REALM SHORT TERM INCOME FUND

JANUARY 2023

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 $710 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	0.49%	0.26%
3 Month	1.32%	0.75%
6 Month	1.95%	1.31%
1 Year	1.49%	1.53%
3 Year p.a	2.01%	0.63%
5 Year p.a	2.33%	0.90%
Since Inception p.a*	2.34%	0.91%

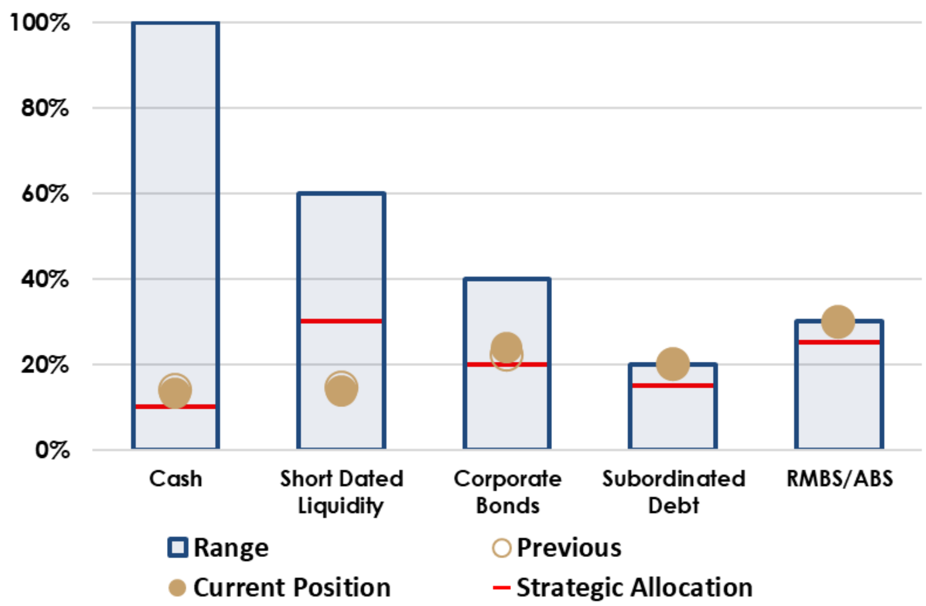
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	4.65%
Yield to Maturity	5.17%
Volatility†	0.49%
Interest rate duration	0.10
Credit duration	1.44
Average Credit Rating	A
Number of positions	186
Average position exposure	0.42%
Worst Month*	-0.26%
Best Month*	0.49%
Sharpe ratio∂	4.28

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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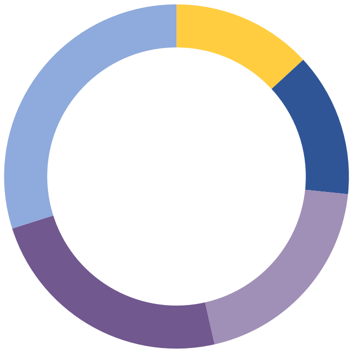
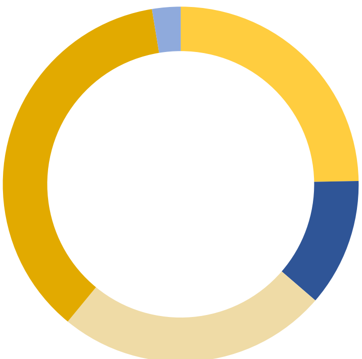
PORTFOLIO COMPOSITION



- Cash (13.14%)
- Short Dated Liquidity (13.50%)
- Sub Debt (19.82%)
- Corporate Bond (23.65%)
- RMBS & ABS (29.89%)

MATURITY PROFILE



- At Call to 6 Months (24.70%)
- 6 Months to 1 Years (11.64%)
- 1 Years to 2 Years (24.61%)
- 2 Years to 3 Years (36.46%)
- 3 Years to 3.5 Years (2.59%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 26.64% from 28.22%.

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 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: ↑ Increased to 43.47% from 41.93%. 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. General risk-on sentiment proved to be conducive to credit spreads over the month and APRA's approval of the Westpac T2 call added to the sentiment. 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 29.89%. As at month end, the portfolio held an A- average credit rating and a relatively short weighted credit duration of 1.85 years.

Public structured credit market yields continued to trade in line with the previous month as no new trades came to primary markets. Secondary markets on the other hand were very active, with investors competing to pick up as much stock as possible as global credit markets continued to rally. This led to dealer inventory sheets being lifted for substantial amounts of stock. Dealers are holding very low levels of inventory to offer to the market, leading to a considerable amount of pent-up demand for new public issuance from all market participants. The upcoming primary market pipeline is very strong, with several issuers now looking to use the market strength to issue into the public market over the next few weeks.

With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 5bps over the month of November to 0.65%. Nonconforming arrears weakening to 2.66%. Both results remain very strong in comparison to both market expectations and historic index levels.

