REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

JANUARY 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	0.66%	0.36%
3 Month	1.86%	1.07%
6 Month	3.61%	2.10%
1 Year	6.56%	3.98%
3 Year p.a	3.31%	1.86%
5 Year p.a	3.08%	1.39%
Since Inception p.a*	3.02%	1.41%

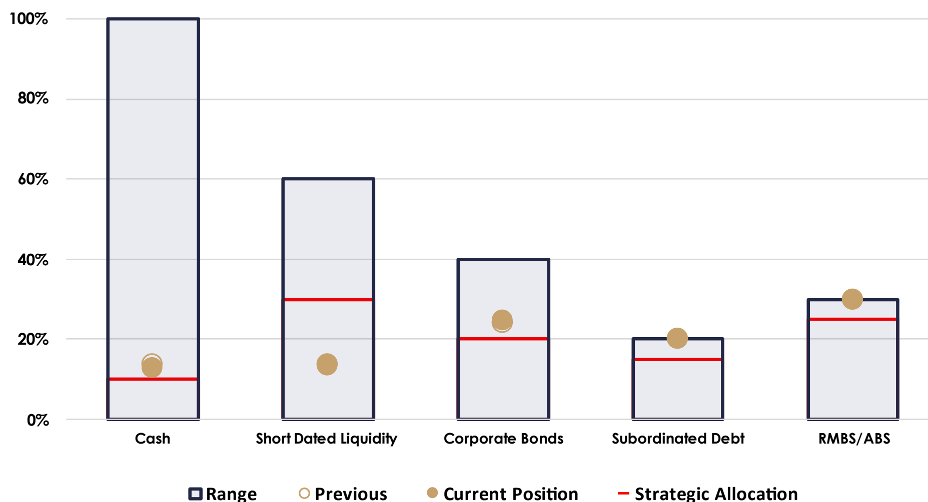
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	5.54%
Yield to Maturity	6.35%
Volatility†	0.34%
Interest rate duration	0.10
Credit duration	1.49
Average Credit Rating	A
Number of positions	314
Average position exp.	0.22%
Worst Month*	-0.26%
Best Month*	0.66%
Sharpe ratio∂	4.68

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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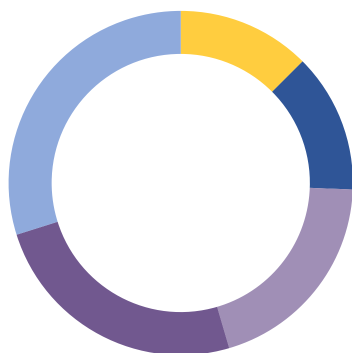
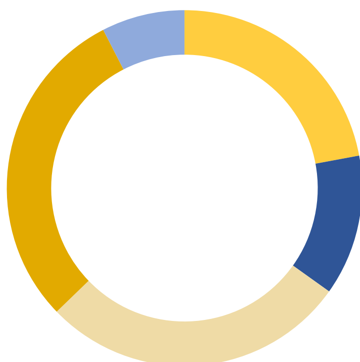
PORTFOLIO COMPOSITION



- Cash (12.51%)
- Short Dated Liquidity (13.09%)
- Sub Debt (19.86%)
- Corporate Bond (24.68%)
- RMBS & ABS (29.86%)

MATURITY PROFILE



- At Call to 6 Months (22.08%)
- 6 Months to 1 Years (12.79%)
- 1 Years to 2 Years (27.91%)
- 2 Years to 3 Years (29.67%)
- 3 Years to 3.5 Years (7.56%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased from 26.84% to 25.6%.

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 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 43.6% to 44.54%. Optimisation within the corporate bond sector was skewed towards domestic issuers but skewed towards AUD due to primary issuances 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 USD corporate and financial bonds continued their outperformance over AUD denominated bonds. Subordinated debt optimisation was skewed towards foreign issuers in foreign currencies. 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 29.86%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.77 years.

Structured markets continued to rally over the course of January, in line with other credit markets. This was further exacerbated by the limited supply, as dealflow remained very slow into the end of the holiday period, resuming with new mandates in late January. As a result, 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 November improved 1bp to 0.91%. Nonconforming arrears also improved 5bps to 3.65%. Both results remain very strong in comparison to both market expectations and historic index levels.

