REALM SHORT TERM INCOME FUND

MAY 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 $886 million
APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
Management Costs (Net of GST):
Ordinary Units – 0.3075%
mFunds Units – 0.3634%

RECOMMENDED

NET PERFORMANCE

Period	Short Term Income Fund	RBA Cash Rate Return
1 Month	0.45%	0.32%
3 Month	1.20%	0.91%
6 Month	2.78%	1.68%
1 Year	3.62%	2.65%
3 Year p.a	2.39%	0.97%
5 Year p.a	2.51%	1.03%
Since Inception p.a*	2.53%	1.07%

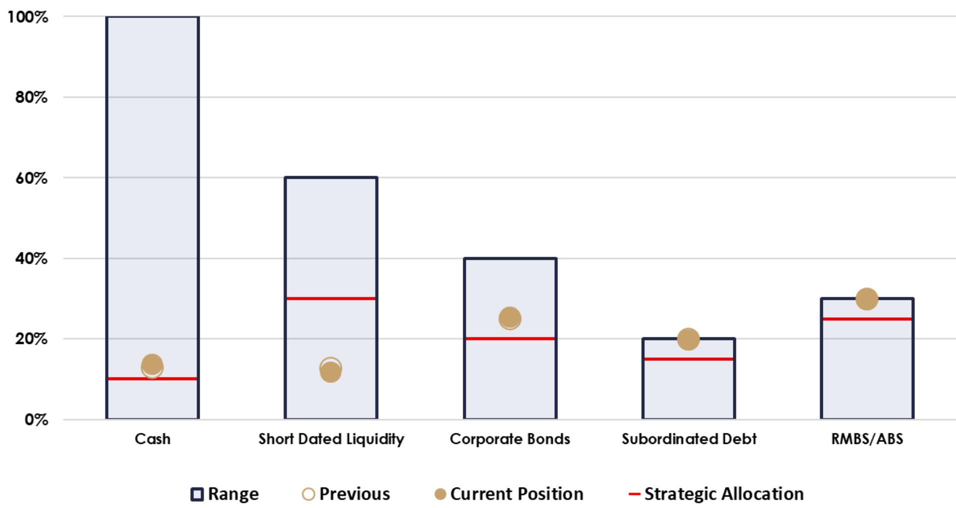
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	5.39%
Yield to Maturity	5.79%
Volatility†	0.47%
Interest rate duration	0.10
Credit duration	1.43
Average Credit Rating	A
Number of positions	236
Average position exp.	0.34%
Worst Month*	-0.26%
Best Month*	0.58%
Sharpe ratio∂	4.32

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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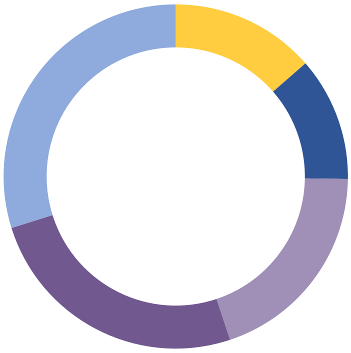
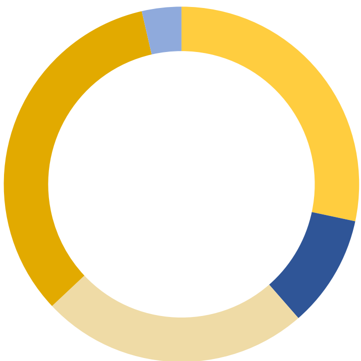
PORTFOLIO COMPOSITION



- Cash (13.58%)
- Short Dated Liquidity (11.65%)
- Sub Debt (19.66%)
- Corporate Bond (25.27%)
- RMBS & ABS (29.83%)

MATURITY PROFILE



- At Call to 6 Months (28.34%)
- 6 Months to 1 Years (10.23%)
- 1 Years to 2 Years (24.42%)
- 2 Years to 3 Years (33.42%)
- 3 Years to 3.5 Years (3.59%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 25.23% from 25.48%.

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 continued bond market volatility. The strategy will, as a rule, only take modest interest rate risk.

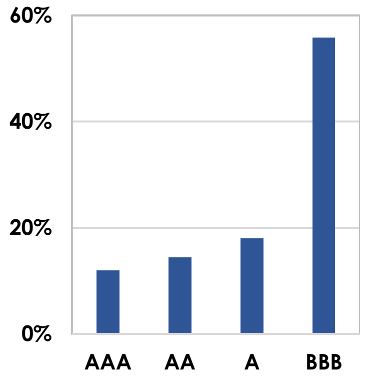
Corporate & Subordinated Debt Allocation: ↑ Increased to 44.93% from 44.76%. Optimisation within the sector was skewed towards Corporate bonds over Subordinated debt. Corporate bonds continue to present modest relative value over bank senior bonds; and this relative value increased over the month due to primary issuances. Short end Australian There was slight divergence in credit spreads over the month, with financial securities outperforming corporate bonds. 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 29.83%. As at month end, the portfolio maintained an A- average credit rating and a relatively short weighted credit duration of 1.64 years.

Public structured credit market yields began to tighten into month end, in line with other credit markets. Primary market issuance was less active in May than April, but include both a new bank transaction and regional bank transaction amongst other non-conforming programs. Secondary markets were more active over the month as investors looked away from the limited primary market supply to increase allocation to the sector.

