REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

JANUARY 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 $559 million
APIR Codes:
Ordinary Units - OMF3725AU
mFunds Units - OMF8160AU
Management Fees (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	0.17%	0.01%
3 Month	0.31%	0.03%
1 Year	1.96%	0.10%
2 Year	2.28%	0.18%
3 Year	2.47%	0.49%
Since Inception*	2.55%	0.76%

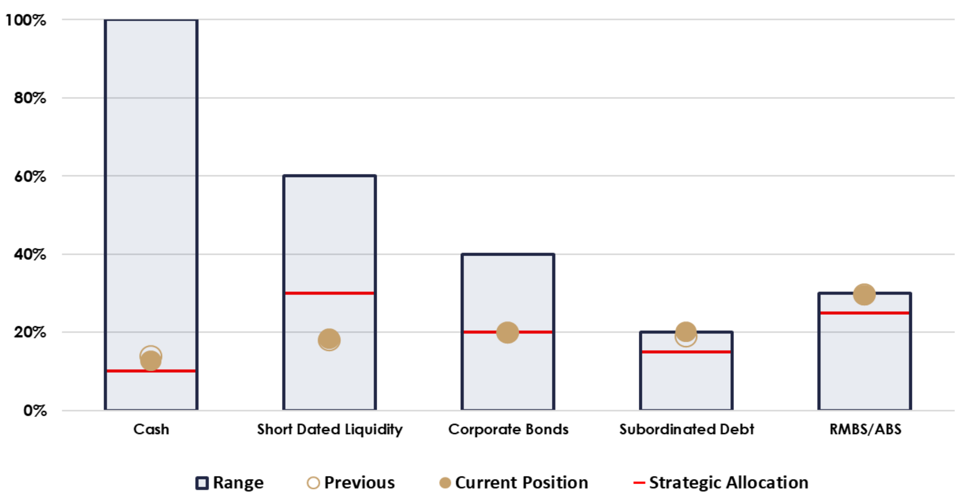
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	2.28%
Yield to Maturity	1.53%
Volatility†	0.28%
Interest rate duration	0.07
Credit duration	1.46
Average Credit Rating	A
Number of positions	159
Average position exposure	0.47%
Worst Month*	0.02%
Best Month*	0.34%
Sharpe ratio∂	6.14

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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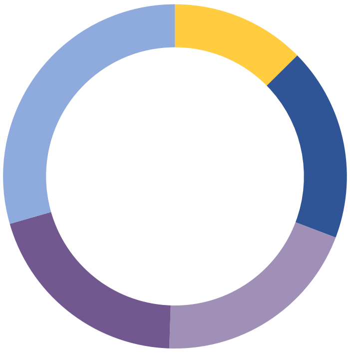
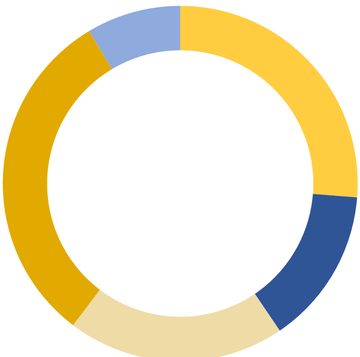
PORTFOLIO COMPOSITION



- Cash (12.60%)
- Short Dated Liquidity (18.18%)
- Sub Debt (19.75%)
- Corporate Bond (20.02%)
- RMBS & ABS (29.45%)

MATURITY PROFILE



- At Call to 6 Months (26.24%)
- 6 Months to 1 Years (14.28%)
- 1 Years to 2 Years (19.79%)
- 2 Years to 3 Years (31.11%)
- 3 Years to 3.5 Years (8.57%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 30.78% from 31.71%.

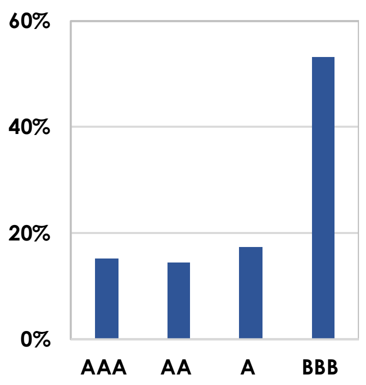
Interest Rate Duration Position: → 0.10 years. The strategy will maintain interest rate duration of approximately 3 months as an average. However, the manager can increase interest rate exposure to as high as one year under certain conditions. The strategy will as a rule only take modest interest rate risk.

Corporate & Subordinated Debt Allocation: ↑ Increased to 39.77% from 38.62%. Investments within the sector were skewed towards corporate debt and towards optimising credit duration within limits. Corporate bonds presented modest relative value over subordinated debt following general risk market weakness over the month. The corporate book is very conservatively positioned in short dated senior paper of Australian ADIs and investment grade companies - these assets experience very low levels of relative market volatility.

Residential Mortgage-Backed Securities (RMBS) & ABS:
→ Allocation remained in line with last month at 29.5% as funds remained optimally deployed within the structured credit sector. The portfolio sits at an A- average credit rating and a relatively short weighted credit duration of 1.84 years.

