REALM SHORT TERM INCOME FUND

JUNE 2023

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 $896 million
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	0.53%	0.33%
3 Month	1.42%	0.94%
6 Month	2.82%	1.76%
1 Year	4.31%	2.93%
3 Year p.a	2.49%	1.07%
5 Year p.a	2.58%	1.07%
Since Inception p.a*	2.59%	1.11%

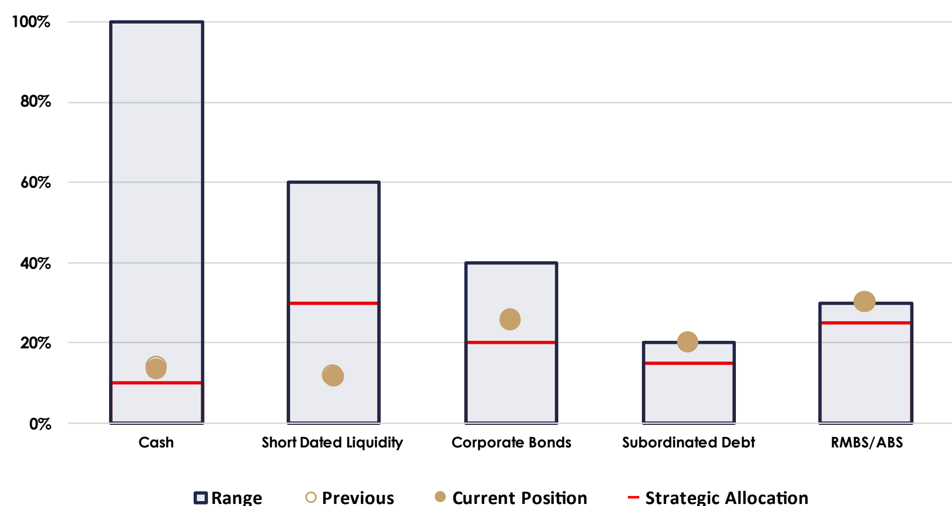
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

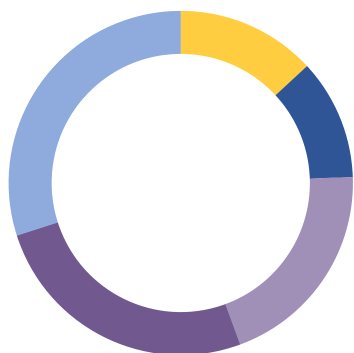
Running Yield	5.61%
Yield to Maturity	6.04%
Volatility†	0.47%
Interest rate duration	0.08
Credit duration	1.48
Average Credit Rating	A
Number of positions	250
Average position exp.	0.33%
Worst Month*	-0.26%
Best Month*	0.58%
Sharpe ratio∂	4.38

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

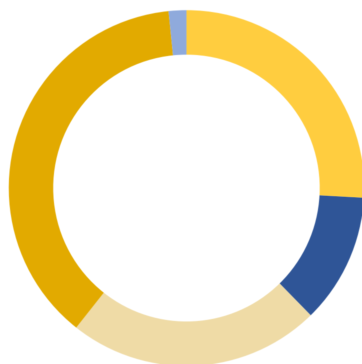


PORTFOLIO COMPOSITION



- Cash (13.11%)
- Short Dated Liquidity (11.34%)
- Sub Debt (19.94%)
- Corporate Bond (25.67%)
- RMBS & ABS (29.94%)

MATURITY PROFILE



- At Call to 6 Months (25.87%)
- 6 Months to 1 Years (11.81%)
- 1 Years to 2 Years (22.97%)
- 2 Years to 3 Years (37.74%)
- 3 Years to 3.5 Years (1.61%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 24.45% from 25.23%.

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 limited the realised volatility and losses in the fund from a government bond sell-off over the month. The strategy will, as a rule, only take modest interest rate risk.

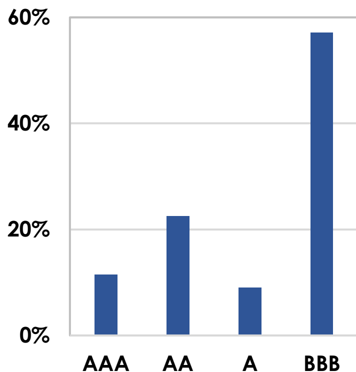
Corporate & Subordinated Debt Allocation: ↑ Increased from 44.93% to 45.61%. Optimisation within the corporate bond sector was skewed towards financials. Corporate bonds, however, continue to present modest relative value over bank senior bonds; and this relative value increased over the month due to financials outperforming corporates. Corporate bond volatility, albeit small, was driven partly by swap spreads. 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 in line with last month at 29.94%. As at month end, the portfolio maintained an A- average credit rating and a relatively short weighted credit duration of 1.61 years.

Public structured credit market yields remained in line over the month of June, after having tightened at the end of May. The tightening in yields makes issuing transactions more economic for issuers, and as a result has bought more primary deal flow to public markets including two new bank transactions, and several non-conforming and CMBS transactions.

Secondary markets remain moderately active, with good transaction volume reported from each of the broking desks. With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 6bps over the month of April to 1.01%. Nonconforming arrears also weakened slightly, increasing 3bps to 3.73% as reported by S&P for the March period. 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%	0.16%	2.5%
Gambling	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/realm-short-term-income-fund/

Targeted risk across the Fund: ↑ Targeted risk increased to 0.89% from 0.88%, reflecting the increase in market volatility and optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.47%. 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 4.30% 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 markets remain in a state of heightened risk aversion, providing the opportunity for superior future returns for medium term investors. The risk aversion is supported by a rate tightening cycle which has yet to conclude and the prospect of below trend growth in the coming years, including the possibility of a modest recession in several key markets. Instability in the US banking system remains a fresh memory and the concentration of poorer quality CRE loans within US regional banks suggests that there may be some further volatility to come as refinancing these may prove challenging. For these reasons, bank senior debt and investment grade corporate debt spreads may not rally further in the near term in major global markets. The prospects in Australia are better given relative value and the strength of the financial system here.

