REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

JULY 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 $585 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	-0.01%	0.11%
3 Month	-0.06%	0.19%
1 Year	0.25%	0.27%
2 Year	1.43%	0.20%
3 Year	1.72%	0.34%
4 Year	2.08%	0.61%
Since Inception*	2.17%	0.73%

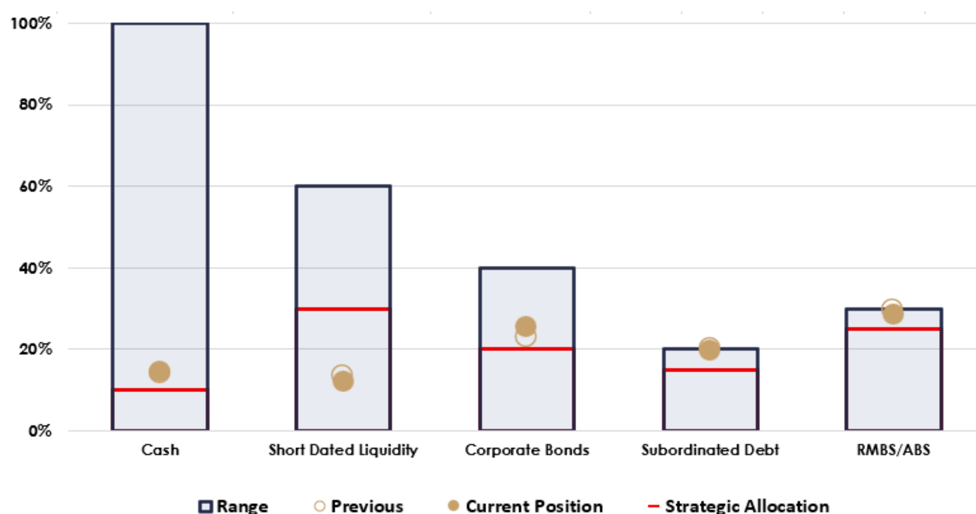
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	3.28%
Yield to Maturity	3.67%
Volatility†	0.41%
Interest rate duration	0.10
Credit duration	1.44
Average Credit Rating	A
Number of positions	169
Average position exposure	0.42%
Worst Month*	-0.26%
Best Month*	0.34%
Sharpe ratio∂	4.41

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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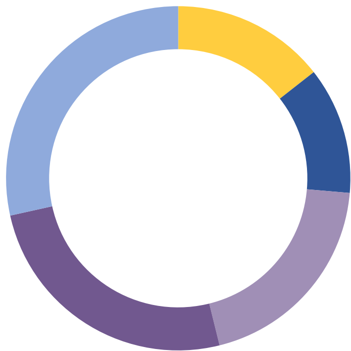
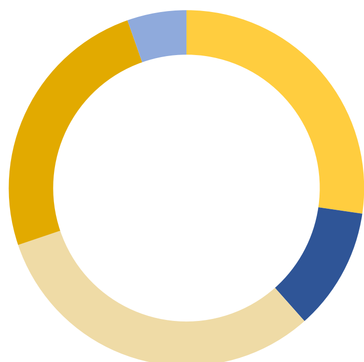
PORTFOLIO COMPOSITION



- Cash (14.42%)
- Short Dated Liquidity (11.94%)
- Sub Debt (19.78%)
- Corporate Bond (25.38%)
- RMBS & ABS (28.48%)

MATURITY PROFILE



- At Call to 6 Months (27.30%)
- 6 Months to 1 Years (11.14%)
- 1 Years to 2 Years (31.38%)
- 2 Years to 3 Years (24.79%)
- 3 Years to 3.5 Years (5.39%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 26.36% from 27.49%.

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 over the month from continued bond market volatility. The strategy will, as a rule, only takes modest interest rate risk.

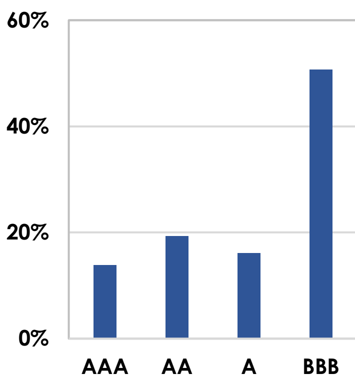
Corporate & Subordinated Debt Allocation: ↑ Increased to 45.16% from 42.95%. Additions within the sector were skewed to Corporate bonds and towards optimising short dated liquidity. Corporate bonds continue to present modest relative value over bank senior bonds; however, this value is eroding as bank senior bonds are repricing wider. Over the month, short dated financial and corporate bonds tightened slightly, reversing the recent momentum. The short, conservative nature of the sector aided in cushioning the market volatility over the month.

Residential Mortgage-Backed Securities (RMBS) & ABS:
↓ Allocation to structured credit securities reduced to 28.48% from 29.56%, as the fund tactically minimized reinvestment in anticipation of the subsector widening. As at month end, the portfolio maintained an A- average credit rating and a relatively short weighted credit duration of 1.58 years.

Structured credit markets widened over the course of the month, with new primary activity remaining relatively muted as issuers opted for increases in private capacity rather than issue into term markets at relatively expensive levels. Secondary market flow was quiet, with senior markets (AAA rated) remaining weak as higher yields in international markets reduced demand for bonds onshore. Middle mezzanine markets (A and BBB rated) weakened further, having lagged the widening experienced by other credit sectors, while sub-investment grade yields remained relatively stable.

