REALM Short Term Income Fund

AUGUST 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.

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 $277 million

APIR Codes:

Ordinary Units - OMF3725AU

mFunds Units - OMF8160AU

Management Fees (inc. GST):

Ordinary Units – 0.33%

mFunds Units – 0.39%

Zenith

RECOMMENDED

NET PERFORMANCE

Period	Ordinary Units	RBA Cash Rate Return
1 Month	0.19%	0.01%
3 Month	0.45%	0.03%
6 Month	1.12%	0.05%
1 Year	2.53%	0.13%
2 Year	2.48%	0.33%
3 Year	2.69%	0.69%
Since Inception	2.70%	0.84%

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

FUND STATISTICS

Running Yield	2.32%
Yield to Maturity	1.35%
Volatility†	0.29%
Interest rate duration	0.10
Credit duration	1.49
Average Credit Rating	A
Number of positions	111
Average position exposure	0.73%
Worst Month*	0.09%
Best Month*	0.34%
Sharpe ratio∂	6.38

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

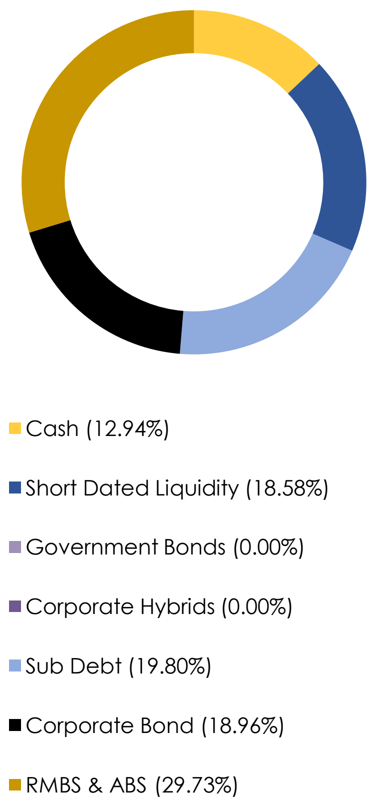
PLATFORM AVAILABILITY

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

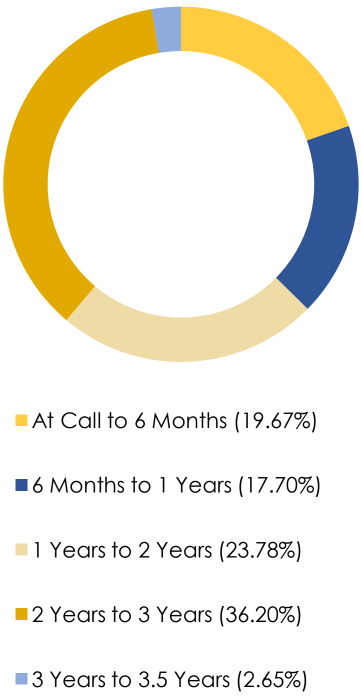
SECTOR ALLOCATION

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



MATURITY PROFILE



FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 31.52% from 31.4%.

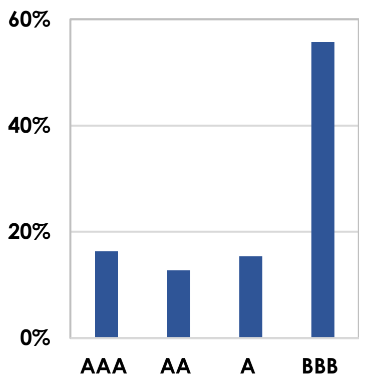
Interest Rate Duration Position: → 0.10 years. The strategy will maintain interest rate duration of approximately 3 months as an average. However, the manager can increase interest rate exposure to as high as one year under certain conditions. The strategy will as a rule only take modest interest rate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

Corporate & Subordinated Debt Allocation: ↓ Decreased slightly to 38.76% from 38.84%. Investments were skewed towards subordinated debt and towards optimising credit duration within limits. 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 stable at 29.7% over the month 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 1.92 years.

Structured credit markets were firmer over the month, with a significant number of transactions brought to market once again. This continues to be driven by issuers capitalising on the tight market conditions to issue bonds into public markets, significantly lowering their cost of funds. Transactions ranged across a number of asset classes spanning regional bank transactions, prime transactions across both Australia and NZ, consumer finance transactions and auto and equipment transactions. The issuance was met with significant demand, with each of these transactions well supported by investors, but particularly well supported within the lower investment grade (A/BBB rated) and sub investment grade tranches. This demand continues to drive pricing tighter. With respect to market performance, the S&P arrears index (SPIN) for June improved 5bps to 0.90%, 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%	1.41%	2.5%
Gambling	0.0%	0.0%	1.28%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk decreased to 0.71% from 0.74%, 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 2.53% 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

Markets cycled through August and were initially buoyed by a favourable employment outcome in the US, then subsequently became concerned by a worsening Delta outbreak and a sense that the most rapid part of the economic recovery had passed. Markets were also concerned that Fed Chair Powell's eagerly awaited speech at the Jackson Hole conference would include an announcement of QE taper but were ultimately relieved when he did not. Following this, risk markets rallied and bonds sold off into the end of the month as risk aversion fell. This may have been associated with a decline in the rate of new covid cases in key jurisdictions.

The fall of Afghanistan, further social interventions in China (restricting gaming), the deteriorating climate outlook outlined by the IPCC and the ongoing passage of the US stimulus bills were also notable headlines.
US Bond yields finished slightly higher, although Australian yields were largely unchanged because the Delta outbreak deteriorated in NSW and authorities came to realise that it could not be driven to zero in Victoria. Nonetheless, global credit markets and equities reflected the sense of ongoing strength in the longer-term economic outlook. Within Australia, banks returned capital as profitability was supported by decreased concern for defaults on their loans. M&A activity continued with Square making a $39bn acquisition of Afterpay.

Australia's June Qtr GDP demonstrated that a strong recovery had taken hold before the latest outbreak. However, China's efforts to reign in excess steel production resulted in a significant reduction in iron ore prices. The AUD traded weaker over the month, moving with the above-mentioned pattern of positioning around Powell's Jackson Hole speech. The outlook for the Australian economy has clearly been dampened following the Delta outbreak.

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

However, the pace of vaccinations, availability of vaccines, decline in reported hesitancy, together with the developing momentum for vaccine passports and workforce mandates all point to a successful vaccination outcome by December, if not earlier. If the experience in Europe and the US are a guide, economic activity will be far more resilient to any rise in cases when restrictions ease. We anticipate a recovery to the pre-covid trajectory will be achieved in 2022 and this will be supported by the RBA's extension of its QE guidance through to February at least.

With QE taper now underway in Australia, anticipated in Q1 for the US and poised for announcement by the ECB, the likely path of bond yields is upwards. Certainly, real yields look exceptionally low given the outlook. As the economy recovers, nascent growth in loan volumes will accelerate and contribute to an increase in bank debt issuance which, in turn, will drive other credit spreads wider. We expect this to be orderly and progress at a modest pace for now. Nonetheless, we find less value in longer dated corporate paper and government bonds. Highly rated RMBS assets continue to trade very tightly whereas better value remains available in the mezzanine tranches but these are hotly contested. Under these conditions, forward looking return expectations are lower than average even though credit quality is exceptional.

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