January was a quiet month for issuance as is seasonally expected, with only a small handful of new transactions sounding the market in the last week of January. There remains a strong bid in the secondary market for high quality assets, with mezzanine (A and BBB rated) and junior mezzanine (sub investment grate) notes remaining very well bid in secondary markets. These bonds remain very tightly held by market participants, with significant appetite continuing to support pricing. Within the senior part of the capital structure (AAA and AA rated), pricing has moderated from market tights, with low coverage rates indicating continuing to indicate a lack of demand for this part of the structure, which continues to weigh on market pricing.

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%	0.34%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%
Mining	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↓ Targeted risk decreased to 0.64% from 0.67%, reflecting the optimisation within portfolio limits. Meanwhile realised standard deviation is at 0.28%. This has risen over the year due to increased volatility in mark to market valuations. The portfolio remains defensively positioned, despite this, the fund has met its return objective over the last 12 months, delivering 1.96% after fees. This is evidence that the strategy is well designed, and that it delivers 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

The year opened eventfully. Markets became more convinced that Omicron would have lower health effects and far less economic impacts than Delta. The outlook was re-assessed and materially upgraded from expectations in place heading into Christmas. Economic releases relating to labour and inflation surprised strongly to the upside in aggregate. Bond yields rose sharply again, the third wave since the US elections brought the Democrats to power in the 2020 Elections and, with the Blue Sweep, Biden's policy agenda of an exceptionally large fiscal (over) stimulus. Equity markets suffered significant falls as this round of extraordinary monetary support is ending. Credit traded softer and the AUD fell against a surging USD which was buoyed by the abandonment of the Fed's previously dovish stance. US CPI recorded a 7% yoy outcome, the highest for nearly 40 years.

Rising energy costs have been a significant contributor to inflation and January provided little respite as OPEC production fell short of targets against a rapidly improving economic backdrop. Markets were also skittish with the elevated geopolitical risks, focussed primarily on Ukraine this time. A shortage of gas in Europe, coal export bans in Indonesia and production issues for Iron Ore in Brazil set the stage for generally strong commodity prices. Labour shortages continued to be widely reported. The VIX rose to levels not seen for almost a year and this contributes to rising concerns we have for the stability of cross-border flows, particularly to non-China emerging markets where covid has left economies more impaired and with less fiscal space than developed markets.

Forecasting during a covid outbreak brings more than the usual level of uncertainty. During the month, economic outcomes were generally far stronger than had been anticipated just a month earlier. In Australia, the underemployment rate fell to levels which are firmly within the range where stronger wage rises can be expected. Trimmed inflation printed at a level which was well beyond what the RBA expected just in November and well through even the upper range of estimates. The RBA was forced to subsequently abandon a narrative that rates were very unlikely to rise in 2022. The expected path of Australian rates tightly tracked the movement in the US Fed expectations. A seemingly unlikely 4 rate rises have been priced for the RBA in 2022. Just a few short months ago, only the hawkish forecasters saw the possibility of a rate rise in Q4 2022.

PLATFORM AVAILABILITY

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

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

A similar pattern was noted in several other central banks and the prospect of a rate rise for the ECB, it's first for over 10 years, became a real likelihood. QE programs were anticipated to be quickly wound down and the focus now turns to how fast the bloated balance sheets will be reduced. The Bank of England has already flagged that it will actively consider a sell down of the large government bond holdings in the coming months. For the Fed and Australia, some form of staged run-off pursuant to maturation of the books seems more likely at present.

As the yield curve rose, banks lifted fixed rate mortgages and bank senior issuance sprang to life again after a 2-year period where balance sheet financing was largely left to the RBA and deposit growth arising from fiscal support. This marks the beginning of a multi-year window where banks will need to wean themselves off official support and adjust to more stringent liquidity management. The size of this refinancing is significant and will dampen the outlook for high grade credit. Corporate treasurers also moved to lock in rates and this affected the swap markets as well, with spreads widening as bond yields rose. Semi-government spreads widened despite a limited issuance burden. Finally, the structured credit market had a late start to the year and recorded no issuance activity. This provided little price guidance to a market which otherwise traded flat over the month.

Strong turning points bring additional risks and our portfolios are conservatively positioned. Within our investment universe, the best value continues to be found in mezzanine structured debt, and private debt. These can withstand extremely severe developments in housing and asset-backed markets.

We are noting that there are signs that supply chain difficulties may be close to a peak, but remain far from reversion. Nonetheless, a well-worn path of creating excess supply seems to be in train with large investments into increasing manufacturing capacity in Asia, including for semi-conductor chips, setting the stage for a return to disinflationary settings later in the year when inventories rebalance again. If wage rises do not become entrenched, we might readily find ourselves in a situation where inflationary outcomes are not especially elevated and on a meaningfully downwards trajectory. With Australian borders now open for immigration, and significant inertia build into the wage-setting process for many industries, the likelihood of a sustained wage breakout appears low. However, this may not be the case in the US.

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