REALM SHORT TERM INCOME FUND

REALM | INVESTMENT HOUSE

FEBRUARY 2024

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 $1.30 billion
APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
Management Costs (Net of GST):
Ordinary Units – 0.3075%
mFunds Units – 0.3634%

NET PERFORMANCE

Period	Short Term Income Fund	RBA Cash Rate Return
1 Month	0.72%	0.34%
3 Month	2.02%	1.07%
6 Month	3.74%	2.10%
1 Year	6.71%	4.07%
3 Year p.a	3.45%	1.97%
5 Year p.a	3.17%	1.43%
Since Inception p.a*	3.10%	1.44%

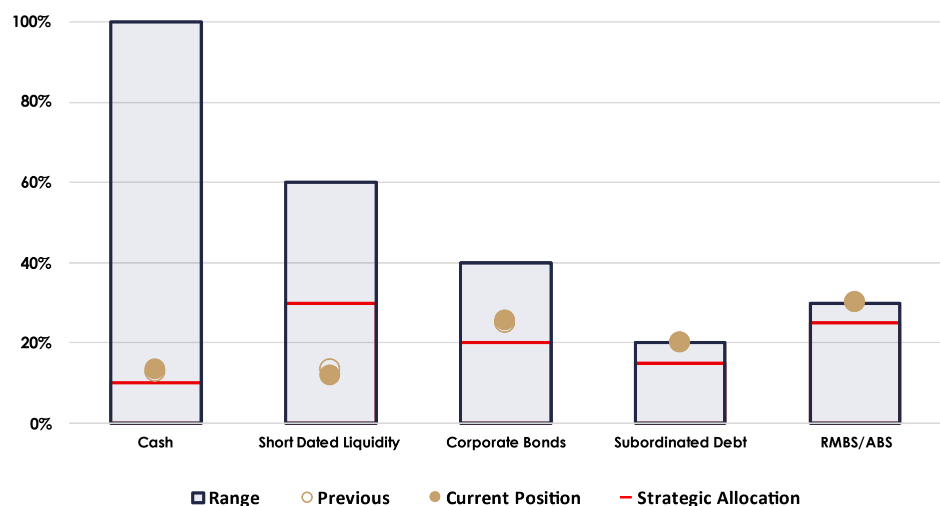
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	5.54%
Yield to Maturity	6.18%
Volatility†	0.41%
Interest rate duration	0.08
Credit duration	1.49
Average Credit Rating	A
Number of positions	318
Average position exp.	0.19%
Worst Month*	-0.26%
Best Month*	0.72%
Sharpe ratio∂	4.58

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

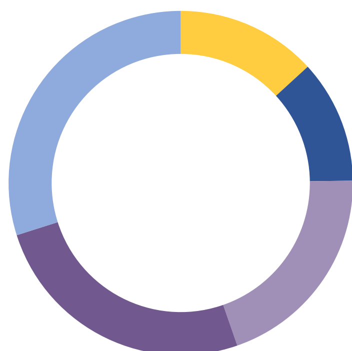


REALM SHORT TERM INCOME FUND

FEBRUARY 2024

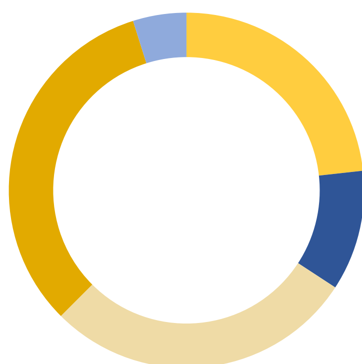
REALM INVESTMENT HOUSE

PORTFOLIO COMPOSITION



- Cash (13.20%)
- Short Dated Liquidity (11.59%)
- Sub Debt (19.89%)
- Corporate Bond (25.42%)
- RMBS & ABS (29.91%)

MATURITY PROFILE



- At Call to 6 Months (23.24%)
- 6 Months to 1 Years (10.97%)
- 1 Years to 2 Years (28.29%)
- 2 Years to 3 Years (32.65%)
- 3 Years to 3.5 Years (4.86%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased from 25.6% to 24.79%.

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 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 44.54% to 45.31%. Optimisation within the corporate bond sector was skewed slightly towards foreign issuers and towards foreign currency issues due to relative value opportunities over the month. 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 EUR and USD corporate and financial bonds continued their outperformance over 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 29.91%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.75 years.

