REALM SHORT TERM INCOME FUND

DECEMBER 2023

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 $1.27 billion
APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
Management Costs (Net of GST):
Ordinary Units – 0.3075%
mFunds Units – 0.3634%

Zenith RECOMMENDED

NET PERFORMANCE

Period	Short Term Income Fund	RBA Cash Rate Return
1 Month	0.63%	0.36%
3 Month	1.82%	1.05%
6 Month	3.46%	2.08%
1 Year	6.38%	3.87%
3 Year p.a	3.15%	1.74%
5 Year p.a	3.00%	1.34%
Since Inception p.a*	2.95%	1.37%

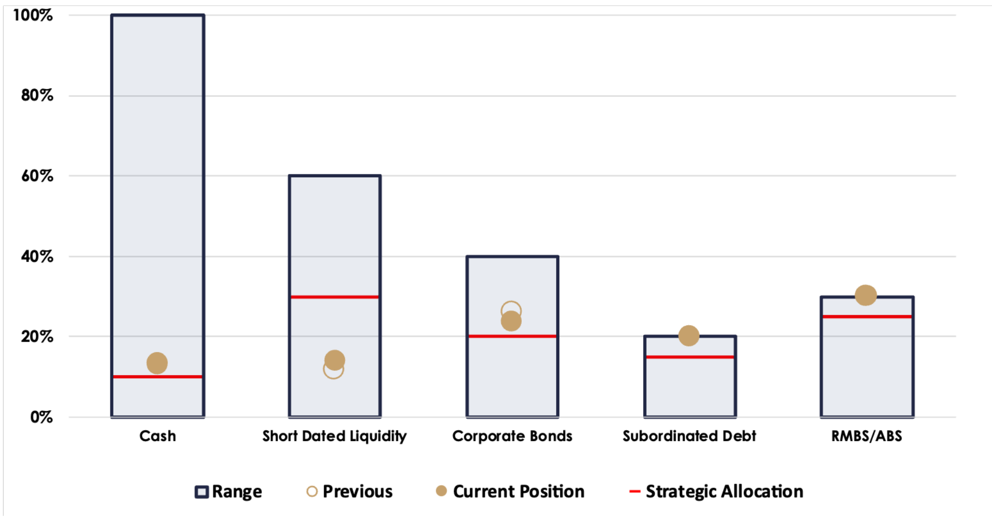
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	5.51%
Yield to Maturity	6.31%
Volatility†	0.34%
Interest rate duration	0.11
Credit duration	1.45
Average Credit Rating	A
Number of positions	308
Average position exp.	0.22%
Worst Month*	-0.26%
Best Month*	0.63%
Sharpe ratio∂	4.63

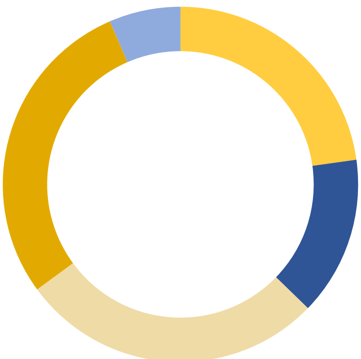
Calculated on Ordinary Units unless otherwise stated. *Since Inception 21 December 2017.
†Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

SECTOR ALLOCATION



PORTFOLIO COMPOSITION

MATURITY PROFILE



FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased from 26.81% to 26.84%.

Interest Rate Duration Position: → 0.11 years. The strategy will maintain interest rate duration of approximately 3 months as an average. Having a low IRD number limits the realised volatility and losses in the fund from government bond volatility - a key feature of the Realm Short Term Income Fund. The strategy will, as a rule, only take modest interest rate risk.

Corporate & Subordinated Debt Allocation: ↑ Increased from 43.32% to 43.6%. Optimisation within the corporate bond sector was skewed towards foreign issuers but balanced between AUD and USD due to modest relative value. Corporate bonds, traditionally, present modest relative value over bank senior bonds due to the rating differential; and this relative value was maintained over the month. Both USD corporate and financial bonds outperformed AUD denominated bonds. Subordinated debt optimisation was skewed towards foreign issuers in AUD. The short, conservative nature of the sector and diversification aided in cushioning any intra-month market volatility.

Residential Mortgage-Backed Securities (RMBS) & ABS: → Allocation to structured credit securities remained in line with last month at 29.56%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.79 years.

Structured markets continued to rally over the course of December, largely driven by constraints to market supply as dealflow slowed into the beginning of the holiday period. New primary market transactions remain overbid, with limited secondary market activity as secondary markets continue to trade very tight relative to primary markets into year end.

With respect to market performance, Prime arrears as reported by S&P's SPIN index for October remained in line at 0.92%. Nonconforming arrears also improved 16bps to 3.70%. Meanwhile the Bloomberg index for arrears for November improved 3bps for prime arrears. Both results remain very strong in comparison to both market expectations and historic index levels.

