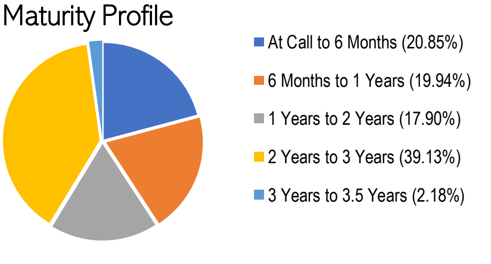
Calculated on Ordinary Units unless otherwise stated. *Since Inception 21 December 2017. †Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

Zenith Investment Partners
HIGHLY RECOMMENDED
Recommended
APPROVED
NOT RATED
REDEEM

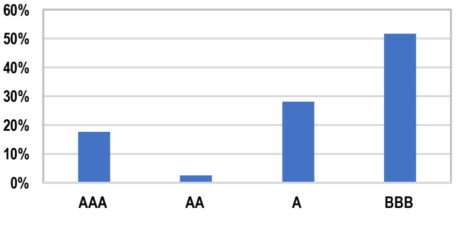
Portfolio Composition



Maturity Profile



Credit Quality



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Targeted risk across the Fund: ↑ Targeted risk increased slightly to 0.69% from 0.67%, reflecting the overall stable market volatility. Meanwhile realised standard deviation is at 0.30%. This has risen over they 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 2.91% 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. We have introduced Portfolio ESG risk limits which the portfolio remains in compliance with.

Market Outlook

Bond and equity markets recorded gains during the month and commodity prices were supported by a weaker USD. The VIX finished the month close to unchanged although an outbreak of volatility expectations arose when a surprisingly high CPI reading was released in the US. The OECD reflected the prevailing optimism in relation to the economy by upgrading world growth estimates for 2021 to 5.5% from the 4.2% figure it projected last December.

Whilst the catastrophic outcomes in India, in relation to covid, came off their peaks and better outcomes were recorded in Europe and the US, it remained clear that countries without adequate vaccine coverage remained exposed to outbreaks. More potent strains have become dominant amongst new cases and Victoria locked down for the fourth time as the newly assigned Kappa and Delta variants were found in circulation. The potency of the emergent strains requires the great majority of the population to be vaccinated to control the virus. Even this may not be enough. In Australia, for example, the AstraZeneca vaccine offered to those over age 50 is not considered to be especially effective against the Beta (Sth Africa) and Gamma (Brazil) variants and, hence, we will need to remain vigilant for some while yet. Indeed, Treasury estimates that net migration will only normalise by around 2025.

Bond markets were driven by developments in the US where Treasury Secretary Yellen was compelled to walk back comments relating to overheating of the economy in the first week. This was followed by a surprisingly weak US jobs report which was explained by supply side issues including a lack of childcare, ongoing covid concerns and elevated unemployment benefits discouraging workers from returning. Shortages of microchips and lumber constrained employment growth in manufacturing and residential construction. Finally, the CPI reading surprised to the upside and gave life to concerns that inflation might become endemic, although these concerns subsequently settled. The outlook for the US will be driven by negotiations currently underway for the Biden packages for Jobs and Families, which will further boost output beyond what had previously been seen to be natural limits.

The Federal 'Pandemic' Budget was handed down and recycled the gains from a better-than-expected economic recovery since the end of last year into additional stimulus which is intended to drive unemployment rates lower. The RBA continued to re-iterate that it does not expect cash rates to rise before 2024 at the earliest. However, more detail on its intentions with yield curve targeting and QE will be announced in the July meeting.

With the $200bn Term Funding Facility coming to a close on 30 June, one of the most significant recent tailwinds for the domestic credit market will cease. Ultimately, these proceeds will need to be returned, but the immediate consequences for the markets are a softer outlook for high quality and longer dated paper. Nonetheless, reasonable risk-adjusted spreads can still be found in shorter dated assets and those with some complexity associated with them which did not benefit particularly much from this program of monetary support.

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 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%	0.7%	2.5%
Gambling	0.0%	0.0%	0.6%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

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 $205 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

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

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