REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

NOVEMBER 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 $1.20 billion
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	0.56%	0.35%
3 Month	1.69%	1.02%
6 Month	3.36%	2.05%
1 Year	6.22%	3.76%
3 Year p.a	3.01%	1.62%
5 Year p.a	2.91%	1.29%
Since Inception p.a*	2.88%	1.32%

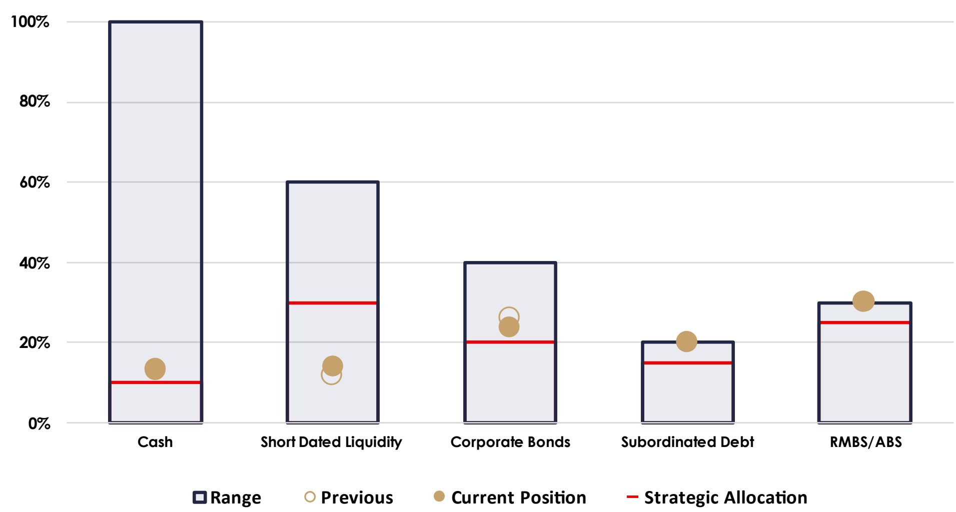
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	5.27%
Yield to Maturity	6.23%
Volatility†	0.34%
Interest rate duration	0.10
Credit duration	1.47
Average Credit Rating	A
Number of positions	299
Average position exp.	0.22%
Worst Month*	-0.26%
Best Month*	0.62%
Sharpe ratio∂	4.58

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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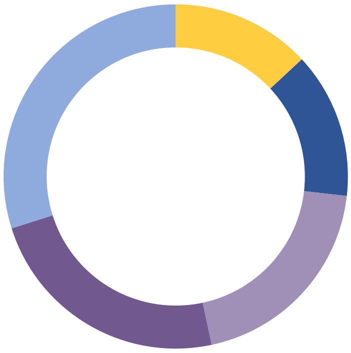
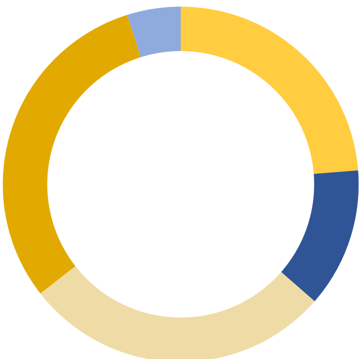
PORTFOLIO COMPOSITION



- Cash (13.08%)
- Short Dated Liquidity (13.73%)
- Sub Debt (19.85%)
- Corporate Bond (23.47%)
- RMBS & ABS (29.87%)

MATURITY PROFILE



- At Call to 6 Months (23.75%)
- 6 Months to 1 Years (12.69%)
- 1 Years to 2 Years (28.03%)
- 2 Years to 3 Years (30.68%)
- 3 Years to 3.5 Years (4.85%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased from 26.59% to 26.81%.

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 limited the realised volatility and losses in the fund from government bond volatility - a trading range of 57 basis points over the month. The strategy will, as a rule, only take modest interest rate risk.

Corporate & Subordinated Debt Allocation: ↓ Decreased from 43.5% to 43.32%. Optimisation within the corporate bond sector was even between Australian and foreign issuers but skewed towards AUD due to modest relative value. 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 as both financial and corporate bond spreads remained stable. Corporate bond volatility was relatively muted over the month of November. Subordinated debt optimisation was skewed towards USD. 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 securities remained in line with last month at 29.87%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.78 years.

Structured credit markets continued to rally over the course of November, driven by both a widespread rally in credit markets and supply constraints as dealflow is limited into year end. New transactions in primary markets remain substantially overbid, while secondary markets continue to trade very tight relative to primary markets into year end, with very limited stock remaining on dealer inventory sheets.

With respect to market performance, Prime arrears as reported by S&P's SPIN index for October remained in line at 0.92%. Nonconforming arrears also improved 16bps to 3.70%. Both results remain very strong in comparison to both market expectations and historic index levels.

