REALM SHORT TERM INCOME FUND

OCTOBER 2024

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 $2.30 billion

APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU

Management Costs (Net of GST):
Ordinary Units – 0.3075%
mFunds Units – 0.3634%

Zenith RECOMMENDED

5 Highly Recommended Lonsec Research

NET PERFORMANCE

Period	Short Term Income Fund	RBA Cash Rate Return
1 Month	0.57%	0.36%
3 Month	1.64%	1.09%
6 Month	3.28%	2.16%
1 Year	7.24%	4.35%
3 Year p.a	4.53%	2.92%
5 Year p.a	3.68%	1.85%
Since Inception p.a*	3.46%	1.72%

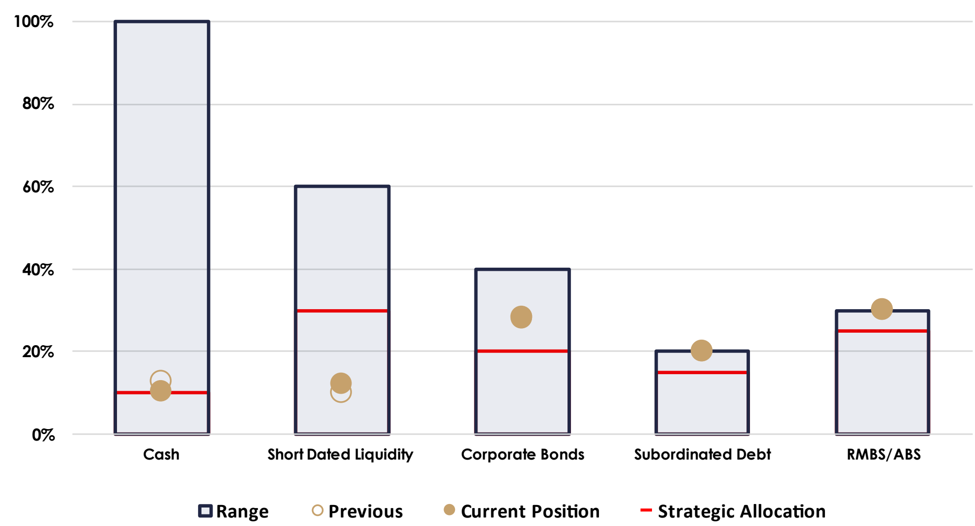
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	5.53%
Yield to Maturity	5.74%
Volatility†	0.44%
Interest rate duration	0.11
Credit duration	1.50
Average Credit Rating	A
Number of positions	451
Average position exp.	0.15%
Worst Month*	-0.26%
Best Month*	0.72%
Sharpe ratio∂	4.90

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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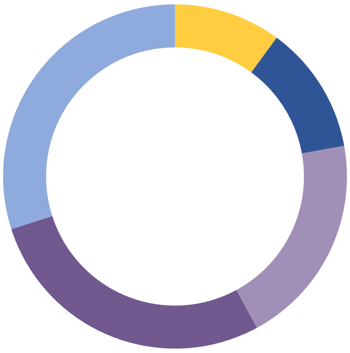
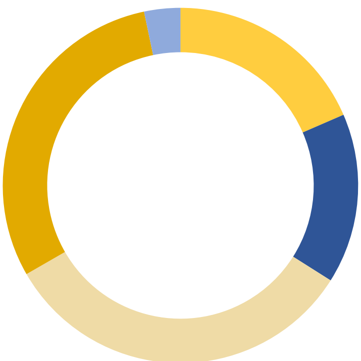
PORTFOLIO COMPOSITION



- Cash (10.07%)
- Short Dated Liquidity (12.08%)
- Sub Debt (19.95%)
- Corporate Bond (27.95%)
- RMBS & ABS (29.95%)

CREDIT DURATION PROFILE



- At Call to 6 Months (18.49%)
- 6 Months to 1 Years (15.49%)
- 1 Years to 2 Years (32.71%)
- 2 Years to 3 Years (30.03%)
- 3 Years to 3.5 Years (3.29%)

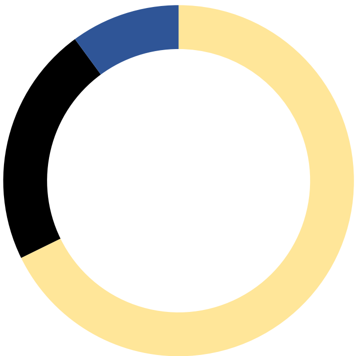
FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased from 22.57 % to 22.15%.

