REALM SHORT TERM INCOME FUND

AUGUST 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 $622 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	0.37%	0.15%
3 Month	0.23%	0.32%
1 Year	0.44%	0.41%
2 Year	1.48%	0.27%
3 Year	1.80%	0.36%
4 Year	2.12%	0.62%
Since Inception*	2.21%	0.75%

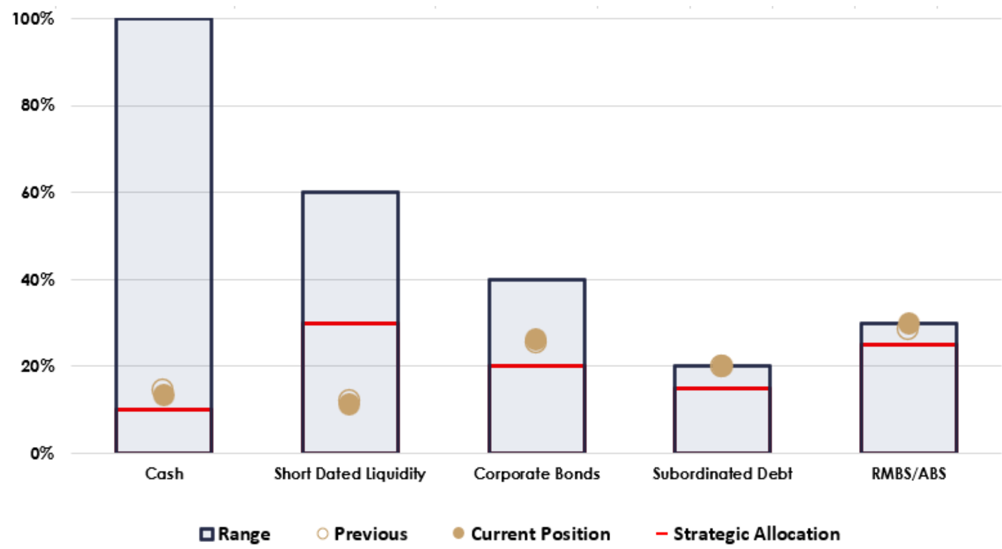
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

Running Yield	3.70%
Yield to Maturity	4.12%
Volatility†	0.42%
Interest rate duration	0.11
Credit duration	1.48
Average Credit Rating	A
Number of positions	180
Average position exposure	0.40%
Worst Month*	-0.26%
Best Month*	0.37%
Sharpe ratio∂	4.48

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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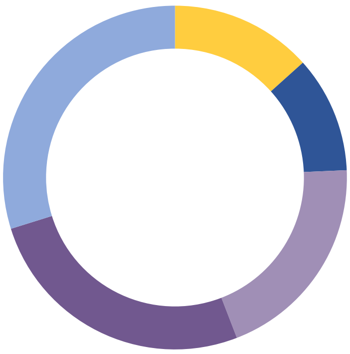
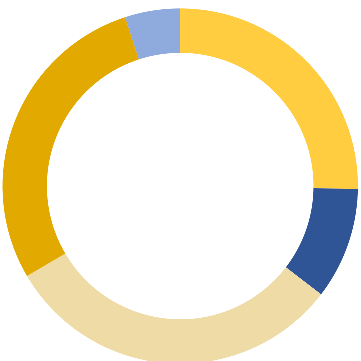
PORTFOLIO COMPOSITION



MATURITY PROFILE



FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased to 24.32% from 26.36%.

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 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.

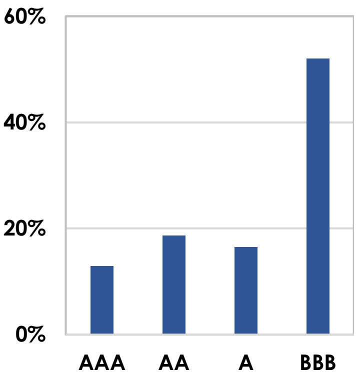
Corporate & Subordinated Debt Allocation: ↑ Increased to 45.86% from 45.16%. Additions within the sector were balanced across Corporate bonds and Subordinated debt. Corporate bonds continue to present modest relative value over bank senior bonds; however, this value is eroding as bank senior bonds are repricing wider. Over the month, short dated corporate bonds widened slightly, while bank senior bonds were stable. 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 increased from 28.48% to 29.82%. As at month end, the portfolio maintained an A- average credit rating and a relatively short weighted credit duration of 1.63 years.

Public structured credit markets were relatively flat over the month. A significant amount of primary issuance resumed post the relatively muted issuance in July. Global credit spreads stabilized and issuers used the market strength to resume issuance of public funding programs. This also resulted in a higher level of secondary market activity, with AAA markets beginning to tighten from the wides experienced last month. Middle mezzanine tranches (A and BBB rated) also tightened and continue to display good relative value against other market sectors.

Market performance in RMBS markets continues to be robust, with average prime arrears levels (SPIN) as reported by S&P improving in June by a further 1 basis point to 0.64%, with non-conforming arrears also improving 6bps to 2.18%. Both data prints remain very strong in comparison to historical arrears levels.

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	0.19%	0.0%	0.07%	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 0.79% from 0.72%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.42%. 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 0.44% 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

The bear market equity rally lost momentum mid-month. Whilst the ASX and Nikkei climbed, other world markets generally lost value with the S&P500 down over 4% in total return terms. These moves weren't driven by near-term earnings revisions but reflected a material upwards move in bond market yields and a rise in risk aversion. Although the VIX fell to below 20 for the first time since April, it ended the month around year-to-date average levels.

