REALM SHORT TERM INCOME FUND

NOVEMBER 2022

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 $683 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	0.34%	0.23%
3 Month	0.59%	0.63%
1 Year	0.80%	1.02%
2 Year p.a	1.44%	0.56%
3 Year p.a	1.82%	0.50%
4 Year p.a	2.10%	0.68%
Since Inception p.a*	2.22%	0.84%

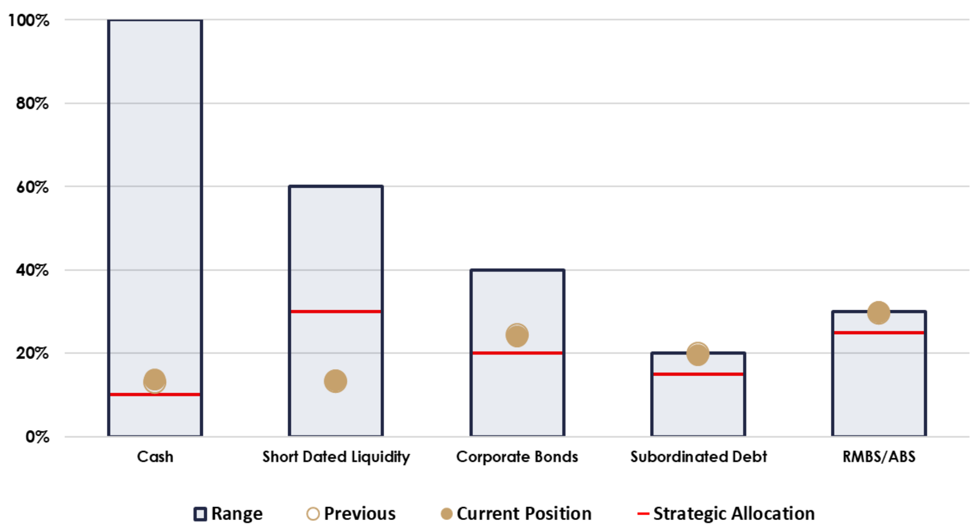
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	4.41%
Yield to Maturity	5.06%
Volatility†	0.48%
Interest rate duration	0.10
Credit duration	1.50
Average Credit Rating	A
Number of positions	185
Average position exposure	0.40%
Worst Month*	-0.26%
Best Month*	0.37%
Sharpe ratio∂	4.20

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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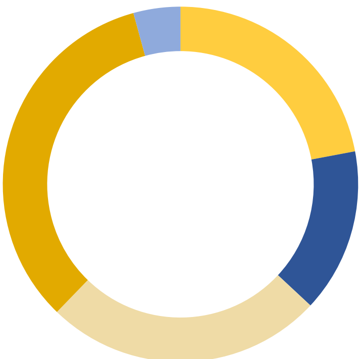
PORTFOLIO COMPOSITION

- Cash (13.49%)
- Short Dated Liquidity (13.33%)
- Sub Debt (19.51%)
- Corporate Bond (23.92%)
- RMBS & ABS (29.75%)

MATURITY PROFILE



- At Call to 6 Months (22.02%)
- 6 Months to 1 Years (14.92%)
- 1 Years to 2 Years (25.29%)
- 2 Years to 3 Years (33.49%)
- 3 Years to 3.5 Years (4.27%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 26.82% from 26.24%.

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 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: ↓ Decreased to 43.43% from 44.18%. Optimisation within the sector was skewed towards Corporate bonds and Subordinated debt. Corporate bonds continue to present modest relative value over bank senior bonds; however, this value is eroding as bank senior bonds are repricing wider. Over the month, short dated corporate bonds rallied slightly driven by a decrease in swap spreads, while bank senior bonds rallied modestly. 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 29.75%. As at month end, the portfolio held an A- average credit rating and a relatively short weighted credit duration of 1.90 years.

Public structured credit markets continue to trade in line with last month, lagging the tightening experienced by other credit markets, making structured credit attractive on a relative value basis. New supply remains fairly limited in comparison to historical levels with only a small handful of new trades coming to market prior to year-end, with Issuers continuing to opt to increase private funding capacity than issue into public market volatility. Secondary markets on the other hand remain highly active, with offshore demand returning to bid on assets, after having been stronger sellers in October.

With respect to market performance, Prime arrears as reported by S&P's SPIN index improved over the month of September to 0.58%, with nonconforming arrears weakening to 2.24%. Both results remain very strong in comparison to both market expectations and historic index levels.

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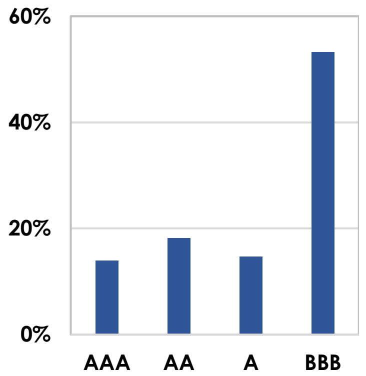
CREDIT QUALITY



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%	0.18%	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

Targeted risk across the Fund: → Targeted risk decreased to 0.78% from 0.82%, reflecting the decrease in market volatility and optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.48%. This has risen over the month 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 0.80% 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

Markets were firmer over the month as the medium term economic outlook improved and expected rate paths lowered. Equity markets climbed with China/HK markets performing particularly strongly. The VIX declined significantly and bonds also rallied as expectations for a pivot in the Fed's cash path became more entrenched. As risk aversion waned, the USD weakened. The AUD closed the month at 0.67 having touched a low of 0.62. Energy prices declined, whist industrial metals strengthened. Global credit markets rallied, with US investment grade and European markets being especially notable. Australian markets rallied less, partly due to the paucity of Japanese investors who now strongly favour domestic assets. The high yield market fared less well as investors awaited more clarity on peak cash rates.

