REALM SHORT TERM INCOME FUND

DECEMBER 2022

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 $708 million
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	0.48%	0.26%
3 Month	0.88%	0.71%
6 Month	1.44%	1.15%
1 Year	1.16%	1.28%
3 Year p.a	1.93%	0.56%
5 Year p.a	2.28%	0.87%
Since Inception p.a*	2.28%	0.88%

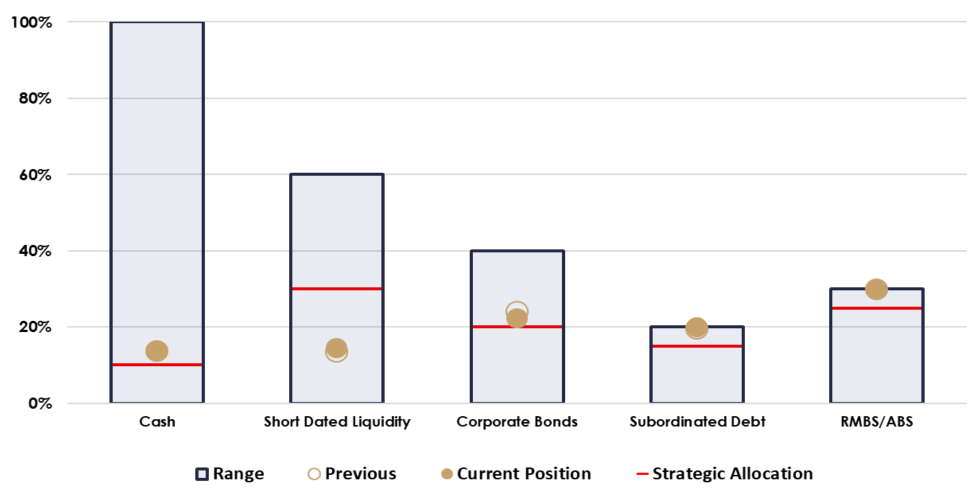
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

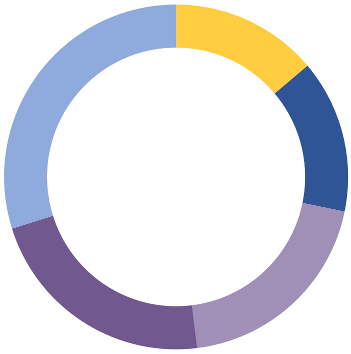
Running Yield	4.59%
Yield to Maturity	5.20%
Volatility†	0.49%
Interest rate duration	0.08
Credit duration	1.44
Average Credit Rating	A
Number of positions	185
Average position exposure	0.42%
Worst Month*	-0.26%
Best Month*	0.48%
Sharpe ratio∂	4.19

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

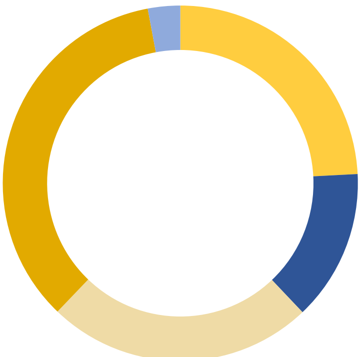


PORTFOLIO COMPOSITION



- Cash (13.84%)
- Short Dated Liquidity (14.38%)
- Sub Debt (19.82%)
- Corporate Bond (22.11%)
- RMBS & ABS (29.85%)

MATURITY PROFILE



- At Call to 6 Months (24.17%)
- 6 Months to 1 Years (13.75%)
- 1 Years to 2 Years (24.23%)
- 2 Years to 3 Years (34.90%)
- 3 Years to 3.5 Years (2.94%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 28.22% from 26.82%.

Interest Rate Duration Position: → 0.08 years. The strategy will maintain interest rate duration of approximately 3 months as an average. Having a low IRD number has limited the realised volatility in the fund over the month from continued bond market volatility. The strategy will, as a rule, only take modest interest rate risk.