Structured markets continued the considerable rally throughout the month of February, with many issuers looking to tap into the market strength to issue securitised product. As a result, dealfow for the month was substantial, with 11 transactions coming to market across Regional, Prime, Non-conforming and auto asset types. Transactions remain very well bid, with very high demand indicated by very high rates of oversubscription throughout the mezzanine (AA-B rated) tranches. Secondary markets remain overbid and continue to trade very tight relative to primary spreads.

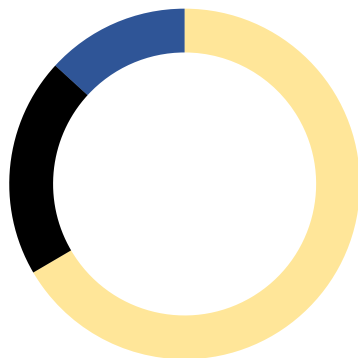
With respect to market performance, Prime arrears as reported by S&P's SPIN index for December weakened 6bps to 0.97% as is seasonally expected over the Christmas period. Nonconforming arrears also weakened, increasing to 4.02%. Both results remain strong in comparison to both market expectations and historic index levels.

REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

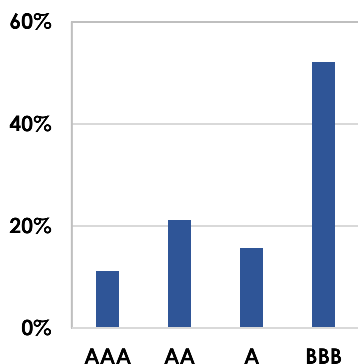
FEBRUARY 2024

ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (66.57%)
- Foreign Domicilied Issuer (20.23%)
- Cash (13.20%)

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	0.11%	0.0%	0.13%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↑ Targeted risk increased from 0.68% to 0.70%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.41%. 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 6.70% 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

Credit spreads tightened further over the month and reached historically low levels. Whilst the indicative ICE BofA BBB US Corporate Index Option-Adjusted Spread finished almost unchanged at 1.25%, bank capital and non-US corporate markets generally tightened further. Whilst US spreads rallied, heavy issuance saw these revert back towards their opening levels. This effect was less pronounced elsewhere.

The robustness of job creation in the US economy surprised to the upside whilst inflation expectations remained well behaved albeit the last mile of normalization is more challenging. Economists' expectations for the likelihood of recession declined further but still remains elevated and would infer more compensation should be required for risk. However, current spreads are detached from these estimates and are consistent with a near-certain achievement of very favourable economic conditions expected in 2025.

Technical factors may be contributing. Official cash rates are considered to be restrictive and the yields on US 10 Year Treasuries are favourable in the context of the last 20yrs. This is contributing to absolute yields on credit which are towards the highest observed in the post-GFC period. Capital is being drawn in for these reasons and may be creating less discerning pricing for credit. Should bond yields fall due to a modestly adverse economic outcome, some argue that spreads may receive some support for such reasons and not widen materially.

Levered loans offer the highest all-in yield amongst key segments of the fixed income market as these are floating rate securities and cash rates are at restrictive levels. Some companies which had turned to the private credit market for funding in recent years are once again issuing levered loans as funding conditions have eased. As spreads on these loans compressed due partly to the attractiveness of the total yield available, the return to the equity tranche of CLOs has improved and issuance is at record levels year-to-date. Strong issuance is also noted in the domestic structured credit market as loans held in warehouses were sold to the term market at narrower spreads. Strong bidding for primary and secondary transactions has driven spreads down with international investor interest at robust levels. Although arrears have risen in RMBS, record house prices infer that actual loss exposures are minimal. Financial pressure from inflation and interest rates is expected to ease gradually.

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

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/

Primary markets have responded to the tighter spreads with heavy issuance since the start of the year. However, the ghost of Silicon Valley Bank remains near as a higher than expected write-down in US CRE exposures by New York Community Bancorp, which acquired Signature Bank, has focused attention on US Regional Banks operating in this market again. As with Credit Suisse, the distress in the US crossed the Atlantic and has affected German banks with material US CRE exposures like Deutsche Pfandbrief Bank and Deutsche Bank. Overall, we believe much of the US Corporate market exhibits lower relative value than credit issued from Europe where sub-ordinated debt continues to offer reasonable opportunities.