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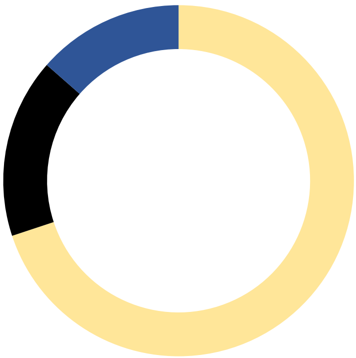
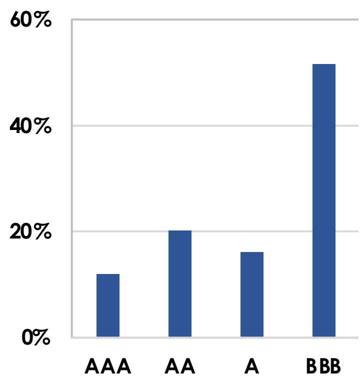
ISSUER DOMICILE



■ Australian/NZ Domiciled Issuer (69.92%)

■ Foreign Domicilied Issuer (16.54%)

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	0.12%	0.0%	0.13%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk decreased from 0.70% to 0.67%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.34%. This has remained stable over the short term due to favourable mark to market valuations. The portfolio remains defensively positioned although despite this, the fund has performed relatively well over the last 12 months, delivering 6.37% 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.

FUND OUTLOOK

Global investment grade spreads continued the trend rallying into the month of December. The ICE BofA BBB US Corporate Index Option-Adjusted spread ended the year at a level of 1.29% - edging towards the lows of recent times. The grind tighter was aided by the lack of primary bond issuance and expectations of peak in the central bank tightening cycle. Such low spreads are becoming harder to justify through fundamental valuations but rather from the expectation of an imminent monetary easing cycle.

Aligning with a historically quiet month of December for new issuances, the downward trending inflation prints aided in the continuation of the corporate credit market rally. Credit market valuations relative to history remain challenged, while still being favourable in comparison to equities. Risk remains to the soft-landing scenario if the downward trend of inflation doesn't persist to bring inflation back into the central banks' target range. Resulting higher for longer than anticipated setting could pose a negative shock to credit markets. Furthermore, contraction in new credit creation, household consumption, shocks to unemployment and geo-political events remain key risks to markets.

Structured credit markets also continued their rally. In line with overall markets, lack of issuance remained a tail-wind to structured credit spreads. The spread tightening cycle, with increased risk appetite, has led to non-conforming RMBS credit spreads pricing in line with conforming spreads. Also, from a historical perspective non-bank RMBS spreads are relatively tight to bank credit. The shortage of housing supply continues to drive house price growth and is seen to be providing a fundamental backstop to value. This narrative underpins the support for RMBS securities. Additionally, the stability in arrears rate continues to minimise the probability of potential losses in RMBS.

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PLATFORM AVAILABILITY

- Australian Money Market
- AMP North
- BT Panorama
- eXpand
- Firstwrap
- Hub24
- Macquarie Wrap
- Mason Stevens
- MLC Navigator/Wrap
- Netwealth
- Powerwrap
- Praemium
- Rhythm
- mFund code: RLM02

Levered loan spreads have been supported by the broader positive market movement. Reinforced by the rate cutting sentiment, levered loans experienced strong performance in December. In addition to ETF and fund inflows, the issuance of primary CLOs created additional demand for levered loans supporting spreads. Top tier managers and high-quality pools continued to outperform, while the mezzanine tranches in primary issuances attracted the most interest due to a supportive macro environment. Historically, primary issuances are relatively higher in January and early indications confirm the pattern.

Bond markets correlated with the risk market rally, driven by the expectation of rate cuts in 2024. The imminent easing cycle priced in by global markets continued to favour asset prices. Realised inflation data suggests the trend is downwards and the probability of a soft landing increased contextually. Such an environment saw the Australian yield curve inverting again – validating the market's expectation of rate cuts.

The portfolio continues to operate within well-defined boundaries and, apart from incrementally increasing foreign exposures, was relatively unchanged. The portfolio remains postured to extract favourable carry and roll-down exposures. The traded margin above 200bps remains favorable. Along with a yield to maturity of over 6% and conservative portfolio positioning, the risk of a negative monthly return is presently very low. The portfolio remains likely to produce competitive returns against term deposit alternatives whilst providing daily access to liquidity.

Arrears rates for RMBS remain stable and recent research from the RBA indicates that overall housing credit quality remains strong. The majority of the RMBS book is held in bank issued and conforming debt. The potential for permanent losses in this segment of the portfolio remains remote.

