REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

MARCH 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 $786 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	0.31%	0.30%
3 Month	1.38%	0.80%
6 Month	2.27%	1.52%
1 Year	2.66%	2.06%
3 Year p.a	2.23%	0.78%
5 Year p.a	2.42%	0.96%
Since Inception p.a*	2.44%	0.99%

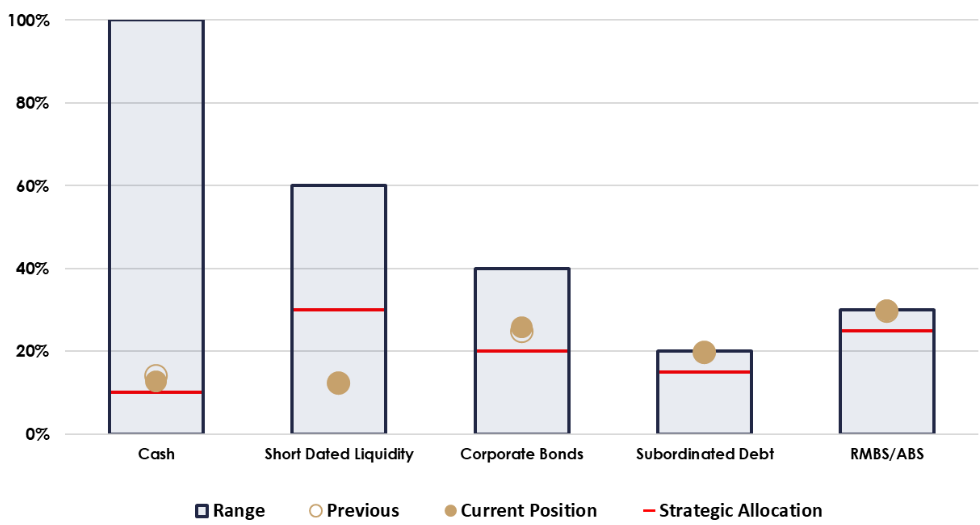
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	5.09%
Yield to Maturity	5.36%
Volatility†	0.48%
Interest rate duration	0.10
Credit duration	1.47
Average Credit Rating	A
Number of positions	205
Average position exposure	0.37%
Worst Month*	-0.26%
Best Month*	0.58%
Sharpe ratio∂	4.30

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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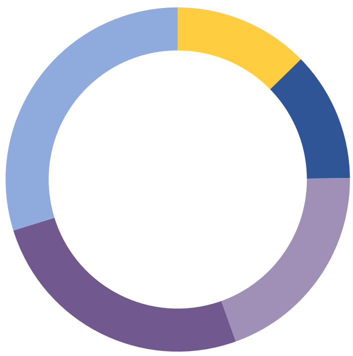
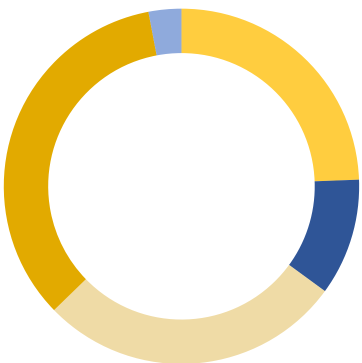
PORTFOLIO COMPOSITION



- Cash (12.69%)
- Short Dated Liquidity (12.19%)
- Sub Debt (19.65%)
- Corporate Bond (25.68%)
- RMBS & ABS (29.79%)

MATURITY PROFILE



- At Call to 6 Months (24.40%)
- 6 Months to 1 Years (10.64%)
- 1 Years to 2 Years (27.68%)
- 2 Years to 3 Years (34.29%)
- 3 Years to 3.5 Years (2.98%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 24.88% from 26.12%.

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 and loss in the fund over the month from continued bond market volatility. The strategy will, as a rule, only take modest interest rate risk.

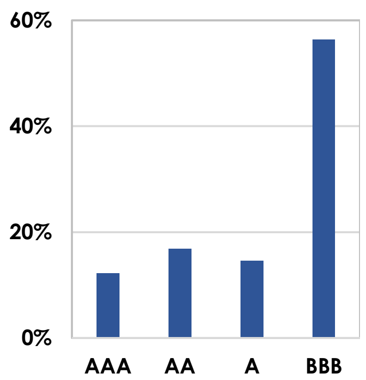
Corporate & Subordinated Debt Allocation: ↑ Increased to 45.33% from 44.34%. Optimisation within the sector was skewed towards Corporate bonds over Subordinated debt. Corporate bonds continue to present modest relative value over bank senior bonds; and this relative value increased over the month due to primary issuances. General risk-off sentiment, driven by a fall in investor confidence due to global financial stability concerns, drove credit spreads slightly wider over the month. 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 29.79%. As at month end, the portfolio held an A- average credit rating and a relatively short weighted credit duration of 1.67 years.

Public structured credit market yields remained inline over the course of the month, after having rallied substantially over the prior month. These tighter yields continue to allow lenders to issue new trades at more economic levels, which has resulted in more lenders looking to bring new trades to market over the next short period. Secondary markets remain active, with dealers using the higher volume of new primary trades to rebuild inventory sheets that had been lifted of stock as market yields tightened and market participants sought to buy last month. The primary pipeline continues to present opportunities with several new trades looking to come to market over the next month across a wide range of asset classes.

