REALM SHORT TERM INCOME FUND

APRIL 2024

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 $1.46 billion
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	0.51%	0.35%
3 Month	1.94%	1.05%
6 Month	3.83%	2.14%
1 Year	7.20%	4.20%
3 Year p.a	3.72%	2.20%
5 Year p.a	3.29%	1.53%
Since Inception p.a*	3.21%	1.52%

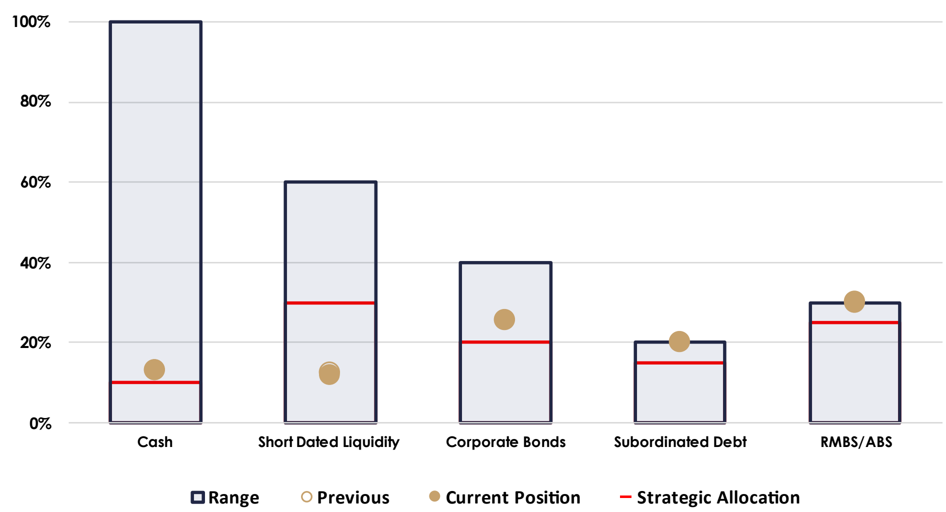
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

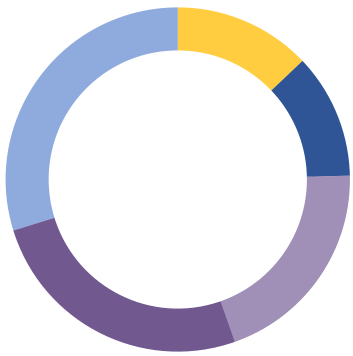
Running Yield	5.42%
Yield to Maturity	5.98%
Volatility†	0.44%
Interest rate duration	0.10
Credit duration	1.50
Average Credit Rating	A
Number of positions	334
Average position exp.	0.27%
Worst Month*	-0.26%
Best Month*	0.72%
Sharpe ratio∂	4.78

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

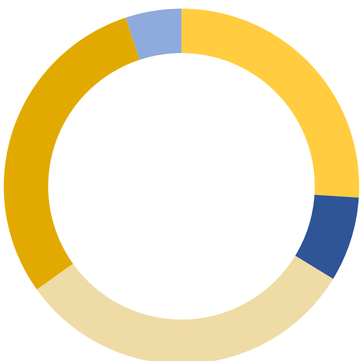


PORTFOLIO COMPOSITION



- Cash (12.90%)
- Short Dated Liquidity (11.75%)
- Sub Debt (19.97%)
- Corporate Bond (25.59%)
- RMBS & ABS (29.79%)

CREDIT DURATION PROFILE



- At Call to 6 Months (26.01%)
- 6 Months to 1 Years (7.71%)
- 1 Years to 2 Years (31.41%)
- 2 Years to 3 Years (29.78%)
- 3 Years to 3.5 Years (5.08%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased slightly from 24.81% to 24.65%.

Interest Rate Duration Position: → 0.10 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 increased 41bp over the month. The strategy will, as a rule, only take modest interest rate risk.

Corporate & Subordinated Debt Allocation: ↑ Increased from 45.31% to 45.56%. Optimisation within the corporate bond sector was skewed towards Australian issuers in AUD currency due to relative value opportunities over the month. Profits were continued to be realised in US and European financial bonds which have recently outperformed. 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. Both EUR and USD corporate and financial bonds continued their outperformance over AUD denominated bonds. Subordinated debt optimisation was also skewed towards Australian issuers. The short, conservative nature of the sector and diversification aided in cushioning any intra-month market volatility.

Residential Mortgage-Backed Securities (RMBS) & ABS: → Allocation to structured credit decreased slightly to 29.79%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.71 years.