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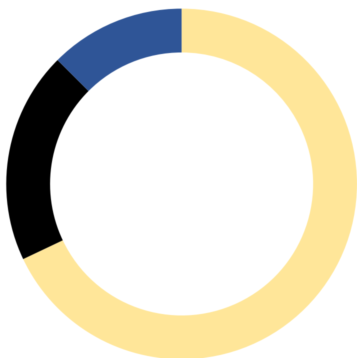
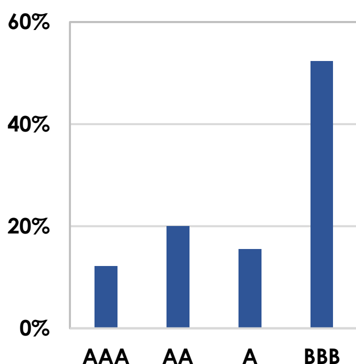
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (67.95%)
- Foreign Domicilied Issuer (19.54%)
- Cash (12.51%)

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 increased from 0.67% to 0.68%, 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 6.55% 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

Key credit spreads finished the month at similar levels. The indicative ICE BofA BBB US Corporate Index Option-Adjusted Spread of 1.26% pa is tight by historical standards. Similar levels have existed only during periods of loose credit, overconfidence, or where search-for-yield effects were strong. In some ways, the high all-in yields presently available may also be encouraging this outcome.

Credit markets appear to be pricing an outcome which is similar to a no-landing scenario, where growth is at trend levels, inflation is in-line with targets and monetary policy is at around neutral. The consensus for 2025 points to this type of environment but, given the limited accuracy of economic forecasts and the many visible uncertainties, spreads are offering scant margin for error.

Although the trajectory of key Western economies is for a further slowdown during H1 2024, before recovering towards trend levels, confidence in avoiding recession is rising. Derivative pricing shows very low concerns for the possibility of a difficult market. Indeed, even oil and gold derivatives display inferred volatility expectations which are around average levels. This seems unusual given the number of active conflicts taking place, particularly in the Middle East where missile and drone strikes are being exchanged between the US and Iranian proxies. ISIS also claimed responsibility for a bombing attack in Iran which killed nearly 100 people during a memorial for former Quds Forces Commander Soleimani, who was killed in a US drone attack in 2020.

The bond market remains volatile relative to equities. Derivative pricing infers that central banks have a significant capacity to stabilize the economy against adverse developments. The relative pricing of equity and bond volatility indices is reminiscent of the first part of the Greenspan era where the Fed cut rates to help the economy recover from the 1990-91 recession and enhanced the belief in the Greenspan Put. With cash rates now considerably above the nominal floor, the capacity certainly exists but this central bank tool is quite ineffective with supply side shocks. As a result, following a strong recovery in credit markets since the collapse of Credit Suisse, we are cautious on aggregate pricing, but still find pockets of opportunities where we are comfortable with risk deployment.

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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

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%.

Arrears rates in structured credit remain well contained. Property prices are at record highs which infers that any foreclosures will not create material losses. Although the Australian unemployment rate is expected to climb in the coming year, this is expected to 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

With a yield-to-maturity of 6.25% pa, the portfolio is very unlikely to experience negative performance over a six-month period.

OVERALL COMMENTS

Credit synthetics were largely unchanged at month end. Equities were mixed. The Nikkei performed strongly as foreign flows supported the market and a better inflation outlook lifted the prospects for corporate earnings. In contrast the Chinese equity markets fell. Authorities there introduced curbs on short selling, increased bank lending capacity and were rumored to be planning direct intervention into the equity market via state-owned enterprises. The VIX traded in a choppy fashion with Fed's Waller's hawkish conditioning of the US rate path and the surprisingly high number of job openings in the US each producing moderate spikes. Moves on bond yields were mixed although the US and Australian 10-year bond yields were close to unchanged on the month. As expectations for rate cuts in the US diminished, the USD strengthened. Oil prices rose on the resilience of the US economy, concerns over the Middle East and a larger than expected fall in US crude inventories.

