REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

JUNE 2022

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 $559 million

APIR Codes:

Ordinary Units - OMF3725AU

mFunds Units - OMF8160AU

Management Fees (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	-0.13%	0.06%
3 Month	-0.18%	0.10%
1 Year	0.37%	0.17%
2 Year	1.59%	0.16%
3 Year	1.84%	0.33%
4 Year	2.15%	0.62%
Since Inception*	2.21%	0.72%

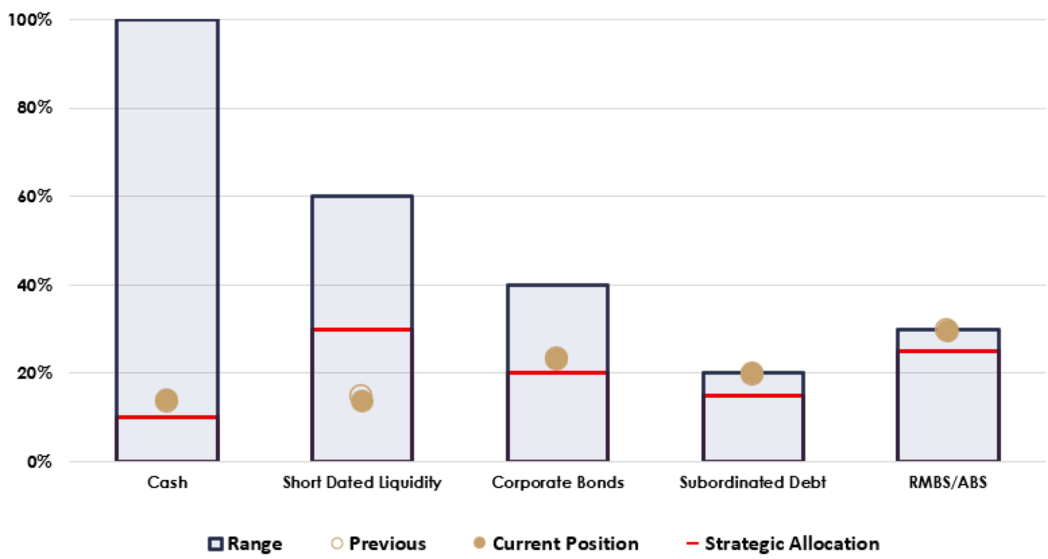
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	2.96%
Yield to Maturity	3.23%
Volatility†	0.35%
Interest rate duration	0.09
Credit duration	1.41
Average Credit Rating	A
Number of positions	164
Average position exposure	0.44%
Worst Month*	-0.26%
Best Month*	0.34%
Sharpe ratio∂	4.79

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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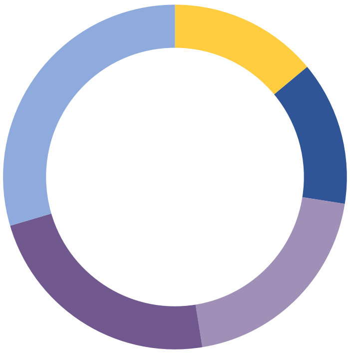
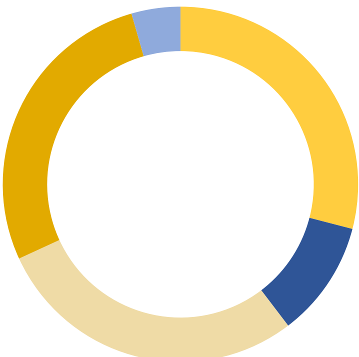
PORTFOLIO COMPOSITION



- Cash (13.97%)
- Short Dated Liquidity (13.52%)
- Sub Debt (19.96%)
- Corporate Bond (22.99%)
- RMBS & ABS (29.56%)

MATURITY PROFILE



- At Call to 6 Months (29.04%)
- 6 Months to 1 Years (10.59%)
- 1 Years to 2 Years (28.50%)
- 2 Years to 3 Years (27.42%)
- 3 Years to 3.5 Years (4.45%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 27.49% from 27.78%.

Interest Rate Duration Position: → 0.09 years. The strategy will maintain interest rate duration of approximately 3 months as an average. Having a low IRD number has limited the losses of the fund in June from continued bond market volatility. The strategy will, as a rule, only takes modest interest rate risk.

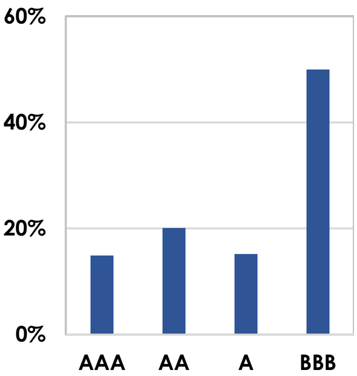
Corporate & Subordinated Debt Allocation: ↑ Increased to 42.95% from 42.68%. Additions within the sector were skewed to Subordinated debt and towards optimising short dated liquidity. Corporate bonds continue to present modest relative value over bank senior bonds; however, this value is eroding as bank senior bonds are repricing wider. Over the month, short dated financial and corporate bonds continued to sell-off, although the momentum moderated. The short, conservative nature of the sector aided in cushioning the market volatility in June.