The relatively recent addition of foreign issuers and foreign currency bonds (all hedged to AUD) has greatly improved the prospects for this portfolio.

MARKET DEVELOPMENTS

Softening inflation and easing consumer concerns contributed to favourable conditions for a correlated bond and risk market rally. Bond pricing was predominantly driven by central bank rate cuts. The US 10s, along with Australian 10-year bond yields, rallied close to 45bps. Breakeven component of the US10s only accounted for a fall of ~8bps, resulting in the US real yields decreasing by ~37bps to level of 1.71%. VIX remained low for the month finishing at ~12 – reflecting the quiet theme for December. CDX IG decreased even further due to the lack of key events. With favourable conditions most equity markets rallied, however, the Nikkei index remained flat while the Chinese market continued its decline. With the decrease in requirement for safe haven assets and the expected rate cuts in the US, the USD declined – DXY down 2%, AUD strengthening 2.6% against the USD. Middle eastern conflict concerns failed to prevent WTI declining further – decreasing by almost 7% for the month.

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OTHER FUND DETAILS

Responsible Entity: One Managed Investment Funds Ltd

Custodian: State Street Australia Limited

Unit Pricing and Unit Price:
https://www.realminvestments.com.au/our-products/realm-short-term-income-fund/

OTHER DEVELOPMENTS

US economic activity continued its moderation over the month as the majority of data releases were in line with market expectations. ISM manufacturing PMI declined further than expected, however, the services figure surprised to the upside highlighting the resilience. Personal income and personal spending moderated as expected, while unemployment decreased unexpectedly to 3.7%. Core PCE inflation softened to 3.2% year on year boosting market and consumer confidence – Michigan consumer sentiment index increased meaningfully to 69.4, while both the 1-year and 5-10 year inflation expectations eased. Core CPI and average earnings figures were steady year on year, while the nonfarm payrolls highlighted the strength in the economy. PPI reflected an easing while retail sales surprised to the upside.

The Fed had held rates steady in December, but it was the capitulation of members in their dot plot projections that surprised the market causing a rally in rates. Chairman Powell remained dovish in his press conference accepting the peak in rates had been reached.

The most surprising declaration regarding the US political system came from the Colorado court's announcement disqualifying Trump from the 2024 ballot. Citing the insurrection at the Capitol, the verdict hinders the chance of a Trump re-election by raising the probability of other states imposing a similar ban.

Following the end of the temporary cease-fire agreement between Israel and Hamas, offensive operations resumed by the IDF. Further negotiations stalled between the parties forcing the return of the Israeli delegation from Doha. The risk remains for further escalation and widening of the war to the southern part of Lebanon, where Hezbollah has a stronghold.

December data pointed to a slowdown in the Australian economy. The manufacturing and services PMIs all point to an economy which is contracting quite rapidly. The NAB Business Confidence index moved further into negative territory and the related survey results revealed softer inflation outcomes. The Westpac Consumer Confidence index increased slightly over the month but remained in deeply pessimistic territory. Job advertisements continued the fall and with the unemployment rate notching up to 3.9%, against expectations, indicate services inflation will be contained.

The RBA kept rates unchanged in December but retained their data-dependent posture. Markets envisage that the RBA has completed its hikes for this cycle. The RBA points out that, whilst mortgage interest payments have increased, most households remain in sound financial condition. The total debt servicing burden is lower than the prior peak due to a lower level of personal debt outstanding.

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Caixin PMI data for China pointed to a small uptick to expansionary territory for both manufacturing and services. Both the CPI and PPI data confirmed the worsening deflationary environment. However, overall trade was supportive for the economy with exports beating expectations. Short and medium-term prime rates were held steady during the month. Growth concerns for the country remain, while further stimulus was expected to be announced by officials.

There weren't meaningful data releases during the month to indicate a reversal in slowdown in Europe. Retail sales and industrial production all fell by more than expected. The PMIs suggest the economy is contracting. Given these outcomes, it was consistent for core inflation to undershoot expectations (3.6% yoy vs 3.9% expected). Surprisingly, the ZEW economic sentiment increased more than expected to a level of 23. The ECB kept rates unchanged in December. Discussion on the reduction in balance sheet assets related the Pandemic program appears more likely in the first half of 2024. Although the market is pricing peak cash rates for this cycle, President Lagarde would not be drawn on the timing for potential rate cuts. The BoE kept rates unchanged in December although the bias amongst the decision makers was for higher rates.

The jobless rate of 2.5% in Japan highlighted the improving strength in the labour market. However, released GDP figures showed a weaker than expected overall economy, contracting 0.7% for the quarter. A monthly PPI figure of 0.2% almost reversed the preceding reading. The BoJ kept monetary settings unchanged and noted the Japanese economy is likely to continue recovering moderately.

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