Market performance in RMBS markets continues to be robust, with average prime arrears levels (SPIN) as reported by S&P improving in April by a further 6 basis point to 0.67%, with non-conforming arrears also improving 7bps to 2.34%. Both data prints remain very strong in comparison to historical arrears levels.

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%

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

Targeted risk across the Fund: → Targeted risk remained flat at 0.72%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.41%. This has risen over the month due to increased volatility in mark to market valuations. The portfolio remains defensively positioned although despite this, the fund has performed relatively well over the last 12 months, delivering 0.25% after fees. This is evidence that the strategy is well designed, delivering 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

Corporate credit rallied during the month, recovering much of the ground lost in June. Australian Bank senior spreads improved, but Tier2 spreads did not follow suit. Structured credit markets remained weak, with recent issuance printing at wider spreads to clear. Bonds staged a solid rally and the expected path of cash rates eased. Swap spreads also tightened. Equity markets largely rallied as well and the VIX continued to settle from the recent peak in June. The AUD cycled over an approximately 3 cent range vs the USD and finished the month around a cent stronger at around 0.70.

Inflation continued to be a central organising theme. During the month, the ongoing energy crisis ensured attention was firmly focused on the NordStream gas pipeline between Russia and Germany.

High energy prices have driven near-term inflation expectations even higher with the Australian Treasury and RBA recently indicating that CPI will almost reach 8% later this year and further monetary tightening remains in store. However, although the outlook for property is now weaker, the RBA released research that suggested that households are well generally placed to absorb rate increases and a disorderly outcome is not expected.

The rally in risk markets was partly driven by suggestions that the economy is slowing on its own due to demand destruction relating to negative real wages growth. Reports are also emerging that labour market conditions have begun to improve, and supply chain congestion is easing. In aggregate, this suggested that the central banks have less work to do when seeking to cool the economy. Most major central banks still believe that a recession can be avoided in 2023. One key exception to this is the UK where the BoE which now expects the economy will enter recession later this year. Driven by energy prices, inflation is expected to peak at an astonishing 13%. Inflation psychology has taken hold with wage growth likely to be 6% in the year ahead.

The Fed raised rates a further 75bps during the month and a dovish tone from Powell gave the market a reason to stage a rally and produce an expectation that cash rates will decline sharply from H2 2023. These reactions were rebuked by Fed speakers in the following days. The ECB raised rates for the first time in over a decade. It is notable that both have refused to provide forward guidance.

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PLATFORM AVAILABILITY

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- BT Panorama
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- Hub24
- Macquarie Wrap
- MLC Navigator/Wrap
- Netwealth
- Powerwrap
- Praemium
- Rhythm
- mFund code: RLM02

Economic outcomes are presently reliant on too many large unknowns which have resulted in large re-assessments in short periods of time. Forecasting is particularly fraught and market reactions to economic announcements have been large. Significant uncertainties exist about how much the labour market needs to soften to contain wages growth and what the neutral cash rate is at this time. Core services inflation, which is largely driven by wages, is expected to become the more dominant driver of inflation in the coming years.

China's internal difficulties with its property market continue. A mortgage strike has emerged where owners of units under construction, where this has stalled, have refused to make payments. In recent announcements, it is notable that China has stepped away from the near-term growth objectives as covid lockdowns have made these essentially unattainable. The war in Ukraine continues to grind onwards. The conflict can be expected to drag on for many months to come although the recent agreement to allow grain exports is welcomed.

We note the developments in Italy's parliament where an upcoming election will likely see right-leaning parties assume power and they are more sympathetic to Russian relations. Additionally, they are less likely to produce policies that meet the conditions necessary to receive considerable covid recovery funds. Concern for European monetary fragmentation has come to the fore again although the ECB has created a backstop.

The pervasive uncertainties in the market are understandably producing risk-averse behaviour in the credit markets. Liquidity is also more challenging. Credit spreads on offer reflect a materially higher risk of recession than would be reasonable on central case considerations. They are comparable to those reached during the initial wave of covid and in 2015/16 when China's economy was in turmoil. High beta markets are offering better value. These conditions are acute in structured credit where foreign demand has been drained despite strong performance in the underlying collateral and its capability to withstand extreme shocks. Primary issuance spreads in this market are near all-time high levels which suggests strong returns are in prospect. The outlook for bonds is more uncertain, but the diversification potential within a portfolio is better today than it has been for years.

Despite the uncertainties in the geopolitical environment, the prospect of a widespread banking crisis and the emergence of sovereign risk in a major economy is presently remote. We are constantly reviewing the quality of our holdings and are not exposed to areas where the uncertainties extend to a level that challenge solvency. Whilst markets are pricing strong aversion against the possibility of negative developments in the near term pricing of credit, market pricing is such that investors with a medium-term investment horizon presently have strong prospective returns available to them.

Recent returns for the portfolio have been adversely affected by the weaker pricing of credit. We have no concerns for the credit quality of any holdings. Hence, the portfolio generally appears to have developed a higher forward looking return potential. We continue to harvest the highest yield to maturity within our operating limits. Combined with the future path of cash rates embedded in the market, expected returns remain well ahead of those available from term deposits.

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