Residential Mortgage-Backed Securities (RMBS) & ABS:
→ Allocation remained in line with last month at 29.6% as funds remained optimally deployed within the structured credit sector. As at month end, the portfolio maintained an A- average credit rating and a relatively short weighted credit duration of 1.60 years.

Public Structured credit markets continued to drift wider, with credit spreads weakening alongside global credit markets as recession headlines continued to weigh on sentiment. Several transactions were issued into primary markets ranging across both prime and nonconforming asset classes, with a range of secondary trades also taking place. Supply continues to push markets wider, mainly across the senior mezzanine (Junior AAA/AA rated) and mezzanine (A/BBB rated) portions of the capital structure.

With respect to market performance, average prime arrears levels as reported by S&P (SPIN) improved in March by 5 basis point to 0.73%, with non-conforming arrears also improving 17bps to 2.41%. Both data prints remain strong in comparison to historical arrears 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%	0.07%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↑ Targeted risk increased to 0.72% from 0.69%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.35%. 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 0.37% 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.

MARKET OUTLOOK

The risk-off tone in markets became more pronounced in June. The VIX remained elevated and spiked towards one-year highs. Equity markets were lower again, with the S&P 500 in bear market territory. Industrial commodities also fell well below levels recorded merely a quarter ago, whilst oil prices softened partly on USD strength. The US Dollar index climbed to levels last seen in 2002 and this contributed to a decline in AUDUSD despite a strong trade situation and Australian yields remaining above that of the US.

Bond markets continued their historic sell-off, with the total return movement since mid-2020 being worse than that experienced during historic events like the Great Bond Massacre in 1994 and Taper Tantrum of 2013.

In some ways, the month was a tale of two halves. The month began with upside surprises to growth and inflation, which led the RBA and Fed to raise rates by 50bps and 75bps respectively. Later, recessionary concerns came to the fore with the Atlanta Fed nowcast for the US inferring a negative GDP figure in Q2. With such large shifts in outlooks, bonds traded over a particularly large range and the outlook was complicated further by concerns that European sovereign bond markets were fragmenting.

Australian corporate bond spreads are now at levels that approximate their worst point during covid in April 2020 and also during the period where the Chinese economy appeared to be at risk of unravelling in 2015/2016. The only other times it has been wider in the last 20 years were during the GFC and the immediately subsequent years where ongoing concerns for sovereign solvency in Europe were front of mind. This is less relevant today. The more significant US and European credit markets sold off significantly on heightened recessionary fears.

In Europe, markets are very concerned about the outlook for Russian gas supply. Whilst the scenario that supply does not restart after the maintenance period of Nordstream 1, on 21 July, would be a significant setback, analysis by the ECB suggests a significant buffer remains to protect against a banking crisis. Similarly, the US Fed finds that their banking system can withstand much larger setbacks than the recession in 2023 which the market currently fears. As a result, we do not expect that credit spreads will test the GFC-related levels.

PLATFORM AVAILABILITY

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

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

Whilst property prices may fall between 15-30% from recent highs in the coming years, the credit quality of the structured securities we consider for the portfolio can withstand scenarios which are even more challenging. Nonetheless, the Australian structured credit market is also weakening along with international market pricing.

In general, particularly for investment grade debt, it appears to us that pricing is overcompensating for the increase in credit risk. Indeed, many issuers are now holding back or tapping alternative funding sources because the market is showing signs of becoming disorderly. Given the sensitivity of markets to threshold news is presently very high, and the economic readings are towards extremes, predicting near term moves is fraught. However, these circumstances are usually followed by very strong investment returns for those who can look through the near-term volatility.

We are seeing conditions in supply chains ease and there is some evidence that retailers are liquidating inventory. These were significant early drivers of inflation. Nonetheless, labour markets remain tight. We note that medium term inflation expectations, as visible via bond market pricing, have recently reverted towards the levels before the hypothesis of transitory inflation was set aside late last year.

The portfolio continues to run in accordance with our approach to maximise yield to maturity within portfolio constraints. Whilst performance has been disappointing in recent months, this has not arisen due to any material deterioration in the credit quality of the portfolio assets or from tactical trading. Simply, spreads have widened as monetary accommodation has been rapidly unwound and the possibility of a hard landing has been discounted into the economic outlook. Given spreads have now reached levels that are consistent with recessionary concerns, stronger evidence of valuation support has arrived. The mirror effect of weaker valuations is an increasingly elevated forward-looking yield to maturity. When considered in light of the profile for expected cash rates in the coming year, the Fund continues to provide a favourable alternative to term deposits or cash holdings for investors with moderate investment horizons.

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