Bidding for structured credit assets has become intense with new deals heavily oversubscribed. Credit conditions were favourable enough to see a large funding trade by Westpac. The last one of its size from a major bank was in 2020. Warehouse exposures are also being termed out into the more favourably priced market with many prime RMBS deals in the pipeline. With property prices reaching new highs, the outlook for employment being for ongoing growth, real wages improving and the expected interest burden near its peak, the credit quality for RMBS assets is extremely strong. Despite a significant rally in spreads, Australian structured credit continues to trade with a favourable margin to comparable offshore structured credit markets.

Whilst spreads on levered loans have also rallied, current all-in yields remain high given they are floating rate. This will still produce difficult financial conditions for borrowers and hence spreads have not narrowed as far as for some other markets. However, liquidity has returned and many borrowers who turned to the private debt market in 2023 are refinancing in the levered loan market once again. Loan issuance and CLO issuance year to date is towards the highest experienced since 2010. CLO spreads have rallied more strongly and new money appears best placed into the top of tranches for now.

The portfolio continues to be positioned to seek the highest expected return within a well defined set of constraints. In aggregate, the general characteristics and risk deployment were little changed over the month. The portfolio remains underweight in short-dated-liquidity and favours risk exposures across other asset classes which offer better carry. The effective liquidity of the portfolio remains significant.

The move to introduce foreign exposures last year, both in terms of source of risk and currency denomination (all hedged to AUD), has been a significant development. This additional flexibility allows the portfolio to have forward-looking returns which are generally higher than would have been the case previously, despite a strong rally in credit spreads. The portfolio's prospects for delivering the target performance relative to RBA cash is stronger today than for most of its history. This is further supported by the available roll-down profits in corporate and subordinated debt which is extracted as a regular portfolio management activity. The portfolio's foreign exposure has now settled at close to 20%.

REALM INVESTMENT HOUSE

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
Head of Distribution
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
Business Development Manager
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Finbarr Warren
Business Development Analyst
T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

Options prices continue to infer that potential movements in the US bond market remain in an elevated post-Ukraine state. For much of the year, policy-makers have been conditioning the market to unwind expectations of several, rapid rate cuts commencing in the near-term. However, the market and policy makers now appear to have converged on an expectation that rate cuts will commence around mid-year in the US and Europe. For Australia, the market considers the RBA will commence cutting rates a few months later. Markets continue to look to monetary authorities to ameliorate potential risk events. Whilst there is now considerable scope to defend against a demand shock, central banks are no better placed to assist with a supply shock.

A high level of optimism can also be found in equity markets. Following another strong run, valuations inferred by the Schiller P/E ratio for the S&P500 are at highs other than peaks associated with the deep earnings recession during covid and the Tech boom. Nvidia rose 26% on the month. Even BitCoin traded through USD 60k again following the US SEC's approval of spot ETFs.

Whilst credit markets appear to offer little margin for error in pricing, we continue to identify relative value opportunities. Narrow parts of the market reacted adversely to the higher than expected write-down of US CRE assets at New York Community Bancorp. As with the collapse of SVB, the risk aversion crossed the Atlantic and saw German banks with material CRE exposures trade weaker.

The portfolio continues to be positioned to seek the highest expected return within a well-defined set of constraints. The general characteristics and risk deployment were little changed over the month. The portfolio remains underweight in short-dated-liquidity and favours risk exposures across other asset classes which offer better carry. The effective liquidity of the portfolio remains significant.

Exposures to foreign source of risk and foreign currency denominated bonds are helping to maintain higher forward looking returns than would otherwise have been possible. For this reason, despite tighter credit conditions, the traded margin of the portfolio remains favourable in the context of the Fund's history.

The portfolio's prospects for delivering the target performance relative to RBA cash is stronger today than for most of its history. This is further supported by the available roll-down profits in corporate and subordinated debt which is extracted as a regular portfolio management activity. The portfolio's foreign exposure remains settled at close to 20%. Depending on market conditions, this may rise a little further.

REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

FEBRUARY 2024

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
Head of Distribution
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
Business Development Manager
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Finbarr Warren
Business Development Analyst
T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

Risks arising from higher arrears rates in structured credit remain well contained. Property prices are at record highs which infers that any conceivable scenario for foreclosures will not remotely threaten the viability of the portfolio's exposures. Although the Australian unemployment rate is expected to climb in the coming year, this will be achieved via a faster rate of population growth than job creation. Those who currently hold jobs are likely to retain them and this supports credit quality. In any case, the average credit quality of structured credit exposures is higher than A-, which is extremely secure. Pressure on household finances is now easing as real wages are improving. The expected interest rate cuts will also assist with credit quality later this year.

With a yield-to-maturity of 6.2% pa, the portfolio is very unlikely to experience negative performance over a six-month period.

MARKET DEVELOPMENTS

Credit synthetics rallied further over the month with the CDX IG 4pts lower at 52. This is a level last observed when the Fed QE program was still accumulating assets. The CDX HY and iTraxx XO rallied over 20pts. Equities were strong with the ASX 200 and Chinese CSI 300 up 8%. The S&P 500 rose 5% to a new record along with the Nasdaq. Even the Nikkei 225 managed to surpass its previous all-time high recorded in 1989. There were relatively few market shocks during the month and the VIX traded within a narrow band around 14. Nonetheless major market bond yields (ex-Japan) rose with the US 10 yr bond yield up 35bps as markets took a rosier view on the economic outlook. This contributed to a strengthening of the USDJPY exchange rate. Australian 10-year bonds rose 12pts to 4.14%.

OTHER DEVELOPMENTS

The US non-farm payroll growth of +353k was well ahead of the +180k expected. Average hourly earnings growth also exceeded expectations. The preliminary Q4 GDP was 3.2% saar, close to expectations. Retail sales disappointed, but existing home sales are rising again. Whilst durable orders (ex air/defence) edged higher, industrial production fell and the ISM Manufacturing index disappointed at 47.8. The ISM Services index, at 52.6, was slightly below forecast at 53 but the New Orders component suggests accelerating growth is in store. The New York Fed Global Supply Chain Stress Index remains at near normal levels despite shipping diversions from the Red Sea. One clear indicator of supply chains easing is used car prices, which have fallen 9.2% over the year.

The Fed held the cash rate at 5.25-5.50% and also left other settings unchanged. Chair Powell explained that cutting rates in March was not his base case. Bank credit conditions appear to have reached their tightest point. The Treasury released its plans for refunding its debt. Indications that the rate of issuance would be stable in the immediate term were well received.

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
Head of Distribution
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
Business Development Manager
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Finbarr Warren
Business Development Analyst
T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

Government dysfunction remained on display with Congress unable to pass laws ensuring that government agencies are durably funded. Biden is essentially unchallenged for the Democratic nomination for the Presidential election. Trump compressively defeated Haley and is the presumptive nominee for the Republican candidate but will have to endure a string of legal challenges.

The economic readings for Australia suggested activity had slowed further. Building permits fell 9.5% in December. Retail sales disappointed at -2.7% for December, which was well below expectations of -0.1%. However, seasonal adjustment has proved problematic for retail related indices due to the introduction of Black Friday sales events. Consumers nonetheless remain deeply pessimistic but are noticing easing inflationary pressure. The NAB Business survey indicates that current conditions have fallen below average with recreation and personal services leading the way. The outlook remains soft although manufacturing and construction sectors are more optimistic. Credit creation was steady. The labour force survey showed growth of only 0.5k when +30k was expected. Unemployment rose to 4.1% but the result is complicated by an unusually high number of people who had been employed but waiting to start work. Inflation indicators suggested that the path towards normalization remained on track. The PMIs indicate that manufacturing activity contracted, whilst services performed strongly. A $4.5bn writedown in BHP's WA Nickel operations highlighted that core materials required to support the energy transition megatrend can still become over-supplied.

The RBA held rates at 4.35% and the associated release indicated that further rate rises could not be ruled out. Their outlook expects immigration to normalize but for housing to remain tight. Financial stress remains well contained albeit approximately 5% of households are struggling significantly. House prices rose 0.6% over the month and ANZ upgraded their forecasts for 2024 to 5-6%.