OTHER DEVELOPMENTS

The US economy continued to be resilient. The Advanced GDP came in at a robust 3.3% saar. Retail sales for December exceeded expectations at 0.6% (ex auto/gas) and the more comprehensive personal spending measure also beat at 0.7%. The ISM PMI reports pointed to robust outcomes with the Manufacturing measure at 49.1 with the new orders component at 52.5. Services jumped to 53.4 and new orders here were also robust at 55. The strength of the JOLTS openings figure of 9m moved the market. The Non-Farm Payrolls also surprised to the strong side on jobs, earnings and unemployment. Core inflation measures remained contained. Although Treasury borrowing requirements remain elevated, the latest refunding release was well received. The Beige Book pointed to an improved outlook and easing wage pressure. Tourism, leisure and travel spending remains strong, whilst manufacturing was softer.

The FOMC left settings unchanged again. Fed speakers expressed the need for patience and Chair Powell captured the sentiments when indicating that a March rate cut was 'not base case'.

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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/

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The Republican Presidential race has been winnowed to two candidates with Trump well ahead of Haley. A Trump Presidency is likely to see increased import tariffs in general with Chinese trade likely to experience a much higher impost. The government remains mired in efforts to pass a spending bill to support Ukraine with efforts linked to that supporting border control, Israel and other priorities. A purportedly bipartisan $118bn bill failed to pass the Senate.

The Australian economy is showing signs of troughing. Retail sales and the PMIs were stronger than anticipated. Whilst the NAB Business Survey saw Conditions decline slightly, Confidence has recovered from -8 to -1. House prices rose another 0.4% in January. Consumer sentiment remained weak with households expecting interest rates to remain unchanged over the year. Inflation outcomes were to the favourable side, but not sufficient for there to be any doubt that the RBA would hold rates steady in February. The press conference revealed a fresh posture from the RBA as Governor Bullock avoided making strong projections and counselled against reading too much into short term economic outcomes. The employment figure was surprisingly low at -65.7k, although this seems to be the result of seasonal adjustment difficulties which now appear to have washed through. Loan data suggests housing activity may be picking up again. The revisions to the Stage 3 tax cuts are not expected to materially impact the course of the economy. However, the scrapping of the Significant Investment Visa and lower student visa intake, together with further incentives against foreign ownership of vacant houses in favour of build to rent projects, will have an impact on rental inflation and housing prices and improve living standards in years to come.

The European economy is soft, although the flash GDP result for Q4 suggests a technical recession has been avoided by the barest margin. PMI readings point to a slowing economy. However, the Loan Officer Survey suggests that credit conditions may soon start to ease. The ECB kept monetary policy unchanged and commentary generally centered around it being too early to talk about rate cuts. Nevertheless, the ECB's Chief Economist Lane and President Lagarde indicated that the time to commence discussions may arrive in June. Manufacturing is being hampered by diversions in the Red Sea as both Tesla and Volvo announced production cuts. Container shipping costs have doubled from levels just prior to the conflict in Gaza erupting. Eurozone GDP is expected to experience a gradual recovery from a flat Q4 as real wage growth improves and supports household spending. The bloc managed to agree to a support package for Ukraine after taking extraordinary action against Turkey.

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Official statistics suggest China's economy is performing adequately. GDP (Q4) was 5.2% yoy, slightly below expectations. However, Industrial Production and Fixed Asset Investment growth were robust, especially in tech, EV and green energy. Household spending was still impaired by lack of confidence in housing. Retail spending disappointed and unemployment crept up to 5.1%. The PBoC left interest rates unchanged, possibly to protect bank profitability and the currency, but reduced the RRR by 50bps to increase lending capacity. Beleaguered developer, Evergrande, was ordered to liquidate by the HK courts although it is unclear what this means for its inventory in China. Credit growth came in below expectations. Housing prices fell slightly. Year on year consumer inflation was -0.3%. China's export prices over the year have declined at the fastest rate since the GFC, placing downwards pressure on global inflation. The election of a pro-sovereignty President in Taiwan has complicated plans to re-unify. It is believed that President Xi's latest purge of the military relates to corruption in the Rocket Forces. Foreign investor confidence in China has been strained as Foreign Direct Investment (YTD) YoY declined by 8%.

Japan's economy is performing well with the Services PMI indicating moderate growth. Unemployment is at the lowest point since covid, beating expectations. Core inflation was 2.3% yoy. Although the BoJ kept monetary settings unchanged, Governor Ueda has indicated increasing confidence that inflation projections will be met and permit an exit from the Negative Interest Rate Policy which has been in place since 2016.

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