REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

APRIL 2022

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 $558 million
APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
Management Fees (Net of GST):
Ordinary Units – 0.3075% mFunds Units – 0.3634%

NET PERFORMANCE

Period	Short Term Income Fund	RBA Cash Rate Return
1 Month	-0.14%	0.01%
3 Month	-0.40%	0.02%
1 Year	0.80%	0.10%
2 Year	1.85%	0.14%
3 Year	2.03%	0.38%
4 Year	2.27%	0.66%
Since Inception*	2.31%	0.73%

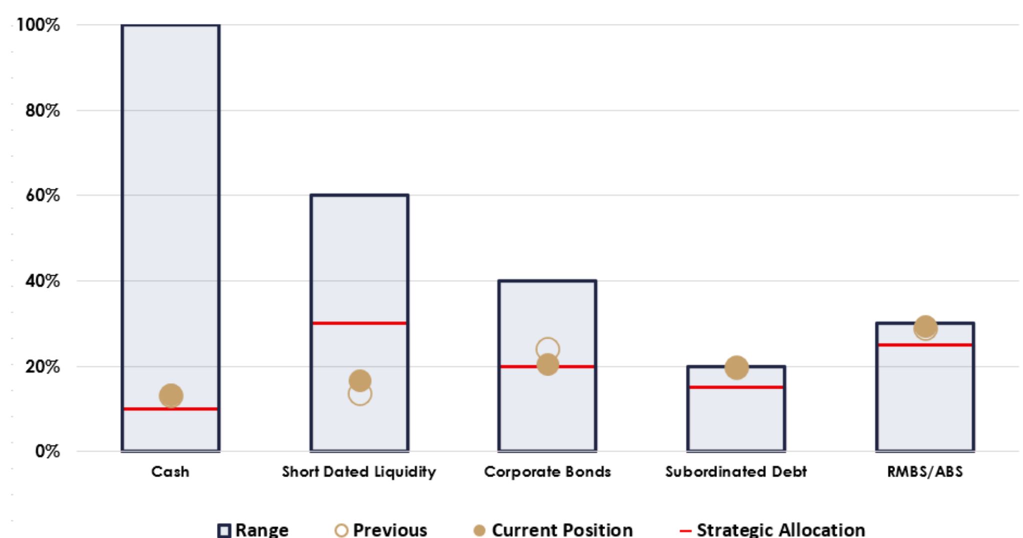
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

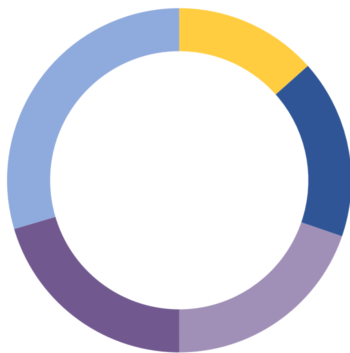
Running Yield	2.39%
Yield to Maturity	2.25%
Volatility†	0.30%
Interest rate duration	0.10
Credit duration	1.43
Average Credit Rating	A
Number of positions	162
Average position exposure	0.46%
Worst Month*	-0.26%
Best Month*	0.34%
Sharpe ratio∂	5.24

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

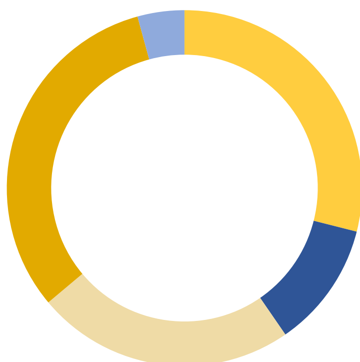


PORTFOLIO COMPOSITION



- Cash (13.43%)
- Short Dated Liquidity (16.85%)
- Sub Debt (19.71%)
- Corporate Bond (20.44%)
- RMBS & ABS (29.57%)

MATURITY PROFILE



- At Call to 6 Months (28.94%)
- 6 Months to 1 Years (11.45%)
- 1 Years to 2 Years (23.50%)
- 2 Years to 3 Years (31.85%)
- 3 Years to 3.5 Years (4.26%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 30.28% from 27.03%.

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 April from a continued bond market sell-off. The strategy will as a rule only takes modest interest rate risk.

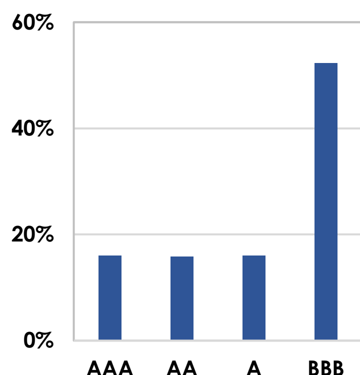
Corporate & Subordinated Debt Allocation: ↓ Decreased to 40.15% from 43.91%. Reductions within the sector were skewed to corporate debt and towards optimising short dated liquidity. Corporate bonds continue to present modest relative value over bank senior bonds, however, this value is eroding as bank senior bonds are repricing wider. Over the month short dated financial and corporate bonds continued to sell-off, however the momentum moderated. The short, conservative nature of the sector aided in cushioning the significant market volatility in April.