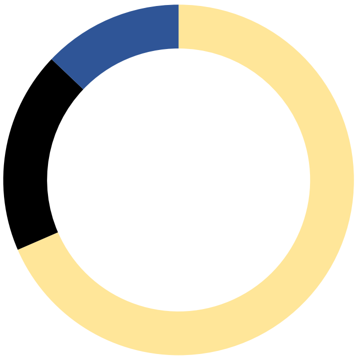
Structured markets continued to rally over April, with significant investor demand continuing to drive spreads tighter. Transactions remain very overbid across most of the mezzanine tranches, and issuers continue to use these conditions to tighten yields on their own transactions and bring new transactions to market. As a result, dealflow for the month remained substantial, with 9 transactions pricing across banks, prime, nonconforming, auto and SME asset classes. Secondary markets continue to trade tighter than public markets, as investors continue to try to get set in stock wherever possible.

With respect to market performance, Prime arrears as reported by S&P's SPIN index for February improved 5bps to 0.95%. Nonconforming arrears also improved, reducing 26bps to 4.17%. Both results remain strong in comparison to both market expectations and historic index levels.

REALM SHORT TERM INCOME FUND

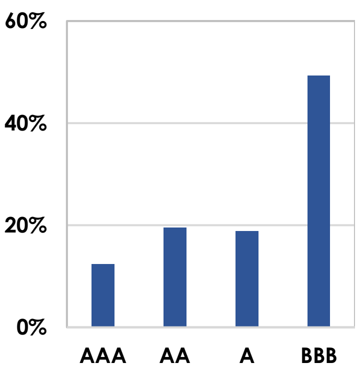
APRIL 2024

ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (68.48%)
- Foreign Domicilied Issuer (18.62%)
- Cash (12.90%)

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	0.10%	0.0%	0.11%	2.5%
Gambling	0.0%	0.0%	0.0%	2.5%

Targeted risk across the Fund: ↑ Targeted risk increased from 0.67% to 0.72%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.44%. This has remained stable over the short term due to favourable mark to market valuations. The portfolio remains defensively positioned although despite this, the fund has performed relatively well over the last 12 months, delivering 7.19% 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.

FUND OUTLOOK

Credit spreads remained tight and rallied further in key markets. The Bloomberg US Agg Baa Average Option-Adjusted Spread compressed further to 1.07%pa, a level which has rarely been seen in the last three decades. In prior times, such levels were recorded during favourable economic environments as opposed to during what is presently expected to be a cyclical trough. It is arguable that this was the result of ongoing easing in the estimated probability of US recession (down 5% to 30% during the month) over the next 12 months and explicit support from the Fed in the event employment outcomes should deteriorate faster than expected. Less discriminate buying in the presence of high all-in yields may also be contributing. Nonetheless, forward looking reward for risk is uncompelling in absolute terms, although it is more reasonable if compared to equity valuations.

The exchange of hostilities between Iran and Israel was a key risk event. Direct confrontation proved short-lived but risk measures spiked to levels last seen shortly after Israel launched military operations into Gaza in October 2023. Spreads moved in concert, albeit with less magnitude. These retraced materially into month-end and credit related derivatives inferred that volatility would remain low. Nonetheless, concerns for economic stress are visible in the dispersion of spreads in the high yield market, which are now at similar levels as the initial covid period. Options on European credit synthetics and EURUSD, together with derivates related to gold suggest that an outlier risk event remains a concern.

More broadly, risks are seen to be better balanced. Downside risks include geopolitical concerns and sticky inflation. The upside risks relate to easing supply chains, a spending boost associated with a relatively high number of elections in the near term and the productivity potential for AI.

The US economy is expected to grow at an above trend pace for the rest of this year as a whole. Consumer spending, which has been surprisingly strong, is expected to slow and a recovery in private investment and industrial production will not be sufficient to prevent growth from dipping slightly below trend for a couple of quarters straddling year-end. Fears of a hard landing last year have disappeared and been replaced by expectations of the gentlest of convergences to ideal economic settings.

PLATFORM AVAILABILITY

- Australian Money Market
- AMP North
- BT Panorama
- eXpand
- Firstwrap
- 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/

Inflation is expected to grind lower and payrolls are expected to continue expanding although a slower rate of labour absorption will see unemployment rates rise slightly to 4.1% and see wage pressures ease.

The US economy is differentiated from much of the world by the strong performance of the household sector. Elsewhere, consumption has been hampered by weak real wage growth and high interest rates and economic growth is already close to the expected lows for this cycle. As for the US, unemployment is expected to rise modestly and inflation is expected to converge towards target levels in 2025 although labour productivity and targeted corporate profit margins are key uncertainties. Household consumption in Australia is expected to be supported by improving real wages and decreasing interest costs as time passes. Inflation is anticipated to be back within the target band in 2025 and to the mid-point in 2026.