Europe's GDP was estimated to have been steady in Q4, continuing a record of outcomes which skim the edge of recession. The German economy shrank for the third quarter in a row. Economic surveys for this economy have assessed it as in the weakest condition since June 2020 which was heavily affected by covid. Despite weak economic growth, Eurozone unemployment was at a record low 6.4% and is not expected to rise materially as growth gradually normalizes into 2025. The PMIs confirmed that manufacturing output shrank, with supplies affected by shipping disruptions in the Red Sea. The services index recorded the first expansionary reading since July 2023. Given the rigidity of the labour market, the ECB's focus is on wage settlements. The timing of these releases suggests the first rate cut may be in June. The UK fell into recession as exports plunged in Q4 and BoE Governor Bailey indicated that he was comfortable with the outlook for rate cuts, which could occur ahead of inflation normalizing.

REALM INVESTMENT HOUSE

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
Head of Distribution
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
Business Development Manager
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Finbarr Warren
Business Development Analyst
T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

China's economic data surprised to the upside. Credit growth exceeded expectations, as did the official NBS PMI readings, albeit these point to modest growth only. Prices are falling with CPI down -0.8% yoy, faster than expected. The PPI was -2.5% lower on the year. Efforts to stimulate the economy continued with a record sized 0.25% cut in the 5yr Loan Prime Rate. Other key official rates were unchanged. House prices have fallen 0.7% over the year.

Japan's Q4 GDP was reported at 0.1 and was characterized by weak consumer spending. Core inflation was 2% for the year. The focus remains on the BoJ's plans for exit from its long-standing negative interest rate policy. To this end, wage settlements during spring will be a key determinant.

DISCLAIMER

Realm Investment Management Pty Ltd ACN 158 876 807, a corporate authorised representative (number 424705) of Realm Pty Ltd ACN 155 984 955 AFSL 421336 (Realm) is the investment manager of the Realm Short Term Income Fund (ARSN 622 892 844) (Fund). One Managed Investment Funds Limited (ABN 47 117 400 987) (AFSL 297042) is the responsibility entity of the Fund (OMIFL). The information contained in this document was not prepared by OMIFL but was prepared by other parties. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information contained therein cannot be warranted or guaranteed. Anyone reading this report must obtain and rely upon their own independent advice and inquiries. Investors should carefully consider each of the Product Disclosure Statement dated 24 July 2023 (together with the Additional Information Booklet dated 24 July 2023) (PDS) and Target Market Determination (TMD) issued by OMIFL before making any decision about whether to acquire, or continue to hold, an interest in the Fund. Applications for units in the Fund can only be made pursuant to the application form relevant to the Fund. A copy of the PDS dated 24 July 2023, TMD dated 19 October 2022, continuous disclosure notices and relevant application form may be obtained from https://www.oneinvestment.com.au/realmstif/ or https://www.realminvestments.com.au/our-products/realm-short-term-income-fund/. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. Realm believes that the information contained in this document is accurate when issued. Realm does not warrant that such information or advice is accurate, reliable, complete or up-to-date, and to the fullest extent permitted by law, disclaims all liability of Realm and its associates. This document should be regarded as general information only rather than advice. In preparing this document, Realm did not take into account the investment objectives, financial situation and particular needs of any individual person. The information contained in this document must not be copied or disclosed in whole or in part without the prior written consent of Realm, and Realm accept no liability whatsoever for the actions of third parties in this respect. It is presented for informational purposes only and is not to be construed as a solicitation or an offer or recommendation to buy or sell any securities. Any opinions expressed in this document may be subject to change. Realm is not obliged to update the information. The information must not be used by recipients as a substitute for the exercise of their own judgment and investigation. Neither Realm nor any of their directors, employees or agents accept any liability for any loss or damage arising out of the use of all or part of, or any omission, inadequacy or inaccuracy in, this document. OMIFL and Realm do not guarantee the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither OMIFL nor Realm, including their directors, senior executives, employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Realm only provides services to wholesale clients, as defined in section 761G of the Corporations Act. Past performance is not indicative of future performance. Information in this document is current as at 29 February 2024.

ZENITH DISCLAIMER

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned October 2023 referred to in this document is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at http://www.zenithpartners.com.au/RegulatoryGuidelines