REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

MARCH 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 $1.38 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	0.70%	0.36%
3 Month	2.09%	1.06%
6 Month	3.95%	2.13%
1 Year	7.12%	4.14%
3 Year p.a	3.60%	2.09%
5 Year p.a	3.25%	1.48%
Since Inception p.a*	3.17%	1.48%

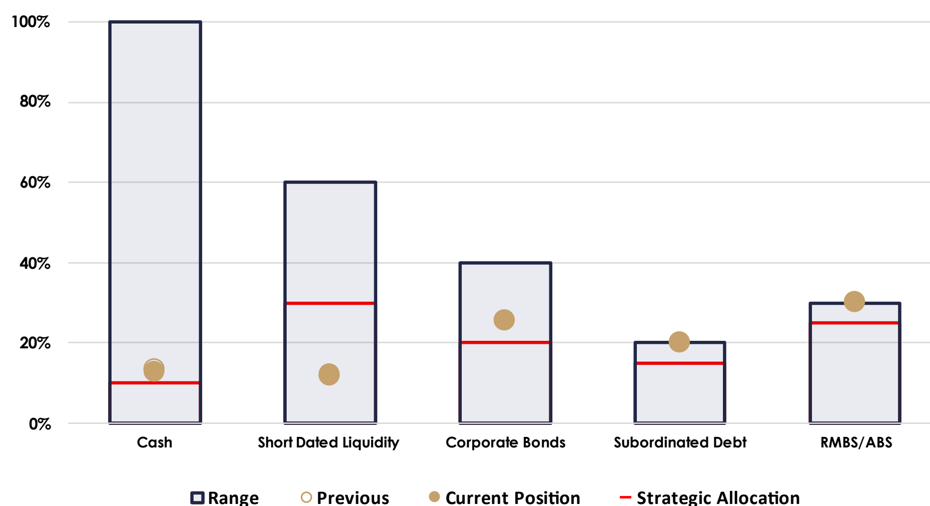
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

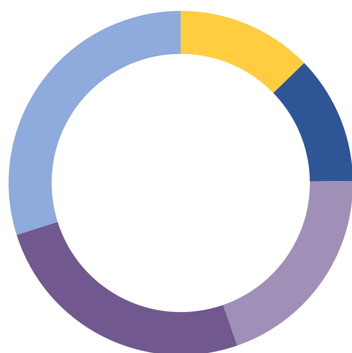
Running Yield	5.50%
Yield to Maturity	6.04%
Volatility†	0.42%
Interest rate duration	0.10
Credit duration	1.49
Average Credit Rating	A
Number of positions	332
Average position exp.	0.27%
Worst Month*	-0.26%
Best Month*	0.72%
Sharpe ratio∂	4.77

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

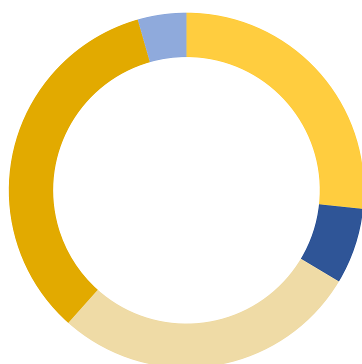


PORTFOLIO COMPOSITION



- Cash (12.72%)
- Short Dated Liquidity (12.09%)
- Sub Debt (19.87%)
- Corporate Bond (25.44%)
- RMBS & ABS (29.87%)

MATURITY PROFILE



- At Call to 6 Months (26.67%)
- 6 Months to 1 Years (6.91%)
- 1 Years to 2 Years (28.00%)
- 2 Years to 3 Years (33.99%)
- 3 Years to 3.5 Years (4.42%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased slightly from 24.79% to 24.81%.

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: → Remained steady at 45.31%. Optimisation within the corporate bond sector was skewed towards Australian issuers in AUD currency due to relative value opportunities over the month. Profits were crystallised in US financial bonds which have recently outperformed. 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 EUR and USD corporate and financial bonds continued their outperformance over AUD denominated bonds. Subordinated debt optimisation was skewed slightly towards foreign issuers. 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 decreased slightly to 29.87%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.74 years.

Structured markets continued to rally over the course of March, maintaining momentum from last month. Issuers have continued to use the tighter markets to issue new transactions and reduce their costs of funds. Dealflow remained substantial, with 9 new transactions pricing across prime, non-conforming, personal lending and Auto lending. Transactions all remain very well bid with very large oversubscription rates throughout the mezzanine (AA-B rated) tranches and clear demand for more stock amongst investors. As a result secondary markets continue to remain overbid and trade very tight relative to primary markets.

With respect to market performance, Prime arrears as reported by S&P's SPIN index for January weakened 3bps to 1.00% as is seasonally expected over the Christmas/New year period. Nonconforming arrears also weakened, increasing to 4.43%. Both results remain strong in comparison to both market expectations and historic index levels.