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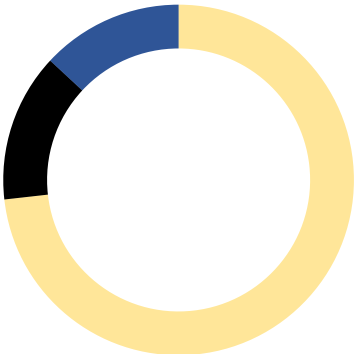
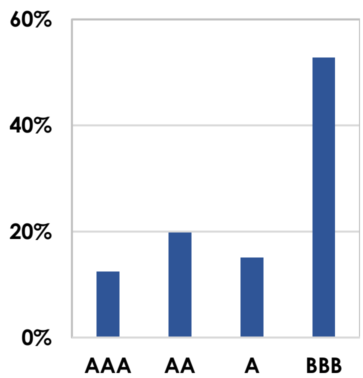
ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (73.22%)
- Foreign Domicilied Issuer (13.70%)

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%	0.13%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk decreased from 0.71% to 0.70%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.34%. 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 6.21% 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

Global investment grade spreads rallied over the month. The ICE BofA BBB US Corporate Index Option-Adjusted spread of 1.39% at month end is relatively tight by historical standards. This is unusual given the outlook for below-trend growth in the coming years and reflects a strong sense of relief that inflation now appears to be better controlled than just months ago. Central banks are also expected to cushion adverse developments. In recent decades, spreads in this market have only been sustainably lower during periods like the lead-up to the Russian financial crisis (1998), during what seemed to be the golden period of the Greenspan era (2004-2006) and in the year following the Trump election (2017) where significant stimulus was added to an economy functioning close to full capacity already.

Corporate credit markets remain captive to the projected actions of central banks which took a significant dovish turn over the month. The increased likelihood that we are at the top of this rate cycle in key markets created a strong rally. Valuations in credit are now more challenged in absolute terms, but remain reasonable when compared to equities. One clear risk to markets at present is a re-emergence of concerns relating to inflation stickiness. Another is a downside economic development, possibly through a sharp contraction in new credit creation. An alternative scenario of an ongoing rally is possible if core inflation should fall more quickly than expected without an associated economic crisis.

Structured credit markets also rallied. Part of this relates to reduced supply heading into year-end. However, we note that issuance by non-banks is increasing again as they regain market share following a period of intense competition for prime mortgages amongst the banks that has now subsided. The typical dynamic into year end sees investors seeking to re-invest paydowns from public securities into a market with next to no primary activity. This should support prices through to the new year. Arrears performance remains well behaved in the circumstances. With housing prices reaching new highs, loss exposure is presently minimal in RMBS.

Levered Loan prices continued to trade sluggishly to larger markets but also ground higher. The market is seeing balanced two-way flow amongst higher quality issuers and is benefiting from a strong CLO creation pipeline. The more dovish rate path expectation from central banks has seen a large number of issuers enter the market and stronger bidding as the deals are priced.

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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

Demand for CLOs is strongest amongst structures which are close to the commencement of the amortisation period. Top tier managers and high quality pools have outperformed. Primary issuance of mezzanine tranches has attracted more interest with the improved credit outlook and rally in loan prices. The new issuance pipeline looks strong, with the US market remaining active through to the end of the year as issuers look to benefit from the better market tone.

Bond markets rallied along with risk markets, once again demonstrating the powerful influence which monetary policy continues to exert on asset pricing. This correlated rally also reflects the ongoing outsized role of inflation expectations on market pricing at this time. Recent economic developments suggest a lower rate path can bring inflation to target levels within a reasonable timeframe.

The portfolio continues to operate within well-defined boundaries and, apart from incrementally increasing foreign exposures, was relatively unchanged. The portfolio remains postured to extract favourable carry and roll-down exposures. The traded margin above 200bps remains favorable. Along with a yield to maturity of over 6% and conservative portfolio positioning, the risk of a negative monthly return is presently very low. The portfolio remains likely to produce competitive returns against term deposit alternatives whilst providing daily access to liquidity.

Arrears rates for RMBS remain stable and recent research from the RBA indicates that overall housing credit quality remains strong. The majority of the RMBS book is held in bank issued and conforming debt. The potential for permanent losses in this segment of the portfolio remains remote.

The relatively recent addition of foreign issuers and foreign currency bonds (all hedged to AUD) has greatly improved the prospects for this portfolio.

MARKET DEVELOPMENTS

Markets displayed strong pro-risk sentiment following a softening of inflation concerns. Bond yields moved sharply downward with US 10s rallying close to 60bps. Of this, breakeven inflation fell by approximately 20bps and movements in real yield represented the balance of ~40bps. The VIX fell from 18 to 13, a level not seen since pre-Covid and low by historical standards in any case. Credit synthetics rallied. CDX IG is trading at levels which have only been lower during periods like those following the Trump led fiscal stimulus in 2017 and during the period of peak monetary stimulus in 2021. Most equity markets performed strongly with the S&P500 up nearly 9%. In contrast, the Chinese market fell. Some of the safe haven premium for the USD unwound on the increased appetite for risk. The DXY fell nearly 3%. AUD rose over 4% against USD, finishing the month at close to 66 cents. Despite the outbreak of violence in the Middle East, ongoing production cuts by OPEC, and a weaker USD, WTI fell by almost 5%.