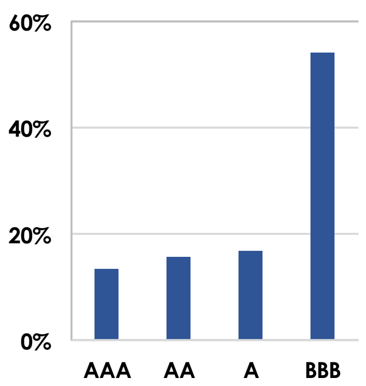
Corporate & Subordinated Debt Allocation: ↓ Decreased to 41.93% from 43.43%. Optimisation within the sector was skewed towards Corporate bonds and Subordinated debt. Corporate bonds continue to present modest relative value over bank senior bonds; however, this value is eroding as bank senior bonds are repricing wider. There was very muted volatility in the credit market, not surprising given the festive season, and as a result portfolio settings weren't altered materially. The short, conservative nature of the sector and diversification aided in cushioning the market volatility over the month.

Residential Mortgage-Backed Securities (RMBS) & ABS:
→ Allocation to structured credit securities remained inline with last month at 29.85%. As at month end, the portfolio held an A- average credit rating and a relatively short weighted credit duration of 1.92 years.

Public structured credit market yields continued to trade in line with the previous month, as primary issuance slowed and secondary market activity was relatively quiet into the Christmas break. Both private and public market yields remain wide relative to historic yield levels and have continued to lag the tightening experienced by other credit markets, making current market levels look very attractive compared to other asset classes on a relative value basis. This, combined with the liquidity that was witnessed in the Australian market as offshore desks tried to sell stock in October, has begun to attract foreign demand into the asset class, with Australian broking desks reportedly selling good volumes of stock back to offshore clients over the course of the month.

With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 2bps over the month of October to 0.60%, with nonconforming arrears weakening to 2.56%. Both results remain very strong in comparison to both market expectations and historic index 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%	0.17%	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 decreased to 0.76% from 0.78%, reflecting the decrease in market volatility and optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.49%. 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 1.16% 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

Equities generally finished the month lower although the HKSE rallied strongly as China sought to re-open its economy by significantly relaxing its covid measures. The VIX finished the month at similar levels, towards the lower end of its post-Covid trading range. Bond yields rose, with the Australian 10 year bond yield once again trading above that of the US. The US yield curve inversion is at the deepest level since the early 1980s. The USD weakened as risk aversion softened and IG credit spreads generally rallied in Australia and elsewhere. Structured credit spreads remained elevated vs equivalently rated corporate bonds.

There was some positive news on inflation. Eurozone inflation fell for the first time since mid-2021. Although the US CPI reading was slightly positive, it came in below expectations. The US ISM Manufacturing Deliveries Index is at its lowest point (excluding the onset of covid) since 2016, reflecting a considerable easing in supply chains.

Markets remain concerned for the stickiness of services inflation and wage growth. Labor markets remain tight with Australia's job data showing an additional 64k workers were employed in November, well above the expectations of 19k. The participation rate returned to a historic 66.8% and the unemployment rate was stable at 3.4%. The US Non-Farm payrolls also surprised to the upside although it is interesting to note that those who have lost a job are finding it harder to become re-employed and it appears that much of the growth in payrolls is arising from people taking multiple jobs. Fed Chair Powell suggested that the number of jobs created each month needs to fall to 100k (currently 263k) in order to match population growth and stop tightening the labour market. Whilst wage inflation is picking up, inflation expectations remain well anchored for now.

REALM INVESTMENT HOUSE CONTACTS

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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

Savings rates are declining sharply. In the US, consumer savings rates are nearly at all time lows with levels comparable to those reached during the housing boom of 2005. Spending remains focused on 're-opening' activities. Excess savings from covid have been almost fully eroded for the least wealthy 50% of households. This is clearly not sustainable and brings the possibility of much weaker consumption in 2023. Australia's savings rates have continued to decline towards pre-covid levels although there remains a significant stock of excess savings. Australian house prices have now fallen 9% from their peak and more can be expected as borrowing capacity continues to be tightened and fixed rate mortgages revert to higher floating rates throughout the year.