Investment grade bond issuance remains strong, albeit this is now easing from the high levels since start of year. High yield gross issuance has been very strong, reflecting a catch-up from weak issuance over the prior two years. Although senior US investment grade spreads rallied, the subordinated, European and high yield corporate bond markets were closer to flat.

Issuance activity in domestic structured credit remained strong. RMBS issuance from smaller banks, attracted by relatively competitive pricing of RMBS relative to senior bonds, and ABS issuers are driving volumes. Spreads continued to tighten despite elevated issuance activity, in concert with the broader market.

The volume of CLO creation is also elevated, driven by heightened reset and refinance activity. Loan issuance volumes have remained high since January, with spreads narrowing on CLO demand, competition from private debt providers and outright demand from institutional investors and ETFs. Mezzanine CLO spreads continued to tighten. The conditions for providers of CLO equity have become favourable given the relatively tight pricing of CLO tranches relative to the spreads on their underlying loans.

Credit markets appear to be in an optimistic state and we are more likely to see spreads widen than narrow over the next 12 months. The ability for central banks to cut rates quickly and significantly should a demand shock emerge is evident and provides a measure of tail risk protection, but a supply shock remains a vulnerability.

The portfolio continues to be positioned to seek the highest expected return within a well-defined set of constraints. The general characteristics and risk deployment were little changed over the month. The portfolio remains underweight in short-dated liquidity and favours risk exposures across other asset classes which offer better carry. The effective liquidity of the portfolio remains significant.

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Exposures to foreign source of risk and foreign currency denominated bonds are helping to maintain higher forward-looking returns than would otherwise have been possible. This is contributing to the portfolio's traded margin being above what it would otherwise be. However, as spreads in the US and Europe tighten, Australian spreads have become more competitive again. The portfolio rotated towards Australian corporate bonds and away from foreign issuers at the margin. This brought the foreign source of risk exposures to 18.6% (from 19.9%).

The portfolio's prospects for delivering the target performance relative to RBA cash is stronger today than for most of its history. This is further supported by the available roll-down profits in corporate and subordinated debt which is extracted as a regular portfolio management activity.

Risks arising from higher arrears rates in structured credit remain well contained. Property prices are at record highs which infers that any conceivable scenario for foreclosures will not remotely threaten the viability of the portfolio's exposures. As the RBA recently noted, there is no prospect of the housing market coming into balance within the next few years as supply is constrained.

Although the Australian unemployment rate is expected to climb in the coming year, this will be achieved via a faster rate of population growth than job creation. Those who currently hold jobs are likely to retain them and this supports credit quality. In any case, the average credit quality of structured credit exposures is higher than A-, which is extremely secure. Pressure on household finances is now easing as real wages are improving.

With a yield-to-maturity of 6.0% pa, the portfolio is very unlikely to experience negative performance over a six-month period.

MARKET DEVELOPMENTS

Spreads on credit synthetics finished higher, selling off mid-month during an exchange of fire between Israel and Iran. Whilst conditions settled quickly, spreads did not fully revert. The performance of equity markets was mixed and these were also impacted. Japanese equities consolidated after strong gains in Q1 whilst higher interest rates were a headwind for US equities. Bond yields in major markets finished higher with the US inflation outcome surprising to the upside. The improved economic outlook in Asia supported Chinese (incl HK) stocks whilst the UK equity market performed strongly on higher earnings expectations.

The VIX moved from 13 to 15.65 over the month and spiked over 19 for a time, a level not seen since October 2023 when US Treasury interest rates reached 5% and the Israel/Hamas conflict erupted. The MOVE index followed a similar pattern.

The divergence between economic cycles and projected cash paths across major economic blocs presents a source of risk in the currency market. The USDJPY climbed 4% and reached 160, the strongest in 34 years and prompted intervention by the BoJ.

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Despite geopolitical risks, oil prices were steady and derivatives markets appear unphased by the backdrop. Copper prices rose strongly on the improved outlook for the Chinese economy and the closure of the Cobre mine in Panama. Gold rose and this is attributed to PBoC buying.

OTHER DEVELOPMENTS

The United States economy continues to surprise to the upside. Retail spending rose 0.7% over the month (consensus 0.3%). Excluding gas/auto, the result was an even greater upside surprise (1.0% c0.3%). Monthly growth in durable goods (ex transport/defence) orders matched expectations at 0.2%. Inflation readings were elevated with Core Inflation for the month at 0.4% c0.3%. The Advance estimate of quarterly PCE also surprised at 3.7% SAAR c3.4%. The employment cost index also surprised to the upside (1.2% c1.0%). The labour market remained highly resilient with the non-farm payrolls at +303k c200k and unemployment coming in at 3.8% c3.9%. Both ISM surveys pointed to contracting economic circumstances.