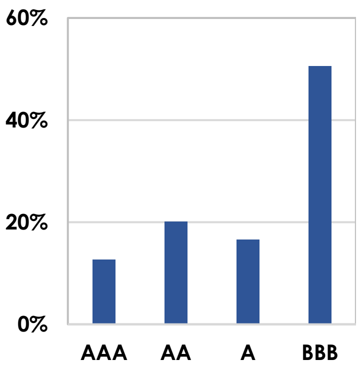
Interest Rate Duration Position: → 0.11 years. The strategy will maintain interest rate duration of approximately 3 months as an average. Having a low IRD number limits the realised volatility and losses in the fund from government bond volatility - a key feature of the Realm Short Term Income Fund. The 3Y Aus government bond yield ended the month 55bps higher, and with a relatively volatile trading range of 64bps. The strategy will, as a rule, only take modest interest rate risk.

Corporate & Subordinated Debt Allocation: ↑ Increased from 47.63% to 47.90%. Optimisation within the corporate bond sector was skewed towards foreign issuers in AUD currency due to relative value opportunities over the month and primary issuances. 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. However, investments were tilted towards financial paper than corporate bonds due to pockets of opportunity in the market. Credit sub-sectors rallied over the month of October with a slight outperformance from AUD corporate bonds. Credit was well supported due to ongoing investor demand and a healthy global economic backdrop. Subordinated debt optimisation was slightly skewed towards global issuers in major currencies. The short, conservative nature of the sector and diversification aided in cushioning any intra-month market volatility.

ISSUER DOMICILE



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%	0.00%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%

Residential Mortgage-Backed Securities (RMBS) & ABS: → Allocation to structured credit remained steady at 29.95%. 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 rallied further over the month of October with a substantial amount of new transactions continuing to flood market, as issuers use tight credit spreads to issue transactions more economically. New transaction flow continues to be issued over a wide array of subsectors within the securitised market, including major and regional bank issuance, prime and non-conforming non-banks, and personal lending programs. Credit spreads tightened in the mezzanine (A-BBB) and junior mezzanine (Sub investment grade) tranches of the capital structure, with senior margins remaining stable over the month but wide in comparison to historic averages. Secondary market volumes continue to remain very weak as investors elect to hold stock instead of selling to the market and risk not being able to pick up more stock to fill the position.

With respect to market performance, Prime arrears as reported by S&P's SPIN index for September weakened 1bps to 0.90%. Nonconforming arrears improved 24bps to 4.01%. Arrears on auto loans as reported by S&P improved 4bps to 1.31%. All results remain strong in comparison to both market expectations and historic index levels.

Targeted risk across the Fund: → Targeted risk remained steady at 0.69%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.44%. This has remained stable over the short term due to consistent mark to market valuations. The portfolio remains defensively positioned although despite this, the fund has performed relatively well over the last 12 months, delivering 7.23% 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.

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PLATFORM AVAILABILITY

- Australian Money Market
- AMP North
- BT Panorama
- CFS Edge
- Expand
- 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/

FUND OUTLOOK

The Fund achieved a return of 0.56% which exceeded the 0.36% from RBA Cash. The portfolio is designed to be robust in most credit environments and this has been demonstrated again in the most recent period as government bond yields rose significantly.

The portfolio's settings were little changed over the month and retains overweights to structured, subordinated and corporate debt as it targets the highest forecast returns achievable within the established parameters. Exposures to foreign issuers are most prominent in the subordinated debt sector.

As RBA cash rates are unlikely to be cut in the near term, and relatively few cuts are presently expected in this easing cycle, the likelihood of recording a negative return over the next six months is remote. Despite tight spreads on offer by the market, which will make it more challenging to achieve medium term targets, the Fund's performance is expected to be assisted by optimal roll-down positioning. Additionally, profit generation is also expected to arise from trading which is driven by our relative value process.

KEY MARKET DEVELOPMENTS

Bond yields rose significantly over the month [Aust 10yr +0.53 to 4.50, US 10yr +0.50 to 4.29]. There were several drivers. Whilst polls suggested the outcome of the US Presidential election was a statistical tie, markets moved to price in a Trump victory as the end of the month approached. Inflation expectations climbed, as did risk compensation. Data releases suggested the US economy remains robust. Further, although the Middle East conflict grew to include direct action in Lebanon and a significant missile exchange with Iran, concerns about a major escalation were contained and safe-haven demand eased. For a time, the first budget of UK Chancellor Reeves created nervousness as it swept away an opportunity for fiscal consolidation in favour of a greater role for the State and increased borrowing.

The Chinese stock exchange fell [CSI 300 -3.2%] as markets were disappointed at the lack of official announcements relating to direct fiscal support for the economy. The market had rallied 21% in September when stimulus was announced in something of an emergency. However, the various monetary measures released during the month were seen as insufficient. Fiscal announcements may have been withheld pending the outcome of the US elections and greater clarity on tariffs.

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Gold rallied 5.5% as US interest rate cuts are forthcoming. Along with a strong rally in Bitcoin, these moves could also have been driven by expectations for a Trump victory.

The VIX index rose to reflect the expansion of conflict in the Middle East and the approaching US elections.

