

SEPTEMBER 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 \$646 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	0.20%	0.18%
3 Month	0.56%	0.44%
1 Year	0.52%	0.59%
2 Year p.a	1.52%	0.35%
3 Year p.a	1.81%	0.39%
4 Year p.a	2.11%	0.63%
Since Inception p.a*	2.22%	0.77%

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

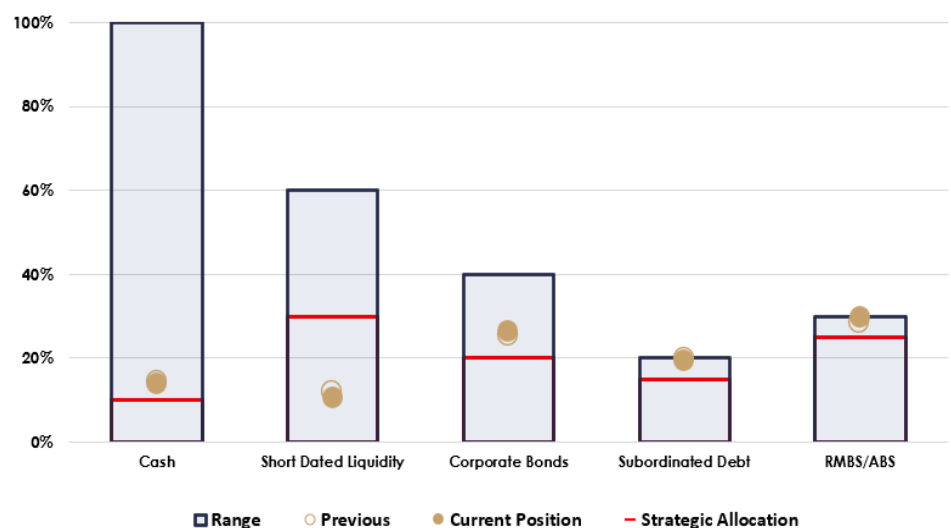
FUND STATISTICS

Running Yield	3.99%
Yield to Maturity	4.61%
Volatility†	0.43%
Interest rate duration	0.09
Credit duration	1.45
Average Credit Rating	A
Number of positions	184
Average position exposure	0.38%
Worst Month*	-0.26%
Best Month*	0.37%
Sharpe ratio [‡]	4.42

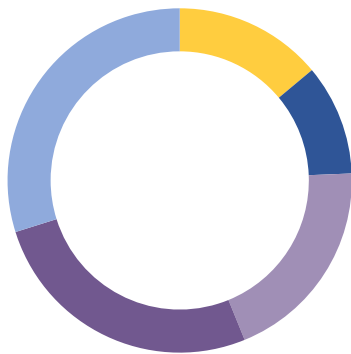
Calculated on Ordinary Units unless otherwise stated. *Since Inception 21 December 2017.

†Trailing 12 Months Calculated on Daily observations. ‡Since Inception Calculated on Daily observations

SECTOR ALLOCATION

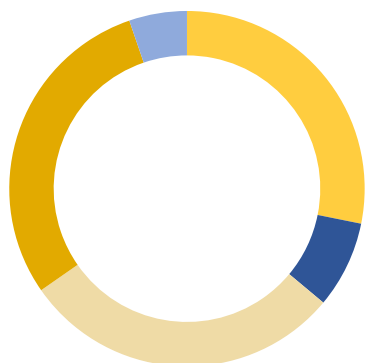


PORTFOLIO COMPOSITION



- Cash (13.93%)
- Short Dated Liquidity (10.42%)
- Sub Debt (19.49%)
- Corporate Bond (26.31%)
- RMBS & ABS (29.84%)

MATURITY PROFILE



- At Call to 6 Months (28.16%)
- 6 Months to 1 Years (7.92%)
- 1 Years to 2 Years (29.24%)
- 2 Years to 3 Years (29.42%)
- 3 Years to 3.5 Years (5.26%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↑ Cash and Short dated liquidity increased to 24.35% from 24.32%.

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 45.8% from 45.86%. 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 were slightly volatile but ended the month where they commenced, 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.

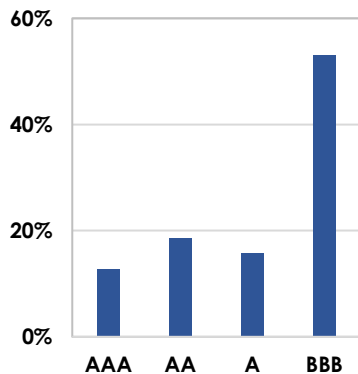
Residential Mortgage-Backed Securities (RMBS) & ABS:

→ Allocation to structured credit securities remained inline with last month at 29.84%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.77 years.