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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/

OTHER DEVELOPMENTS

US economic activity moderated. Although the 2nd estimate for Q3 GDP came in slightly higher than expectations at 5.2% saar, retail sales (ex auto), core durable goods, housing starts and the Beige Book all pointed to slowing economic activity and a cooling labour market. Productivity surprised to the upside. Housing prices rose 6.1% over the year. The ISM PMI figures point to a rapidly declining level of manufacturing output and an ongoing level of activity in the services sector which is consistent with modest economic growth. Payroll growth materially underperformed expectations (150k vs 180k) and unemployment rose a notch to 3.9%. Hourly earnings rose by less than expected. The disinflationary impulse was supported by a core inflation reading of 0.2% during the month, slightly lower than expected. PPI figures showed a similar pattern.

The Fed held rates still in the November and December meetings. They note that lower demand for loans and increased lending standards will contribute to a slowing economy. The banking system is considered to be resilient. The updated Statement of Economic Projections released with the December meeting surprised the market with expectations for 3 rate cuts in 2024.

The US political situation is threatening the supply of additional funding to support the effort in Ukraine. President Biden's meeting with Chinese President Xi resulted in a restoration of direct contact between the armed forces and an agreement for China to curb the production of key ingredients for the formulation of fentanyl.

The Australian economy also slowed. The manufacturing and services PMIs all point to an economy which is contracting quite rapidly. The NAB Business Confidence index moved into negative territory again and the related survey results revealed softer inflation outcomes. These were supported by a monthly inflation reading which, at 4.9% yoy, was lower than the expected 5.2%. Wages rose a relatively modest 1.3% qoq in Q3. Retail spending remained robust in nominal terms but the Westpac Consumer Confidence index fell over the month and remained in deeply pessimistic territory. With job advertisements falling and job creation arising largely via part-time positions, the outlook for wages suggests services inflation will be contained.

The RBA raised rates in November, by 0.25% to 4.35%, as it became uncomfortable with the projected time required to return inflation to the target band. Productivity remains a key uncertainty and needs to rise back to recent trends for current wage growth rates to be consistent with target inflation. The RBA kept rates unchanged in December but retained their data-dependent posture. Markets envisage that the RBA has completed its hikes for this cycle. The RBA points out that, whilst mortgage interest payments have increased, most households remain in sound financial condition. The total debt servicing burden is lower than the prior peak due to a lower level of personal debt outstanding.

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Economic statistics from China were generally strong. Loan growth, retail sales and industrial production were all higher than expected. GDP for Q3 was reported at 4.9% yoy, comfortably ahead of expectations of 4.4%. These readings were somewhat at odds with official PMI figures suggesting the economy is hardly growing. Ongoing difficulties in the property sector continue to adversely affect investor confidence. Property investment is 9.1% lower on the year (YTD). Foreign direct investment is also 9.4% lower yoy (YTD). A fiscal stimulus of 0.8% of GDP was announced for disaster relief and infrastructure, which contributed to the ongoing strength in iron ore prices. The PBoC left prime rates unchanged. Moody's downgraded the outlook for China's sovereign debt to A1(neg) citing the likelihood of support required for local and regional governments, as well as for state-owned enterprises.

Europe is slowing. Retail sales and industrial production all fell by more than expected. The PMIs suggest the economy is contracting. Unemployment was higher than expected at 6.5%. Given these outcomes, it was consistent for core inflation to undershoot expectations (3.6% yoy vs 3.9% expected). The ECB did not meet in November but kept rates unchanged in December. It intends to slowly wind down the pandemic emergency purchase program from H2 2024. Although the market is pricing peak cash rates for this cycle, President Lagarde would not be drawn on the timing for potential rate cuts. The BoE kept rates unchanged in November and December although the bias amongst the decision makers was for higher rates.

The German Constitutional Court has ruled that certain fiscal initiatives outside of the official budget, relating to climate change spending and industry support, are not legal and should be subject to existing limits. Approximately EUR 60bn of proposed expenditure is now uncertain. Similarly to the US, Europe's funding commitment to Ukraine is becoming more unclear. Hungary recently blocked a EUR50bn funding package, but removed itself from discussions about accession.

Speculation continues to surround decisions relating to the BoJ ending its negative interest rate policy and abandoning its efforts to directly influence the trading band of the key 10 year rate. Moves in that direction were set back slightly with a core inflation reading of 2.9% yoy, marginally below expectations of 3%. PPI was -0.4% MoM suggesting limited inflationary pressure in the production pipeline.

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