Higher spreads and interest rates have reduced issuance activity in sub-investment grade markets and the lack of supply may be artificially compressing spreads. Although the immediate prospects for senior bank debt are modest, we expect a more favourable outlook for subordinated debt as the memories of Credit Suisse's collapse fade.

The rally in credit markets has drawn greater attention to the relatively favourable pricing in structured credit markets. Supply in global CLO and MBS markets has been sparse as the volume of new borrowing is impaired due to higher borrowing costs. Access to Australian public RMBS has been hampered by heavy competition amongst banks for prime mortgages and a tendency for issuers to pre-place significant portions of new transactions with warehouse financiers.

Portfolio activity remained focused on maximizing expected return within tight boundaries. Australian credit remains favourably priced and the portfolio is providing a well-diversified exposure supported by the unquestionably strong financial system and significant tangible asset backing.

The possibility of credit losses on the RMBS exposures within the portfolio remains remote but, in any case, has declined further. Property prices continue to rise, which is also a feature of many markets other than Australia. The RBA remains patient on the timeline to return inflation to within the target band in order to keep the economy growing throughout. This increases the chances that inflation can be constrained without a large spike in foreclosures. We anticipate a further rise in arrears but the magnitude is not of the order that raises any concern. The portfolio remains capable of withstanding significant liquidity stress.

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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

The portfolio offers a yield to maturity of 6% per annum. With an average credit rating of A, no sub-investment grade exposures and a credit duration of close to 1.5 years, the likelihood of a negative quarterly return is towards the lowest end of the portfolio's history. As the portfolio has negligible interest rate duration, it has also largely avoided any impact from the heightened volatility in bond yields.

MARKET DEVELOPMENTS

Equity markets performed strongly, especially in Japan and the US. The rally in the US was concentrated into the 'magnificent 7' tech companies whilst Japanese assets were supported by ongoing ultra-loose monetary policy. Credit derivatives rallied in concert with risk markets, and optimism was also visible in the VIX which reached the lowest levels since the covid breakout. Movements in key currencies and commodities reflected the mood. The risk-on trade occurred despite a strong rise in long bond yields in western developed markets, with Australian yields rising over 40bps to surpass the 4% mark.

OTHER DEVELOPMENTS

The outlook for the US was upgraded following the release of the final GDP result for Q1. The 2.0% SAAR growth rate exceeded the expected 1.4%. It was supported by strong consumer spending, although durable goods demand and exports also contributed. Activity in the services sector remained solid, albeit manufacturing activity is declining. Labour market statistics confirmed ongoing resilience with non-farm payrolls surging well ahead of expectations. Inflation remained on a downward trajectory. Low turnover of existing housing stock has resulted in a jump start to construction. Home prices are also rising. The Fed skipped a rate hike in June, but the markets sold off on the release of the minutes which proved more hawkish than anticipated. Nonetheless, Chair Powell pointed out that forward indicators suggest that labour market will soften soon and economic risks are becoming more balanced. The debt ceiling legislation was passed early in the month.

The Australian economy grew at a more modest 0.2% (quarterly) rate for Q1. This was slightly lower than expected and the softest rate in six quarters. Household consumption was weak and the accumulating impact of higher interest rates is showing through via household savings rates which have declined to 3.7%, the lowest since Q2 2008. The labour market remains surprisingly strong with unemployment, growth in jobs, vacancies and participation rates all indicating tight conditions. Inflation readings remained elevated with the RBA's preferred trimmed mean measure of CPI printing at 6.1% for the year, although the headline rate is now 5.6%. The RBA surprised markets by raising rates another 25bps to 4.1%.

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Concern remained for the potential development of a wage-price spiral as evidence accumulates of indexing wages to inflation. The rate rise followed the announcement of robust increments to award and minimum wages by the Fair Work Commission. The RBA continues to seek to keep the economy growing whilst softening inflationary forces. Business surveys suggest the scenario is plausible. House prices rose by 1.1% in June, with CoreLogic indicating that these are now 3.4% above the February lows and 6% below their April 2022 peak. A supply response is not anticipated for some time yet. The RBA surprised markets again in July when it paused.

The ECB tightened by a further 25bps to bring the Main Refinancing Operations rate to 4%. President Lagarde indicated a July hike was 'very likely'. The ECB upgraded the inflation projection. Wages growth surprised to the upside and inflation readings for June continued to suggest that inflation remained too high. PMI indicators suggest the economy is barely growing and, following the final GDP reading for Q1 of -0.1%, the EZ is presently experiencing a technical recession. The BoE was compelled to raise rate by 50bps to 5% as inflation pressures continued to exceed expectations.

China's economic outcomes continue to underwhelm. Export performance is significantly below expectations, pointing to a sharper deceleration in the Asian economy. Retail sales and credit growth underperformed expectations. The Chinese authorities are expected to launch some form of stimulus in response. Interest rates were marginally reduced for the 7-day reverse repo and medium term lending rates. The market is uncertain about the form and magnitude of any stimulus with the concern over a low growth trajectory, creaking property market, and high youth unemployment rate being balanced off against earlier official comments committing to quality growth.

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