With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 3bps over the month of February to 0.93%, with nonconforming arrears weakening 8bps to 3.99%. 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%	0.15%	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/realm-short-term-income-fund/

Targeted risk across the Fund: ↑ Targeted risk increased to 0.88% from 0.82%, reflecting the increase in market volatility and optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.48%. 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 2.66% 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 month was tumultuous for debt investors. Depositors fled the US tech industry focused Silicon Valley Bank following the failure of a capital raising aimed at replenishing investment losses. The bank closed on 10 March. The adverse impact on depositor confidence contributed to the failure of Signature Bank shortly afterwards. The FDIC moved to guarantee all deposits from these entities and the Fed created a new facility to support inter-bank liquidity, partly to help absorb a significant shift from bank deposits to money market funds that followed. First Republic Bank, which also faced considerable strains, drew support from other large banks to restore confidence. Collectively, these have provided a measure of calm to the market for now. One outcome is that the Fed balance sheet has grown sharply again, unwinding more than half of the reduction since QT commenced in June 2022.

The shock to depositor confidence crossed the Atlantic. Clients withdrew significant funds from Credit Suisse, bringing its wealth management-oriented business turnaround plans to an abrupt end. Regulators compelled UBS to acquire it on the weekend of 19 March, surprising the market by entirely writing off its AT1 whilst leaving some residual value for equity holders. The nominal value of these bonds was USD 16bn, representing a material portion of the USD $270bn market. This announcement sent AT1 markets into a tailspin, although markets subsequently recovered most of the losses from this event.

Bonds rallied strongly on risk aversion and lowered expectations for the path of cash rates. Less tightening will be required if financial conditions suffer from lower bank credit supply arising from liquidity pressures, tighter lending standards and increased regulation amongst US regional banks. For example, expectations for the US peak cash rate had been close to 5.7% at one point but fell below 5% by month end. The DXY lowered along with this. Although bank share prices fell materially, the broader equity markets finished mixed with the US and Australian markets higher on the month. Option implied volatility for bonds rose strongly. In contrast, VIX fell below 20 which is towards the lower end of the post-covid period.

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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

Before the collapse of SVB, the market was focused on Fed Chair Powell's comments to the Senate that another 50bps hike might be required to control sticky measures of inflation. He also mentioned the number of job vacancies remained at a highly elevated 1.9x unemployed workers and activity in services remains robust. Ten-year bond yields topped 4% during the month, after the prices paid component of the ISM manufacturing survey surprised to the upside although it finished close to 3.5%. Manufacturing activity is declining and headline inflation is well off its peak. The Fed raised rates by 25bps later in the month in a unanimous decision despite the turmoil. Its economic projections, which accounted for the potential effects of SVB's closure on credit conditions, showed that another rate increment and no cuts are expected in 2023. This is considerably more hawkish than market pricing which expects rates to be 50bps lower by year end. According to the US Conference Board survey on consumer sentiment, the banking issues are being taken in stride at street level.

ECB President Lagarde had previously guided to a 50bps hike and the ECB delivered to this expectation, partly to show confidence in the banking sector and the policy tools available to address liquidity issues. A data-dependent setting is now in place for future decisions with the market expecting more hikes to come. Whilst QT commenced during the month, the bonds purchased as part of the pandemic emergency purchase program will continue to be reinvested until at least the end of 2024. European inflation readings remain elevated and the Services PMI shows activity in these firms remains firmly in expansionary territory.

The Swiss National Bank raised rates by 50bps despite the ructions involving Credit Suisse. The Bank of England raised rates by 25bps.

House prices in Australia rose in March. This occurred despite Westpac's consumer survey's "time to buy a dwelling" measure being at its lowest since 1989. Auction clearance rates have been rising on low volumes. Rents are rising sharply with a shortage of rental stock likely to be exacerbated in the near term by high immigration rates. Credit growth is slowing as borrowing capacity declines. Arrears rates on mortgages are rising however NAB's survey of financial hardship confirmed that it remains below levels in 2016 for now. Investor attention is focused on fixed rate mortgages which will roll to higher floating rates, much of which will occur in the coming year.

The RBA raised rates by 25bps, accompanied with dovish commentary, and paused during its April meeting. Recent Australian CPI readings have surprised to the downside. GDP for Q4 2022 also surprised to the low side with consumption adversely affected by a significant decline in real household income, which was partly offset by a reduced savings rate. The outlook for business investment remains reasonable, although confidence has fallen as evidence of a slowing economy mounts. APRA released the results of its most recent stress tests on our 10 largest banks, timely given recent developments, showing our system would cope well in an extreme scenario including a 43% fall in property prices, 11% unemployment and highly distressed funding conditions.

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China's economic recovery continued following the conclusion of its covid-zero policy setting. A new growth target of 'around 5%' was announced for this year. Residential construction surprised to the upside as sales and prices show signs of recovery. President Xi's term was extended for another 5 years and he called for a reunification with Taiwan and for China's military to be a 'Great Wall of Steel'. In a noteworthy development, China brokered an agreement to restore diplomatic relations between Iran and Saudi Arabia. President Xi also visited Russia's Putin in Moscow to re-affirm their relationship.

In addition to the delicate balance required from central bankers to slow the economy and prevent an outbreak of a wage-price spiral, the collapse of SVB means that the Fed must now also allow for the associated impact on credit supply when considering the rate path. Concerns for the health of the US shadow banking market are elevated, with greatest focus on commercial real estate loans.

Investment performance over the month was not visibly affected by developments in overseas markets. Portfolio activity was of a routine nature throughout and the portfolio structure remained similar. In any event, 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.

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