REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

OCTOBER 2022

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 $681 million
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	0.05%	0.22%
3 Month	0.62%	0.55%
1 Year	0.47%	0.80%
2 Year p.a	1.40%	0.45%
3 Year p.a	1.77%	0.44%
4 Year p.a	2.06%	0.66%
Since Inception p.a*	2.19%	0.80%

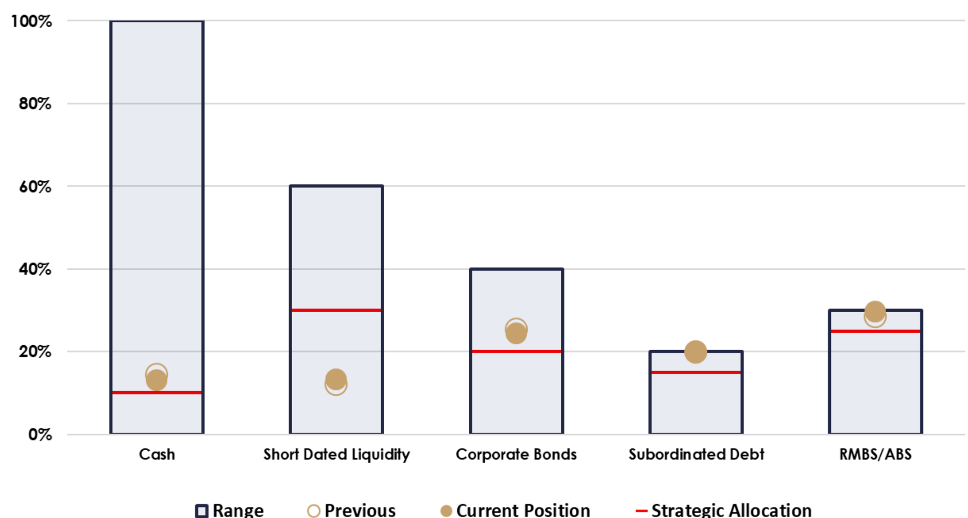
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	4.25%
Yield to Maturity	4.92%
Volatility†	0.48%
Interest rate duration	0.09
Credit duration	1.49
Average Credit Rating	A
Number of positions	190
Average position exposure	0.38%
Worst Month*	-0.26%
Best Month*	0.37%
Sharpe ratio∂	4.23

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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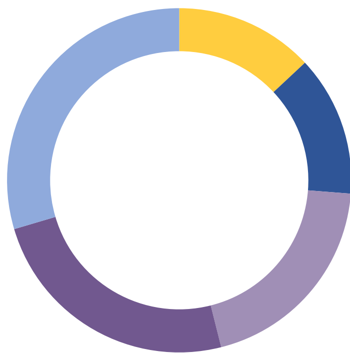
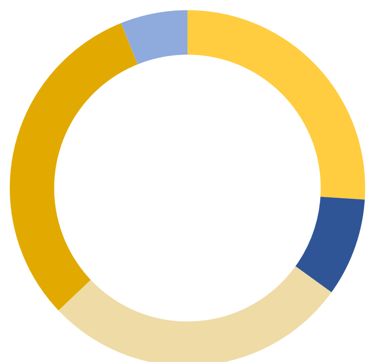
PORTFOLIO COMPOSITION



- Cash (13.03%)
- Short Dated Liquidity (13.21%)
- Sub Debt (19.84%)
- Corporate Bond (24.34%)
- RMBS & ABS (29.58%)

MATURITY PROFILE



- At Call to 6 Months (26.03%)
- 6 Months to 1 Years (8.93%)
- 1 Years to 2 Years (27.96%)
- 2 Years to 3 Years (30.97%)
- 3 Years to 3.5 Years (6.10%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 26.24% from 24.35%.

Interest Rate Duration Position: → 0.09 years. The strategy will maintain interest rate duration of approximately 3 months as an average. Having a low IRD number has limited the losses of 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 44.18% from 45.80%. Additions within the sector were balanced across 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 sold off modestly driven by an increase in swap spreads, while bank senior bonds sold off slightly. 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 29.58%. As at month end, the portfolio held an A- average credit rating and a relatively short weighted credit duration of 1.88 years.

Public structured credit markets traded relatively flat over the month, with new supply remaining limited as credit spreads remained wide. Issuers continue to opt to increase private funding capacity rather than issue into the public market volatility. Secondary markets remain active with offshore investors continuing to probe markets for liquidity, particularly from higher quality assets within the senior parts of the capital structure (AAA rated). Middle mezzanine markets (A/BBB rated) remain wide in comparison to historic yields, and continue to display good relative value against other market sectors.

Market performance in RMBS markets continues to be strong, with average prime arrears levels (SPIN) as reported by S&P improving in August by a further 4 basis points to 0.59%, the lowest level recorded by the index. Non-conforming arrears weakened slightly over the month to 2.07%, remaining below the June data print and very strong relative to historic data prints.