The FOMC Minutes flagged a reduction in the rate which the balance sheet will reduce treasury bond exposures. The Fed intends to fully run-off their MBS holdings and only hold treasury bonds for such purposes. Despite valuation concerns they note that credit for CRE remains readily accessible. It was interesting to note that they judged economic uncertainty as in-line with the 20-year average, albeit risks are tilted towards a stagflationary outcome. FOMC member Bostic indicated that the next move could be a hike, but Chair Powell subsequently voiced a high threshold for that potential as labour markets move more into balance. Fed speak generally related to the time frame until the next cut and the drivers of uncertainty.

President Biden has raised the prospect of a significant increase in tariffs for Chinese exports to the US as Treasury Secretary Yellen sought to discourage China from pursuing a strongly export focused growth policy. Although the Trump era tariffs have contributed to lowering the direct trade deficit with China, re-routing of trade via Asia has meant that the Chinese trade surplus has ultimately mirrored the US trade deficit.

US home prices rose 0.9% for the month and 7.3% over the year. However, existing home sales remains moribund.

Household consumption in Australia is materially weaker than for the US. Preliminary retail sales were -0.4% mom (c0.2%). Consumer confidence fell further into highly pessimistic territory as cost-of-living concerns and ongoing high interest rates weigh. The NAB business survey indicated that activity is expected to slow. This survey also showed the rate of labour cost growth is slowing. The trimmed mean inflation reading exceeded expectations (4.0% yoy c3.8%) and pushed back expectations for a rate cut from the RBA. Under Governor Bullock the Bank's recognition of uncertainty is clearly visible and, as newly characterized, it has indicated that it could neither rule in nor rule out a rise or fall for the next move in interest rates.

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The RBA has also adjusted some technical details relating to the implementation of monetary policy, electing to use an 'ample reserves' regime and retiring the former 'corridor' approach utilized before covid. House prices rose by 0.6% over the month.

Inflation readings in Europe continued to taper with the Core reading at 2.9% yoy, down from 3.1%. Subsequent flash readings suggested that these continued to fall although some reversion is expected as energy subsidies are discontinued later this year. The ECB has indicated that an interest cut is forthcoming in June, but refuses to be drawn on subsequent moves. The labour market is easing (unemployment 6.5% c6.4%) but the path of inflation will also depend on labour productivity and the price setting behaviour of corporates. Whilst economic growth is presently subdued, it is expected to strengthen later in the year as real income growth recovers along with exports. Whilst domestic inflation pressures remain elevated, they are expected to continue easing. Manufacturing activity continues to slow (Manufacturing PMI 45.7) but the German ZEW Economic Sentiment Index rose for the 9th month in sequence and is back to levels before the invasion of Ukraine. The Services PMI remained at a healthy 53.3.

The Bank of England received the results of a review undertaken by former Fed Governor Bernanke. A series of 12 recommendations were tabled including an overhaul of their key econometric models and modifications to the manner in which uncertainty is communicated. The unemployment rate was 4.2% (c4.0). Inflation is expected to fall rapidly towards the targeted level.

Credit creation in China was close to expectations with Total Social Financing increasing by CNY 4,870Bn. GDP in Q1 came in at 5.3% yoy (c5.0%) although household expenditure continued to be soft with retail expenditure at 3.1% yoy (c4.5%). The official PMI readings suggested that economic activity grew slightly in manufacturing and non-manufacturing. Unemployment fell slightly to 5.2%. The PBoC left monetary settings unchanged. President Xi's plans for an export-oriented growth model have met with significant resistance. A possibility exists that officials might intervene in the property market to acquire excess stock and convert it to rental accommodation, which may improve affordability. This would do nothing to improve over-supply and the IMF expects new housing demand will fall by almost 50% over the next decade.

The decision to hold interest rates by the Bank of Japan led to further currency weakness. The BoJ intervened to provide support. Whilst industrial production was -0.6% MoM (c-0.1%), a strong reading for machinery orders (7.7% mom) was notable. Core inflation was reported at 2.6% yoy (c2.7%). The Manufacturing PMI showed a virtually flat outcome at 49.6. Services PMI increased to a healthy 54.3.

Zimbabwe introduced a new gold-backed currency, the ZiG (Zimbabwe Gold), in an attempt to contain runaway inflation. Initial acceptance remains challenged given the level of distrust with the government.

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