Public structured credit market spreads were relatively flat over the month, with primary issuance remaining low as lenders opted to increase private funding capacity than issue into the market volatility. Secondary market activity remains heightened in the senior part of the capital structure (AAA rated) driven by offshore investors searching for liquidity from high quality assets, while middle mezzanine (A/BBB rated tranches) 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 June by a further 1 basis point to 0.64%, with non-conforming arrears also improving 6bps to 2.18%. Data prints from the Bloomberg index which tracks arrears within the Australian system is also showing improvements up to the month August. 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	0.0%	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.](https://www.realminvestments.com.au/our-products)

[realminvestments.com.au/our-products](https://www.realminvestments.com.au/our-products)

Targeted risk across the Fund: → Targeted risk remained stable at 0.79%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.43%. 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 0.52% 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

Equity markets finished well down during the month. The VIX finished the month at elevated levels, having moved materially higher. Bond yields trended upwards and experienced a material disruption late in the period. Flight to safety effects were evident in currency markets, with USD strength continuing to be a significant feature in markets. Credit spreads moved consistently with increased risk aversion. Commodity prices weakened further. Central banks across the world, other than Turkey, raised official cash rates by larger than usual amounts.

Key developments over the month included a higher-than-expected US CPI print and PMI figures. These suggested ongoing robustness in the US economy which may require more vigorous efforts to contain inflation. Australia's Q2 GDP figures also revealed ongoing strength in the household sector which is a key uncertainty in forward projections. Employment remained robust.

The most significant development, however, was the appointment of Liz Truss as the UK's new PM, with Kwasi Kwarteng as her Chancellor. Their release of an enormous economic package consisting of tax cuts and caps to energy prices produced significant dysfunction in the market. This was severe enough to require intervention from the BoE. The end of QE has lowered liquidity in key markets and this served as one warning of potential fragility ahead. The BoE is still expected to commence QT shortly despite these recent ructions whilst the ECB is deferring consideration of this until cash rates have moved closer to normalization.

The economic outlook continued to soften. The Fed's revised dot plots showed an ongoing stagflationary impulse with strong downside risks. Nonetheless, they continue to expect to avoid recession albeit an increasing share of professional economists and commentators are less optimistic. One key assumption behind the Fed's relative optimism is the belief that (wage) inflation can be contained without a significant increase in unemployment. Although somewhat heterodox, some evidence in support of this is emerging as vacancies are dropping quickly whilst unemployment rates continue to tighten and wage growth is not accelerating further. The ECB's forecasts showed an expectation that the region would skirt recession in the coming year. The IMF has warned that a third of the world economy is expected to be in recession in 2023.

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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

Whilst the possibility of inflation expectations becoming unanchored increases the longer that realized inflation remains above target, the current indications are this is not occurring. Market based measures and survey-based measures are showing limited signs of drift in expectation and are declining in the US and Australia. Along with supply chain frictions now only modestly ahead of pre-covid levels, much of the initial wave of inflation developments are settling. What remains primarily relates to the stickiness of core inflation and the uncertainties associated with this.

Whilst most monetary authorities continue to condition the market to expect strong monetary action into and throughout 2023, including to the point of inducing recession, the prices components in business surveys are showing favourable trends.

Australia has been something of an outlier recently. In contrast to introducing additional fiscal and other measures to contain cost of living, Treasurer Chalmers allowed fuel subsidies to lapse and contained speculation that stage 3 tax cuts would be cancelled. Further, the RBA indicated that smaller rate rises of 25bps were to hand and surprised the market by only making a move of that size in October.

China continues to struggle with its covid zero policies and other difficult economic issues have not been resolved. The CNY has weakened below the threshold of 7 to the USD, but authorities there have downplayed the significance of that line. The strength of the USD may create difficulties in other Emerging Markets where foreign currency reserves are limited in some cases.

Australian home prices continue to fall under the weight of increased mortgage costs and lower real disposable incomes. Nonetheless, whilst pockets of distress are expected to emerge over time, the current loan performance remains very strong. S&P's recent examinations, which included a scenario where property prices fall by 18% from peaks over the next 12-18 months, suggest these are not sufficient to cause any material concern. The RBA's most recent Financial Stability Report largely aligns with this finding. Indeed, RMBS issuance increased materially during the month and was well supported.

Europe has successfully built gas storages to over 90%, a remarkable achievement, despite lack of supply from Russia. This will provide some resiliency through the coming winter. It is notable that energy prices for natural gas declined over the month. Oil prices also declined far enough for OPEC to react by reducing target output.

Economic risks are significant. The ongoing strength in economies and fiscal measures to socialize inflation imply more aggressive monetary action is required and this has increased the risk of a recession in 2023. Considerable uncertainties remain which are difficult to resolve via traditional analysis. Given forecasts have proven very wide of the mark in both directions in recent years, it is important that expectations of a recession are not simply translated to imply an overwhelming likelihood that one will emerge. To that end, credit markets continue to provide what we identify to be an elevated risk aversion premium.

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This is also visible via the divergence in spreads offered by the same investment grade issuers in EUR and USD markets, which is approaching highs last seen during the European debt crisis. High Yield issuance remains very constrained and corporate treasurers have favoured tapping bank lines than issuing credit into a weak market. Risk bearing by investment banks is also constrained at present. Nonetheless, it may be some time before the aversion dissipates and it is certainly possible that it proves to have been predictive.

The portfolio structure remained stable over the month. We continue to favour sub-ordinated debt exposures and structured credit over corporate bonds. The portfolio remains largely insensitive to movements in government bonds. We expect the portfolio to continue to successfully harvest the elevated spreads on offer. As the cash rate continues to escalate, total returns will rise and continue to compare favourably to term deposits.

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