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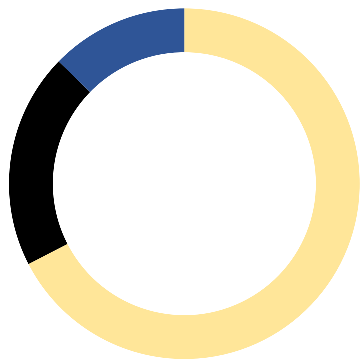
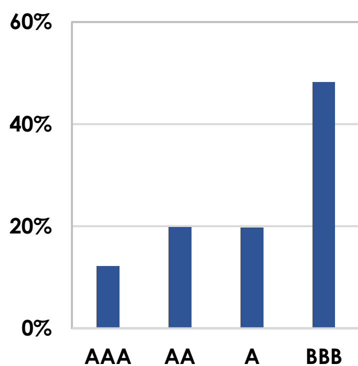
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (67.42%)
- Foreign Domicilied Issuer (19.85%)
- Cash (12.72%)

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	0.11%	0.0%	0.12%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk decreased from 0.70% to 0.67%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.42%. 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 7.12% 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 spreads tightened further over the month as key economic releases for major economies generally surprised to the upside. Whilst credit synthetics finished largely unchanged, the Bloomberg US Agg Baa Average Option-Adjusted Spread compressed by 7bps to 1.12%. This is a level usually seen during times of ebullient economic circumstances. Spreads across other markets like bank capital and structured credit also rallied.

Spreads normally vary proportionately with estimates of future hardship which is observable by the probability of recession obtained from economists. With key economies currently experiencing a trough in economic growth or expected to enter such a period, it is unsurprising that assessments of a recession in the coming 12 months are more elevated than usual. However, the current spreads in the market are trading at levels which are completely at odds with the longer-term relationship.

Part of this relates to the high all-in yields which are currently available. Since the mishap in the UK bond market in September 2022, when ex-PM Truss released a mini-budget proposal that was poorly received, all-in yields in fixed income credit have been the highest since 2009. Although interest rates on cash have risen, the desire to secure higher yields is present. This can cause less discriminate buying. Derivative pricing also suggests that central banks will step in to protect the economies in the event that growth slows suddenly, offering a firm put option under the market. One other reason is simply that markets remain in an optimistic state because economic developments have surprised to the upside for several months.

Issuance activity has had a strong start this year, but this has moderated since February in corporate debt. There is considerable activity in domestic RMBS/ABS as non-bank lenders bring their warehoused assets to the public market. Pricing is such that domestic ADIs are also issuing structured credit at higher than usual volumes. Refinancing and reset activity in CLO markets is elevated and year-to-date CLO creation is at the highest level for years. The levered market was impacted by an announcement from French telco Altice that it may impose losses on bond holders. The dispersion of spreads in the sub-IG market widened further as TMT/Healthcare exposures were re-assessed. These are at historically high levels. In contrast, spreads within the IG market are trading more closely together than average.

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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

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/

The portfolio benefited from spread compression, but still remains well placed to achieve its investment objectives on a forward-looking basis. The portfolio continues to be positioned to seek the highest expected return within a well-defined set of constraints. 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.

Exposures to foreign source of risk and foreign currency denominated bonds are helping to maintain higher forward looking returns than would otherwise have been possible.

The portfolio's prospects for delivering the target performance relative to RBA cash remains 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 remains settled at close to 20%. As Australian markets offer better value than foreign markets in key sectors at present, this is unlikely to increase in the near term.

Risks arising from higher arrears rates in structured credit remain well contained in the circumstances. Property prices continue to attain record highs at the national level which infers that any conceivable scenario for foreclosures will not remotely threaten the viability of the portfolio's exposures. Although the Australian unemployment rate is expected to climb in the coming year, this will 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. Pressure on household finances is now easing as real wages are improving. The expected interest rate cuts will also assist with credit quality later this year.

With a yield-to-maturity of 6.04% pa, the portfolio is very unlikely to experience negative performance over a six-month period.

During the month, S&P upgraded the subordinated debt of major Australian banks. Additionally, S&P released consultation documents relating to variations in their ratings approach for RMBS which, if accepted, will result in several upgrades to mezzanine notes. These are favourable developments for the portfolio.

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MARKET DEVELOPMENTS

Key western equity markets rose by 3-4% over the month. Ongoing economic surprises to the upside drove the result. Gains in the US were broadly based on this occasion. The VIX traded within a narrow range, finishing the month at 13. Bond yields rallied by around 10bps, excluding Japan where 10 year bond yields finished largely unchanged at 0.72%. New York Community Bancorp's difficulties with its CRE exposures led to a rally in Western bond markets. Strong US employment and higher than expected inflation outcomes subsequently reversed some of this. However, the release of the Fed dot plots showed that three rate cuts were still expected in 2024 which capped the rise in yields later in the month. Currencies were largely unchanged although the USD was incrementally stronger. Credit synthetics were unchanged with spreads close to the tightest level in decades.