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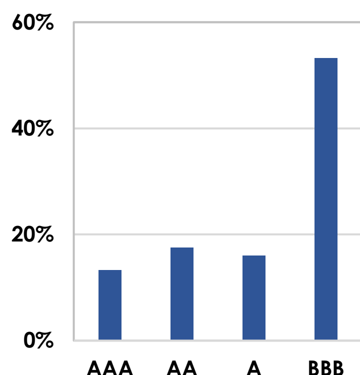
CREDIT QUALITY



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 increased to 0.82% from 0.79%, reflecting the increase 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 0.47% 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 recovered some of their poise following the market dislocation associated with the failed Trussonomics experiment. Equities generally finished firmer, although the HK and Chinese markets did not respond well to the confirmation that the Chinese Communist Party had appointed President Xi to a 3rd term. The composition of his Standing Committee suggested a strong ongoing commitment to zero-covid strategies and his common prosperity agenda.

Whilst the US reporting season has produced some earnings downgrades, these have not been as much as feared in aggregate. The VIX declined, albeit after a solid jump mid-month as the US CPI proved much stronger than expected. The USD soared and this sent the AUD towards 62 cents, a level last seen during the acute phase of the covid affected markets of 2020.

The RBA somewhat surprised the market by deciding to raise rates by 25bps instead of by the 50bps step it had taken in four prior meetings, electing to take a more patient approach. This contributed to Australian bonds outperforming the US. At a time when bad economic news produces favourable market reactions, the outperformance of Australian bonds was further assisted when the flash PMI readings suggested that the global economy had cooled at a surprisingly quick rate. This view gained further traction when the US Q3 GDP figures were released and showed domestic activity had softened. A surprisingly high CPI print in Australia did not disturb the Australian bond market, nor did a weak employment outcome. The Chalmers Federal Budget was received without much disruption.

Whilst credit markets initially benefited from some return to normalcy in the UK, the combination of increased concerns for financial stability and market liquidity this created, together with the shock of another strong US CPI outcome, meant spreads generally widened over the month. Australian credit underperformed as the supply of bank debt weighed. Ongoing selling which was related to margin calls for the UK market dislocation also contributed, although these were reasonably well absorbed.

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

Australian housing prices continue to weaken as borrowing capacity is increasingly constrained. However, with employment levels so elevated, and the RBA's and Treasury's forecasts for Australia to avoid recession, impairment experience is expected to be very modest when it emerges. Nonetheless, CLO spreads have widened as the outlook for levered loans is more tenuous and this brought Australian structured spreads wider.

The market dislocation in the UK brought financial stability concerns to the fore. Market conditions had already shown signs of skittishness as liquidity conditions deteriorated, partly due to the run-off of some central bank balance sheets, and partly due to a deteriorating economic outlook. This contributed to fund manager positioning which is amongst the most bearish in their history and dealer inventory being heavily de-risked. For example, the cash holdings of equity funds are at 20-year highs which is materially at odds with economic estimates inferring a shallow recession in 2023 for some countries.

For its part, the RBA believes that the economy can be slowed without causing financial instability or a recession. However, whereas once central banks saw no trade-off between controlling inflation and long-term economic growth potential, they now more openly discuss a trade-off emerging with financial stability. Indeed, as the month ended, some Fed officials broke with a long period of single-minded hawkish conditioning of market and spoke of the need to consider such risks. Whilst the successful formation of a new government in Italy contributed to a narrowing of the premium paid to Bunds, fragmentation risks are never far from the mind of the ECB either.

Evidence is now emerging that labour markets are softening. Vacancies in the US are declining. Australian employment grew by only 900 people in September. Inflation expectations remained well anchored which augurs well for containing wage growth to reasonable levels.

Confidence has weakened. The latest NAB Business Survey showed that business confidence had fallen to below zero and consumer confidence is below GFC levels. Further afield, the Chinese economy continued to be affected by the zero-covid measures and hampered by issues within its enormous property sector. US homebuilders are extremely bearish.

Gas storages in Europe, supported by strong LNG exports from the US and weak Chinese demand, managed to reach virtually full capacity. Spot gas prices even went negative for a short period as LNG imports could not be distributed efficiently. Not quite the scenario which had been feared! Also, Russian troops were performing poorly and ceding territory.

These matters appear to have contributed to some equivocation from the ECB which, although raising rates by 75bps, became unclear about whether future rate rises would also be of this magnitude. The Bank of Canada surprised the market with a smaller rate rise of 50bps, lower than the 75bps that many had anticipated.

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Nonetheless, services inflation remains elevated and the outlook for household consumption remains uncertain. Geopolitical risks remain elevated and, during the month, OPEC opportunistically determined to curtail production to support prices.

We view the current market circumstances as one providing pockets where an unusually high level of risk aversion premium is available.

With credit spreads at elevated levels, we are holding short-dated liquidity positions at lower levels as we deploy capital to harvest yield. Whilst APRA's recent statement relating to the exercise of calls on bank capital has stirred the market, we expect that the uncertainty will wane over time.

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. The portfolio remains well positioned to see through the current stresses.

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