With respect to market performance, Prime arrears as reported by S&P's SPIN index weakened 2bps over the month of March to 0.95%, with Bloomberg reporting prime arrears for April remaining inline with the prior month at 0.93%. Nonconforming arrears improved 29bps to 3.70% as reported by S&P for the March period, with Bloomberg's arrears index for nonconforming loans for April also improving 26bps to 3.01%. 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 0.85%, 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 3.62% 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

Key credit derivatives in the US and Europe were relatively unchanged, although credit rallied in Australia. Equity markets were mixed with the S&P500 marginally higher, although indices were down in Europe and the FTSE fell by 5%. Chinese equities were weaker. In contrast, Japanese equities rose following further depreciation of the Yen, positive developments on inflation and favourable export performance. The VIX closed slightly higher at 17.9, remaining close to post-Covid lows. US and Australian 10-year bond yields rose, but yields on UK Gilts jumped by nearly 50bps as inflation outcomes surprised. German Bund yields closed flat. Japanese 10-yr bond yields continue to trade below the upper end of the yield curve control band as expectations for reforms have been dampened in the immediate term. The USD strengthened with the DXY up 2.6% which contributed to weaker commodity prices. WTI fell by over 10%.

Portfolio activity continued to be focused on maximizing expected returns within portfolio constraints, including a high level of diversification. As market conditions in Australia have been substantively shielded from recent developments emanating from US regional banks, portfolio performance has been stable and trading was largely targeted at optimization activity to retain the desired aggregate settings.

The possibility of credit losses on the RMBS exposures within the portfolio has become even more remote as house prices have risen. The normalization of arrears rates presents no challenge to the credit quality of portfolio exposures. Other portfolio exposures are supported by Australia's strong financial system with non-financial exposures generally held in regulated assets or secured against quality property exposures with conservative leverage.

The portfolio offers a yield to maturity of nearly 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.

REALM INVESTMENT HOUSE

REALM INVESTMENT HOUSE CONTACTS

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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

MARKET DEVELOPMENTS

Key credit derivatives in the US and Europe were relatively unchanged, although credit rallied in Australia. Equity markets were mixed with the S&P500 marginally higher, although indices were down in Europe and the FTSE fell by 5%. Chinese equities were weaker. In contrast, Japanese equities rose following further depreciation of the Yen, positive developments on inflation and favourable export performance. The VIX closed slightly higher at 17.9, remaining close to post-Covid lows. US and Australian 10-year bond yields rose, but yields on UK Gilts jumped by nearly 50bps as inflation outcomes surprised. German Bund yields closed flat. Japanese 10-yr bond yields continue to trade below the upper end of the yield curve control band as expectations for reforms have been dampened in the immediate term. The USD strengthened with the DXY up 2.6% which contributed to weaker commodity prices. WTI fell by over 10%.

OTHER DEVELOPMENTS

In the US, core personal consumption was softer, but was more resilient than expected. Retail sales figures reflected the ongoing shift in consumption patterns from goods to services. Headline CPI benefited from the pass-through effects of lower energy prices. However, the core measure showed much less improvement with the key Core Services ex Shelter measure registering a reading that was similar to that over the prior 5 months. The Employment Cost Index surprised to the high side. Whilst the labour market remains tight, evidence pointing to a rebalancing can be inferred from vacancies and quits data both of which have retraced close to halfway towards pre-Covid levels. The implications are further confirmed by additional lead indicators like temporary help services employment, that have already declined to pre-Covid levels. PMIs indicated ongoing economic resilience.

In Australia, household consumption is slowing although considerable uncertainty remained about the effect of the stock of excess savings. RBA analysis suggested that 9% of borrowers would deplete their savings by mid-2024 even if they make extreme adjustments to non-essential spending. Signs emerged of a softening labour market with a decrease in employment reported and lower vacancies. Nonetheless, the Fair Work Commission increased award rates by 5.75% and minimum wage rates by 8.6%. The RBA has deemed it necessary to increase the likelihood that inflation returns to the target band by mid-2025 and has surprised the market by raising rates in May as well as during the June meeting, which was delivered with a hawkish tone. Consumer and business confidence point to a slower economy, with services still expanding whilst manufacturing activity is expected to decline. The GDP figures for Q1 showed that Australia's GDP per capita fell, although population growth contributed to a positive overall reading. The Federal Budget revealed a

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surplus for this year, with additional stimulatory measures to come. Weak labour productivity is contributing to concerns that inflation may be hard to contain. House prices climbed again in May, supported by lack of supply, and may contribute to stronger consumption from wealth effects.

ECB President Lagarde has warned that there is no clear evidence that underlying inflation has peaked. The flash core inflation estimate for the year to May was 5.3%. Whilst consumer confidence is well off its lows following the commencement of hostilities in Ukraine, it remains weak. This is contributing to tightening lending standards and lower loan demand. Although the GDP outlook for 2023 remains modestly positive, Europe has experienced a mild technical recession. In the UK, the inflation reading for April at 1.2% was again materially above the 0.8% consensus. BoE Governor Bailey denied that a wage-price spiral had emerged, but acknowledged stubborn core prices and a tight labour market were unhelpful for the inflation outlook.

China's economic performance since the significant easing of covid restrictions has not met with prior expectations. Industrial production, credit growth, investment and retail sales readings all fell below expectations. Official PMI figures infer that manufacturing activity is now declining, although non-manufacturing activity continues to expand. Youth unemployment rose to 20.4%. Unlike much of the world, inflation is low with an annual rate of just 0.2%. Additional stimulatory measures are anticipated. Meanwhile housing activity remains subdued as efforts to clear the backlog of uncompleted homes continue.

Headline inflation in Japan surprised to the upside at 3.5% yoy relative to an expectation of 2.5%. The core reading of 3.4% yoy met expectations. Nonetheless, economic outcomes for machinery orders, housing starts and retail sales were weaker than expected. Ongoing stimulus will be required but the form of monetary stimulus is presently under review. The bond market is focused on whether the yield curve control measures will be adjusted.

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