In the UK, 10-year bond yields moved up nearly 1% over the month, as the annual rate of inflation passed 10% and surprised to the upside. Goldman Sachs made headlines by suggesting inflation could reach 22% in January if energy prices remained elevated. Although US inflation surprised to the downside and gave rise to a peak inflation narrative, Fed officials were quick to push back heavily on the market's expectations that cash rates would revert in 2023. In a highly anticipated speech at Jackson Hole, Chair Powell reiterated a singular commitment to achieving the inflation objective and the need to maintain cash rates at contractionary levels for some time. These combined to increase expectations for the rate path and defer the anticipated timing of a pivot.

The RBA and Bank of England both raised cash rates by 50bps in August.

The USD strengthened materially against major currencies and the relative weakness of the Chinese Yuan drew attention as portfolio flows have also weakened.

Circumstances in Europe were complicated further when Russia ceased supplying gas through Nordstream 1 in retaliation for a planned introduction of price caps for Russian oil. The hardship caused by higher energy costs has resulted in windfall taxes and subsidies to contain inflation and other measures to socialise the impacts. Newly installed UK PM Truss announced a package valued at an astonishing 5-6% of GDP to shield UK households from upcoming energy price hikes. Finland and Sweden have had to provide support for energy utilities struggling to post sufficient collateral behind their derivatives positions. If it seemed things could not get worse, water levels in the Rhine fell to such levels that barges containing coal to power stations could not deliver it.

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PLATFORM AVAILABILITY

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

Eurozone credit spreads rose sharply in response. Key markets tested recent lows in July. US credit fared relatively better as a whole but finished the month softly. Australian credit performed reasonably well. Australian structured credit markets found a firmer footing.

China's economic performance continues to be hampered by its covid-zero policy and difficulties in the property sector. This contributed to lower oil and bulk commodity prices.

Australian inflation remains well above target levels and, on the RBA's estimates, is only expected to return to the band in late 2024. Nonetheless, in contrast to steps being taken in Europe/UK, Treasurer Chalmers has indicated that the petrol subsidy will lapse in September and has guided away from expectations of handouts or other measures to assist with the cost of living in the upcoming October Budget. RBA Governor Lowe also seeks to pursue a return to more normal circumstances whilst keeping the economy on an even keel. This task will be challenging in light of continued strength in the household sector, despite very low outcomes in consumer confidence surveys. Further, the Jobs Summit has opened the door to stronger bargaining for wage rises, which have already become increasingly evident.

Housing prices fell 1.6% in August, the largest monthly decline since 1983. Turnover was assisted by a growing acceptance by vendors of weaker conditions. The repayment performance of mortgages continues to improve despite higher interest rates. However, given delays in the transmission of movements in the official cash rate to households, it seems unlikely that this trend will persist for long although incomes continue to be supported by a strong labour market. Indeed, Australia's Q2 GDP showed that household incomes grew in real terms and cash buffers increased further.

Whilst supply chain frictions have begun to ease, the US and European/UK central banks have generally strengthened their commitment towards achieving their inflation targets. In Europe/UK, the task is more complex given the significant challenges relating to gas prices and supply. The stagflationary impulse strengthened over the month. Overall, this has darkened their economic outlook and this effect has rippled through other economies and markets.

Whilst the Fed continues to maintain that a recession can be avoided in 2023, it has a narrower path to navigate than Australia given the proportion of job openings to unemployment is almost two-times and wage growth is much higher. The Fed's perceived pathway to a soft landing has been dubbed an 'immaculate disinflation', in part because of the unusual assumptions required to avoid recession. In the view of some influential Fed members, a relatively minor easing in economic conditions can eliminate a significant number of unfilled jobs, without affecting unemployment materially, and therefore contain wage growth. In contrast, their more standard econometric models point to a material chance of a recession. The most recent update from the ECB also suggests that the European economy is skirting the edge of recession.

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Economic management is currently focused on avoiding the possibility that inflation expectations become unanchored. Whilst longer term expectations remain well behaved for now, there is significant fear that ongoing labour market tightness will create a wage-price spiral that will be hard to extinguish. Estimating the sensitivities is speculative given there is no recent experience of these extreme conditions to help calibrate policy. The stagflationary forces at play further complicate the matter as does the resilience of household spending given many still have substantial financial buffers. On top of this are the immediate geopolitical risks related to Ukraine, although US Speaker of the House of Representatives Pelosi stirred regional tensions with a visit to Taiwan. China's economic difficulties, led by weakness in the property sector and also the effects of the ongoing covid-zero policy, are also significant contributors to uncertainty.

Whilst credit markets have been weak, and could weaken further, we identify value in Australian assets. Recent economic stresses have also created opportunities in overseas bank capital. As structured credit markets are now finding more support, we are optimistic about the outlook in these assets, despite falling housing prices.

The portfolio continues to harvest yield in sub-ordinated and structured credit. After a period of weakness in credit markets, which we did not attribute to any material deterioration in the credit-worthiness of the assets within this portfolio, performance is now benefiting from higher credit spreads and increasing risk free rates. We expect this to continue and for the portfolio to deliver medium term returns which compare favourably to term deposits.

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