Australian consumer confidence fell to levels last seen in the recession of the early 1990s. Business confidence also fell to below average levels, although current conditions remain favourable. PMIs are well into contractionary territory for services and manufacturing. Housing prices continued to fall as lending volume was constrained by lower borrowing capacity. Equifax noted a rise in distress levels amongst mortgagees but banks are moving proactively to accommodate them via movement to interest-only schedules or payment deferrals. The unemployment rate is the lowest since 1974 and wage growth surprised to the upside. The RBA opted for a 25bps increment in the cash rate despite raising the inflation profile with Governor Lowe indicating that risks have become more two-sided. The RBA now expects that inflation will not return to the target band by end 2024 although the most recent monthly CPI figure surprised materially to the downside. The RBA's task has been complicated by plans from the government to introduce energy subsidies, which are stimulatory, and the passing of new industrial relations legislation which permits multi-employer bargaining. This increases the upside pressure on wage growth which is already accelerating.

APRA released an announcement to emphasize its expectations relating to callable instruments. This led the market to re-assess extension risks, especially in Subordinated Tier 2 securities. APRA also stated that Australian banks are well placed to withstand the financial risks associated with global warming.

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

A: LEVEL 17, 500 Collins street
Melbourne VIC 3000

PLATFORM AVAILABILITY

- Australian Money Market
- AMP North
- BT Panorama
- eXpand
- Firstwrap
- Hub24
- Macquarie Wrap
- MLC Navigator/Wrap
- Netwealth
- Powerwrap
- Praemium
- Rhythm
- mFund code: RLM02

US Mid-term elections produced a divided Congress which will slow legislative process. The Republicans have expressed less willingness to supply arms and munitions to Ukraine. The Democrats held the Senate by a slim majority, defying expectations. Fed-speak was focused on recognizing that the incremental steps in rate tightening will shortly be wound back to 50bps. Ongoing conditioning that the peak rate might be higher than market pricing and need to be held for some time were largely ignored. There are emerging signs that the labour market may be rebalancing with continuing claims data indicating increasing difficulty securing a job. Whilst household expenditure remains robust, excess savings are being rapidly depleted. Inflation expectations remain well anchored. Economic surveys infer a 60% risk of recession in 2023.

Europe’s resilience in the face of an energy crisis has been impressive. With gas storages largely filled, dire warnings of a severe recession have receded. As supply chains continue to adapt, German factories reported the first reduction in supplier times since July 2020. Europe still faces a challenge to refill storages sufficiently to see themselves through the 2023/24 winter. Headline inflation is declining. The ECB will continue to tighten rates, possibly by smaller 50bps steps, and is expected to commence reducing its balance sheet in early 2023. Overall, European credit rallied as the outlook for 2023 improved. European based buyers of structured credit also re-emerged after a hiatus.

The high level of uncertainty in the outlook has produced divergent circumstances. In contrast to the Fed which is suggesting peak rates will be higher than market pricing, Bank of England Governor Bailey warned that market pricing for the rate path had risen too far and would imply a recessionary outcome through to H1 2024. Also, the RBNZ lifted the OCR by 75bps to 4.25% but also sharply revised its estimate of the peak rate from 4.1% in its August Monetary Statement to 5.5% in the November release. This highlights how much expectations can change in such volatile circumstances.

China’s economic performance has been hampered by ongoing outbreaks which continued to be met with a zero-covid policy stance. Key economic activity figures released in November underperformed what were already low expectations. However, Chinese authorities took additional measures to support the ailing property market by providing window guidance to banks directing them to fund credit worthy developers and ensure that unfinished inventory is developed to completion. Additionally, measures were announced which aimed to ease the restrictions associated with managing covid. Markets responded favourably. China’s relatively low vaccination rates amongst the elderly and weaker vaccine performance implies that a surge of hospitalisations and deaths can be expected in the near term. This may hamper economic performance. China has also taken a more conciliatory stance during the G20 meeting in Bali.

Whilst the fallout from the collapse of cryptocurrency exchange FTX did not perturb more traditional financial markets, the liquidity of US Treasuries continues to be somewhat impaired and this is contributing to a heightened liquidity premium.

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Surveys of fund managers suggest that credit markets are perceived to be cheap for those with a medium-term investment horizon. However, investors are unsure about how sticky core services inflation will prove to be and this is creating uncertainty about an appropriate amount of risk bearing to undertake at this point. One contributor to the uncertainty is an understanding of how resilient household consumption will prove to be. Another is how wage growth will respond to labour market conditions. Estimation is difficult as there is no recent experience to draw from and the economic models have struggled. This is before we consider the potential path of the Ukranian conflict and the outlook for China following the release of several initiatives to stimulate the economy. Nonetheless, Fund manager positioning is extremely bearish. Whilst economic forecasts have a fraught record, fund manager positioning of this magnitude of bearishness does correlate to superior subsequent performance.

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. Whilst spreads could continue to widen from here in the near term, the high yield to maturity now available reduces the chances of a negative return being recorded. We are closely examining our risk exposure to subordinated debt following APRA's clarification of its expectations on calls.

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