Residential Mortgage-Backed Securities (RMBS) & ABS:
→ Allocation remained in line with last month at 29.6% 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 1.74 years.

Structured credit markets continued to weaken alongside global credit markets as inflation headlines affected market sentiment. Transaction flow was quiet with only one prime issuance from Firstmac coming to market. The selloff in spreads continues to be driven by market factors rather than underlying credit concerns. Average prime arrears levels (SPIN) in January were slightly weaker. This was in line with expectations post the Christmas holiday period however, prime arrears levels remain significantly lower compared to historical levels.

Targeted risk across the Fund: → Targeted risk remained inline at 0.64%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.30%. 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 0.80% 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.

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%	0.07%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

MARKET OUTLOOK

The month was a challenging one for risk markets. As the list of issues which contribute to a higher and longer lasting inflation outlook persisted and grew, the market implied path for central bank cash rates steepened in many countries as conviction increased that they will seek to address inflationary developments more forcefully. The expected RBA interest rate for December rose from approximately 1.75% to 2.50% over the month. This is an exceptionally far cry from the guidance provided as recently as October last year, where the possibility of rate rises this year were seen to be remote. Expectations for the rate path rose significantly as FOMC members openly considered the merits of a 75bps move in May and the RBA dropped any mention of remaining 'patient' as they awaited evidence that inflation had sustainably returned to its target band. Yield curves generally rose across global bond markets and increased consideration was being given to the scenario that some central banks may elect to sell their bond holdings rather than allow them to mature.

As monetary accommodation is being removed, credit spreads have widened further. These had been a beneficiary of search for yield behaviour in recent years and now had to contend with an improving opportunity to secure returns from interest rate term premia instead. Naturally, the impact to confidence from an increased likelihood of a hard landing in the coming year has played a role. Unsurprisingly, the EU/UK credit markets have been more significantly impacted. The large market moves, including in currency markets where the USD has been especially strong, have also created uncommon technical developments. For example, a meaningful volume of Japanese investors in Australian credit, who generally invest on an unhedged basis, determined that it was an opportune time to take profits from currency driven gains as the Yen had substantially depreciated.

Structured credit markets remained weak with new issues being deferred in some cases. Those who did launch into the market were forced to do so at much higher spreads than previously the case. Senior and mid-mezzanine markets have been most affected. Commentators are forecasting an orderly weakening of property prices and serviceability buffers will be eroded as interest rates rise. Nonetheless, there is no indication that the credit quality of these assets has shifted in a material way. The Australian labour market outlook remains robust and many households are well ahead of scheduled mortgage payments.

These developments had the expected impact on equity markets, which were broadly weaker. Growth and tech stocks fared poorly with the Nasdaq falling 13.3% over the month. The net loss of subscribers reported by Netflix during the month was one indicator that the stay-at-home theme had seen its best days.

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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

The global economy is presently afflicted by a confluence of stagflationary influences. Although supply chains had shown some signs of stabilisation, new lockdowns in the important port city of Shanghai fouled up the flow of trade once again. The lockdowns contributed to iron ore and natural gas prices falling over the month, despite Russia ceasing to supply natural gas to Poland and Belarus, although coal and oil prices rose. Food prices are also being directly affected by the war in Ukraine, which is a key exporter of grain. The interconnectedness of the world economy continued to be demonstrated in other ways, such as the production of microprocessor chips, which was impacted by the uncertain supply of Neon. Approximately half of the world's semi-conductor grade gas is produced by Ukraine and Russia.

The effects of inflation have become broader based, and more evidence is arriving that wages are reacting. Australia's headline annual CPI was reported at 5.1%, the highest in 21 years. In the US, the figure was 8.5%. Labour markets remain exceptionally tight.

There is an array of uncertainty regarding the resilience of household consumption in the face of declining real wages. Furthermore, the ability to negotiate higher wages or the preparedness of households to reduce their savings rate, is also unclear. Uncertainties continue to persist in other areas like the fragile state of China's property market and the implications of the recent announcement from President Xi of an 'all-out' infrastructure stimulus package to help achieve the targeted growth trajectory. Furthermore, developments relating to the EU's efforts to wean itself further off Russian energy exports will also have flow-on effects.

Bond yields and credit spreads have now reverted beyond their pre-covid levels and this signals, to a significant extent, that the period of monetary accommodation has now largely ended. Yields to maturity are once again indicative of forward-looking returns. Part of these moves can be attributed to a need to contain runaway inflation, risk aversion due to heightened geopolitical risks and an elevated possibility of a policy error. Whilst recent portfolio returns have been disappointing in an absolute sense, they have been consistent with the market environment. Geopolitical developments have caused the timetable for monetary normalisation to be placed on an accelerated schedule but the markets are now pricing a restrictive monetary setting in the near term and 10 year bond yields, in Australia, which are consistent with a normalisation of monetary settings.

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