REALM Short Term Income Fund

SEPTEMBER 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 $284 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	0.12%	0.01%
3 Month	0.42%	0.03%
6 Month	0.97%	0.05%
1 Year	2.53%	0.11%
2 Year	2.46%	0.29%
3 Year	2.65%	0.65%
Since Inception	2.67%	0.82%

*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	0.09
Credit duration	1.47
Average Credit Rating	A
Number of positions	108
Average position exposure	0.74%
Worst Month*	0.09%
Best Month*	0.34%
Sharpe ratio∂	6.35

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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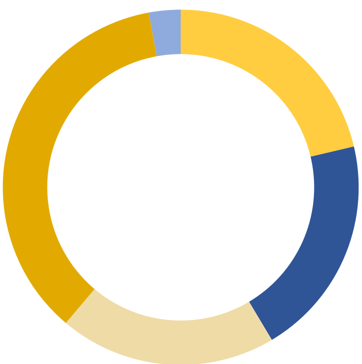
PORTFOLIO COMPOSITION

- Cash (12.72%)
- Short Dated Liquidity (19.52%)
- Government Bonds (0.00%)
- Corporate Hybrids (0.00%)
- Sub Debt (19.65%)
- Corporate Bond (18.31%)
- RMBS & ABS (29.80%)

MATURITY PROFILE



- At Call to 6 Months (21.31%)
- 6 Months to 1 Years (20.14%)
- 1 Years to 2 Years (19.72%)
- 2 Years to 3 Years (35.96%)
- 3 Years to 3.5 Years (2.87%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 32.24% from 31.52%.

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 37.96% from 38.76%. Investments within sector 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 29.8% 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 1.96 years.

There were several issuances over the month across a range of asset types with major banks, regional banks, prime and several consumer lending transactions. Pricing remains strong in the mezzanine for investment grade tranches (A/BBB rated), with sub investment grade rated tranches remaining especially well bid. Senior tranches (AAA/AA rated) have moderated from their tights however, with reduced interest from investors noted in the higher rated tranches which typically display much lower yields. The portfolio remains well positioned for this softening, with senior bonds already presenting low relative value. With respect to market performance, the S&P arrears index (SPIN) for July improved 3bps to 0.87%, a level that we would deem to be benign.

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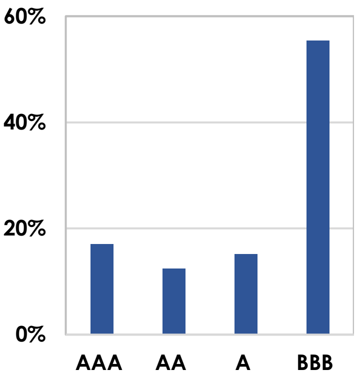
CREDIT QUALITY



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%	1.38%	2.5%
Gambling	0.0%	0.0%	1.25%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk decreased to 0.69% from 0.71%, 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. The fund remains compliant with the portfolio ESG risk limits.

MARKET OUTLOOK

Markets experienced an eventful month. Equities and global credit markets sold off, as did the Australian dollar. Bond yields rose materially. The VIX reached a peak last experienced in May when the market was surprised by inflation in the US. As then, concern for inflation surprising uncomfortably to the upside was influential, but several other developments asserted themselves too.

From a monetary policy perspective, bond yields rose significantly during the month as a surprisingly hawkish statement from the Fed regarding the probable timing of QE taper was followed, in quick succession, by warnings about the increased risk of supply-side inflation becoming more entrenched by the Bank of England and Norges Bank becoming the first western central bank to raise cash rates.

Risks to the inflation outlook became more balanced, edging increasingly away from a strong conviction that recent high readings would be transitory. This occurred as major energy shortages developed in Europe and UK where gas prices rose strongly and a bidding war for spot LNG shipments developed with Asian gas consumers. China experienced difficulties relating to coal availability for its power plants as internal logistics struggled to maintain a reliable and sufficient supply. It was reported that even the residual Australian sourced coal still stranded in its ports was unloaded, to illustrate the urgency of the situation. Widespread supply chain problems continued to be reported and there appeared to be a significant mismatch in the labour market where employment levels remain well below pre-covid levels despite very high numbers of unfilled positions in some parts of the world, including the US.

China took the headlines for other reasons as well. Giant property developer Evergrande fell into financial distress and had the market wondering if this would be China's Lehman Brothers moment. Separately, the economy was slowed via a series of staged shutdowns as officials sought to achieve pollution reduction targets. In combination, these increased the perceived risk to emerging market economies.

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

Having tarnished its international reputation, the Biden Presidency continued to struggle with its domestic agenda and finding unity within the Democratic party. The debt ceiling once again became a focal point. In addition, lack of alignment within the party appears to have resulted in an understanding that a key plank, the 'Human Infrastructure' package, will not be passed with the original $3.5tr price tag. This provided some support for bonds. The AUKUS agreement to build nuclear submarines for Australia made significant headlines and some response can be anticipated from China. The immediate development was an application to join the CPTPP trade agreement.

Australia's vaccination program continues to roll out strongly and expectations for re-opening in NSW and Victoria were brought forward. It remains to be seen how durable any re-opening will be, but businesses appear to be confident enough to be hiring ahead of this with job advertisements remaining elevated. Property markets have continued to power ahead with APRA now taking steps to ensure that the resiliency of the financial system is protected by raising affordability standards.

The RBA commented that it continued to expect that the first cash rate rise would occur in 2024 and could not explain why the swaps market was implying a path that seemingly paid little regard to the new policy approach and increased emphasis on wage inflation. During the month, APRA also announced that the Committed Liquidity Facility would be wound down by next year. Semi government bonds spreads tightened and bank senior debt weakened on the news. Overall, domestic credit markets traded softly other than mezzanine structured debt which continued to be strongly sought after.

Whilst we do not believe that high inflation readings will ultimately be sustained far into 2022, the potential for markets to act increasingly as if this might become is meaningful. We remain defensively postured, seeking to avoid or limit exposures which are most correlated to the possibility of a rapidly rising yield curve, unless compelling idiosyncratic opportunities present themselves. One notable exception to this remains mezzanine structured debt and private debt, where pricing remains very attractive against alternatives.

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