CREDIT MARKET DEVELOPMENTS

The Bloomberg US Corporate Baa-rated Option Adjusted Spread closed the month another 7bps tighter at 1.01%. Confidence grew that a recession will be avoided due, in part, to a commitment from the Fed to defend the economy from an unwelcome contraction. Fed speakers were increasingly confident that inflation will be tamed and felt that risks to employment and inflation were roughly balanced. Spreads may also have compressed as rising total yields (government bond yields rose) made investors less discerning about pricing for credit risks.

The narrowing of spreads occurred across all key markets despite very high levels of issuance. As left tail economic risks have diminished in the minds of investors, the dispersion of spreads in the HY market narrowed further. The spreads on offer are very tight by historical standards. Few pockets of the market could be regarded as offering fair value for risk without heroic assumptions for productivity or an over-inflated belief in the precision of economic forecasts for idyllic outcomes in late 2025.

President-elect Trump takes office in January and his nominees for cabinet positions suggest that we will be in for some strong policy shifts. Whilst the Senate is not filibuster-proof, and the House is held by a narrow majority, a Red Sweep has occurred. Although central banks have committed to defend the economy against unwanted shocks to demand, they have little power to manage the effect of supply shocks. Lifting tariffs and mass deportations of a significant fraction of a labour force are supply shocks. Many other risks exist to the global economy as well.

We believe that spreads will be wider a year from now.

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ECONOMIC DEVELOPMENTS

As the path towards normalization of official interest rates is underway, albeit not yet in Australia, attention has turned to where the nominal neutral rate is. For key Western markets, the consensus is that the neutral level is now higher than it was prior to covid. Notably, the RBA believes this may be as high as ~3.5% in Australia, which infers only 3-4 cuts may be forthcoming for this cycle.

Developments in major economies:

United States: The economy continues to remain robust. Although manufacturing activity is in a lull, the larger services component remains in strong expansion [ISM Services PMI (Oct) 56 prior 54.9 expected 53.8] and household consumption exceeded expectations [Retail Sales MoM (ex Auto) (Sep) 0.5 p0.2 e0.1, Personal Spending MoM (Sep) 0.5 p0.3 e0.4]. The labour market grew strongly [NFP (Sep) 245k p150k e140k]. Expectations for cuts to the Fed cash rate were pared back.

China: Economic growth is falling short of official targets [GDP Q3 YoY 4.6 p4.7 e4.5] as excesses in the property market and the debt burden of local governments hamper the economy. Efforts to create growth via exports is creating a glut in some industries and hurting profitability. PMI readings suggest there has been no immediate recovery in activity [NBS Manu (Oct) 50.1 p49.8 e50.0, NBS Non-Manu (Oct) 50.2 p50.0 e50.4]. Interest rates were lowered to support the economy [Loan Prime Rates -0.25]. However, sentiment in property continues to be weak [House price Index YoY (Sep) -5.7 p-5.3]. Foreign capital remains scarce [FDI(YTD) YoY (Sep) -30.4 p-31.5].

Australia: The economy is strengthening as hoped with the NAB Business Survey reporting current conditions have returned to normal levels [NAB Current 7 p4]. Consumer confidence is improving off low levels as cost-of-living pressures ease and the RBA is expected to lower interest rates [Westpac ConsConf 89.8 p84.6]. However, the labour market remains tight [U/e 4.1 p4.1 e4.2] and more workers are being drawn in [Participation Rate 67.2 p67.1 e67.1]. Inflation appears stickier than expected [Trimmed Mean CPI QoQ (Q3) 0.8 p0.9 e0.7]. Expectations for a rate cut were pushed well into 2025.

Europe/UK: The market is looking for a shallow economic recovery whilst inflation recedes despite historically low unemployment rates. Whilst the services sector is improving [Services PMI (Oct) 51.6 p51.4 e51.2], the manufacturing sector is suffering along with the global slump [Manu PMI (Oct) 46 p45 e45.9], with autos faring badly due to strong competition from China.

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The ECB cut the deposit rate by 0.25% to 3.25%. The overall outlook is supported by the latest survey of bank officers which suggests that credit standards are no longer tightening and loan demand is increasing. Unemployment in the UK fell [u/e (Aug) 4 p4.1 e4].

Japan: Economic management remains focused on retaining gains on inflation and trying to stop this from falling below its 2%pa target. However, the economy is not performing as well as hoped. Household spending is weaker than expected [Retail sales YoY (Sep) 0.5 p3.1 e2.3]. Business output suggests a moribund economy [Manu PMI (Oct) 49.2 p49.7 e49, Services PMI (Oct) 49.7 p53.1 e49.3]. Yet the demographic challenges of an ageing workforce can be found in very tight labour markets [U/e (Sep) 2.4 p2.5 e2.5]. The BoJ elected to keep rates on hold. The Ishiba government is now a minority following a snap election.

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