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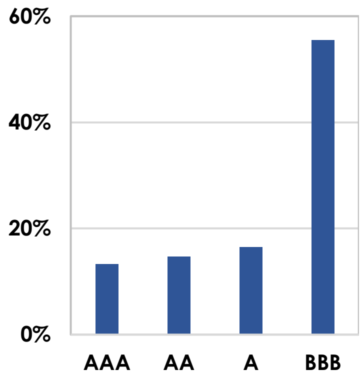
CREDIT QUALITY



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 0.75% from 0.76%, reflecting the decrease in market volatility and optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.49%. This has risen over the short term 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 1.49% 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

Markets were buoyed as the peak in this rate cycle appeared close. Key equity markets performed strongly. Risk perception, as measured by VIX, reduced to be close to the lows of the last year. Bonds rallied and the USD weakened against major currencies, with the AUD closing above 70 cents. Perceptions of credit risks were also pared back and spreads tightened. Industrial metals performed strongly.

The US House of Representatives elected Kevin McCarthy as Speaker after several fractious rounds of negotiation. The process provided a glimpse of the internal dynamics within the Republican Party which do not portend well for the upcoming Debt Ceiling negotiations. Treasury Secretary Yellen has outlined a number of measures to forestall a default, but the risk of a disorderly outcome appears meaningful. Markets are also concerned about the potential for dysfunction in the levered loan market where investors may seek to avoid bonds at risk of downgrade into CCC rated bands and lower as we head towards slower economic growth.

Markets were especially buoyed by statements from the Fed. Whilst the job market remained tight and wage growth was elevated, there were few signs of a wage-inflation spiral. Core wage measures were favourable and Chair Powell was not as hawkish as expected in his commentary. Whilst recent Fed Talk continued to remain resolute, markets increasingly priced rate cuts later this year. The arguments in favour of this positioning included inflation expectations remaining well anchored and reports that corporations were having increasing difficulty with passing cost increases through to final demand. The PMIs were also in contraction for both services and manufacturing. Markets noted that hours worked was declining and temporary hires was also softening, which are important indicators of a softening labour market. Whilst US GDP for Q4 2022 surprised to the upside, the underlying analysis suggested that domestic activity was slowing.

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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

In Europe, ECB President Lagarde indicated her expectation that a small economic contraction was now likelier than a recession. Chancellor Shultz also indicated an expectation that Germany would not fall into recession. Lower gas prices and high storage volumes have reduced the likelihood that rationing would be required and warmer weather has also improved the outlook for tourism. China's re-opening has also boosted the outlook. Similar reasons were used by the IMF to upgrade their projections in their latest forecasts. Norges Bank was the first in the developed world to pause its rate cycle. In the UK, BoE Governor Bailey indicated that the 'corner has been turned' on inflation.

In a major thematic development, China's population appears to have shrunk in 2022. The growth and integration of China's workforce and population have been major drivers of the world economy for decades, helping to generate favorable economic growth whilst helping to keep inflation modest. Markets were surprised that China's Q4 2022 GDP did not shrink. Economic activity was supported by panic buying as the country moved away from a zero-covid setting. The IMF believes that China's longer term growth prospects will nonetheless be hampered by a lack of business dynamism and slow progress on structural reforms. China's property market remains delicate, and authorities are hoping that household consumption will lead the economic recovery.

Property prices fell 1% in January according to CoreLogic, and are 8.9% below their April 2022 peak. More falls are expected as the RBA continues to tighten rates and these effects gradually flow through to the economy. Approximately 2/3rds of fixed rate mortgages will roll onto variable rate arrangements at materially higher interest rates during 2023. However, the market expects the RBA will be cutting rates in H2 as this occurs. Meanwhile rents continue to perform well and will be boosted by China's announcement that student qualifications in foreign schools would only be recognized for in-person learning. Arrears rates are rising, as expected, but remain below pre-covid levels for now. There is limited indication that the mortgages which were written most recently (when rates were at their lowest) are performing worse than other recent vintages.

Australian consumer and business confidence are consistent with a coming slowdown in economic growth although current business conditions remain robust. The economy is supported by net immigration arrivals which now exceed pre-Covid levels. Australia's retail sales figures for December were materially weaker than expected, falling a large 3.9% in nominal terms. The labour force figures also surprised significantly to the downside when the workforce shrank by 14.6k jobs, albeit this was likely influenced by a higher than usual level of illness. The headline CPI surprised to the upside, which has led a number of economists to revise their projections for the RBA rate path upwards. S&P also affirmed Australia's AAA rating.

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APRA recently suggested it would be more closely scrutinizing requests for banks to call their subordinated bonds. Their announcement caused bonds with callable features, particularly those with low interest rates at issue, to sell off. However, Westpac was permitted to call its Tier 2 February 2028 bond despite having some properties which made this appear unlikely. Australian callable bonds rallied materially.

The Bank of Japan held its settings at the most recent meeting. However, there is considerable pressure on its yield curve control measure, whose operating bands were widened in December. The upcoming retirement of Governor Kuroda may signal a move to abandon this policy setting entirely or otherwise reduce its effect. This would create an incentive for Japanese investors, who have approximately USD 3tr invested offshore, to repatriate some portion of these assets as domestic bonds become more favorably priced again. In turn, this would likely have a negative effect on bonds and credit exposures elsewhere.

Markets have rallied strongly as concerns for weak economic outcomes have been wound back. For medium term investors, value remains visible. In structured credit, expectations for improved markets can be inferred from a trend for CLO managers to hold on to their mezzanine debt rather than distribute it. Further, several brokers are seeking to rebuild RMBS inventory in the expectation the spreads will tighten further. Although property prices are falling, our structured credit exposures can withstand much larger losses without concern. The term structure for Australian government debt is very flat and offers limited value.

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

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