Oil prices rose by 7% as OPEC extended production cuts and the geopolitical situation remained febrile. Copper rose 4% as manufacturing activity accelerated. US factory output growth is at a 22-month high. China also announced intentions to increase its export share of manufacturing, raising fears of subsequent overcapacity in targeted industries. Gold rose 10% on central bank accumulation attributed to China.

OTHER DEVELOPMENTS

Growth in the **US** was stronger than expected with retail expenditures for the month at +0.3%, durable goods (ex air/defence) +0.7% (consensus 0.1%) and overall personal spending at +0.8% (c +0.5%). ISM Manufacturing also surprised to the upside with the index returning to growth. Whilst ISM services disappointed, New Orders were strong. Non-Farm Payrolls produced an outlier at +275k (c 200k) although unemployment rose slightly as strong labour markets drew more participants into the workforce. The last mile of inflation normalization is proving more challenging with monthly core inflation at +0.4% (c 0.3%) and core PPI at +0.3% (c 0.2%).

The Fed's economic projections were released. Bond markets were relieved that 3 rate cuts were still anticipated in 2024 although one cut was removed for later years. However, these projections inferred greater tolerance for high inflation and projected an above trend growth rate for the next three years. This contrasts with efforts to cool the economy. Speculation arose that the Fed may raise the target inflation rate at some point, which Powell subsequently denied. Fed speak guided to a June rate cut.

Nikki Haley withdrew from the Republican nomination. The government managed to pass a package of spending measures to avoid a government shutdown. The Director of the Budget watchdog, the CBO, issued a warning that confidence in US debt might fade abruptly and produce an event like that experienced in the UK when former PM Truss released an ill-conceived budget plan.

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Australia's economic cycle is not aligned with that of the US, and is expected to have already troughed. The weak GDP result for Q4 2023 of +0.2% (c 0.3%) was driven by lacklustre household consumption. Real consumption per capita declined by a material 2.5% over the year as the savings rate recovered. Were it not for immigration, this outcome would normally occur during recessions. This produced the slowest annual growth rate in 40yrs other than during covid and the GFC. However, the outlook for household spending and financial resilience is favourable from this point.

Dwelling investment fell significantly, although business investment remained firm with public spending also elevated. Productivity rebounded as hours worked declined, but more is required to achieve outcomes that will be sufficient to meet the RBA's expectations for inflation normalisation. Business confidence and conditions were largely unchanged, pointing to expectations for further consolidation in corporate activity. Consumers remain very pessimistic, weighed down by high interest rates, housing costs and cost-of-living. Retail sales disappointed at +0.3% (c 0.4%) for the month. The PMIs indicate that economic growth is being driven by services whilst manufacturing activity continues to decline.

The labour force figures surprised to the upside (+116.5k c40k) and largely reversed the relative readings last month where a larger than usual number of people were employed but had yet to commence work. This dropped the unemployment rate by 0.3% to 3.7%. Inflation readings were well contained. Dwelling prices rose 0.6% over the month.

The RBA removed the slight tightening bias at its March meeting, where settings were otherwise unchanged. The Financial Stability Review did not raise any immediate concerns, with most households in reasonable financial condition. Australian REITs may be affected by portfolio flows should there be a CRE related crisis in the US.

Although the economy is skirting recession, **European** readings surprised to the upside on the whole. Retail sales and the PMIs beat expectations. The ZEW sentiment indicator for Germany continued the trend of improvements experienced since July. Core inflation was 2.6% for the year with the last mile of normalization proving to be sticky.

The ECB left monetary policy unchanged. The Bank Loan Survey showed that the near-term outlook for fixed capital investment is soft. The Bank of England also left policy settings in place. Progress towards inflation targets was faster than expected with the unemployment rate at 3.9% (c 3.8%) and core inflation of 3.4% for the year slightly undershooting expectations.

China held the National People's Congress which prioritized areas for economic development. President Xi's power consolidation was evident and he laid out plans to drive growth via exports. An aspirational growth target of 5% was announced.

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The data dump surprised to the upside. Industrial production, fixed asset investment, and official PMIs all exceeded expectations. The unemployment rate was 5.3%. Bank loan volumes were as expected, but bond issuance was below projections. Inflation surprised to the upside at 0.7% yoy (c 0.3%), whilst the PPI was -2.7% (c -2.5%). House prices have fallen 1.4% over the year. The PBoC left rates unchanged.

The Bank of **Japan** exited NIRP and raised short term interest rates to a range of 0-0.1%. Recent wage settlements for large companies at 5.3%, the biggest in decades, cleared the final hurdle. Yield curve control ended, but undesirable volatility will be met with intervention. Most balance sheet activity will be brought to a close, although corporate bond purchases will be tapered. The JPY reached lowest point for 34 years vs USD and this is creating speculation of a steeper path for future rate rises. Economic outcomes were disappointing with GDP Q4 at 0.1% (c 0.3%), industrial production at -0.1 (c 1.4%), and unemployment at 2.6% (c2.4%). Core and headline inflation were at 2.8% yoy.

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