The RBA tightened rates by another 25bps to 3.1% although the minutes showed that the Board considered not raising rates. However, much of the commentary focused on the capacity of households to manage a higher interest rate burden and confirmed that further rate rises are in prospect. Parliament's Standing Committee of Economics nonetheless requested the RBA to undertake a more nuanced approach and consider whether raising rates further would have the desired effect.

The US Fed tightened rates by 50bps and released its latest economic projections. The expected peak Fed rate was revised to 5.1% with only modest cuts expected in 2024. The expected unemployment rate in 2023 was also revised upwards to 4.6%, inferring an increase of 0.9% from current levels. Core inflation for 2023 was also revised from 3.1% in September to 3.5%. The ECB delivered a 50bps hike (November hike was 75bps) with President Lagarde producing a very hawkish outlook and projections which showed inflation not returning to target levels during the 3-year forecast horizon. GDP growth in 2022 is expected to be 0.5%. QT will commence in March at an initial rate of EU 15bn per month. The BoE also raised rates by 50bps, a smaller step than the prior month's 75bps hike.

Monetary policy in Japan has been influential on capital flows as the relative attractiveness of domestic assets from the perspective of a Japanese investor has increased. This month, BoJ Governor Kuroda widened the operating band for its Yield Curve Control program for the 10-year bond yield from 25bps to 50bps. The impact was immediately felt across global bond and currency markets and raised the prospect that Japan may abandon this instrument entirely upon his retirement next year.

China's move to relax covid restrictions has led to an upwards revision of its prospects during 2023 although the surge in case numbers has dampened activity in the near term. Several countries have introduced testing requirements for arrivals from China but no new variant has emerged as yet. Australia's relations with China appeared to thaw as Foreign Minister Penny Wong met with her counterpart Wang Yi. China continues to ensure the banking system remains liquid as it seeks to find a resolution to difficulties in the property market.

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Forms of protectionism and price intervention continue to rise. A cap on Russian oil was agreed between Western aligned nations at $60 per barrel. Russia responded by banning sales to countries seeking to impose it. Eurozone ministers capped the futures price for natural gas and also introduced the world's first carbon border tax. European natural gas prices have now fallen below levels ahead of the Ukrainian invasion. The Australian Government introduced caps on energy prices which has created considerable uncertainty in the industry with several new projects now on hold. The US has started to replenish its Strategic Petroleum Reserves after selling approximately 180m barrels.

Both sides of the Ukrainian conflict have spoken of the possibility of peace talks but the pre-conditions remain far apart. The US recently approved additional support for the Ukrainian effort as part of a USD 1.7tr funding bill. Ukrainian troops have liberated around half of the maximum amount of territory which had been seized this year.

Australia appears likely to avoid recession as immigration provides a solid support for growth and the RBA has elected to become more incremental. However, there is a reasonable prospect for the US and, more so, Europe to experience a mild technical recession in 2023. Whilst the prospects for IG credit remains attractive, more uncertainty exists for the outlook on non-bank sub-IG names. Market liquidity remains challenged and funding risks are more elevated. Market positioning remains very bearish although some signs of improved sentiment are emerging. Significant uncertainty remains around the stickiness of services inflation, the impact of China's re-opening on energy prices, the path of the Ukrainian conflict, whether central banks will remain as precautionary for inflation as economies skirt recession and many other factors. Given the wide range of potential outcomes, we are relying less on central case expectations for general positioning and more on ensuring the portfolio is durable.

The credit quality and liquidity of the portfolio remains excellent. With a yield to maturity above 5%, the portfolio continues to compare well against alternatives like term deposits. Whilst spreads could continue to widen from here in the near term, the high yield to maturity now available reduces the chances of a negative return being recorded. We have closely examined our risk exposure to subordinated debt following APRA's clarification of its expectations on calls and expect to make minor portfolio adjustments to allow for this.

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