REALM SHORT TERM INCOME FUND

REALM INVESTMENT HOUSE

JUNE 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 $1.63 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	0.45%	0.35%
3 Month	1.56%	1.06%
6 Month	3.67%	2.14%
1 Year	7.27%	4.27%
3 Year p.a	3.94%	2.44%
5 Year p.a	3.39%	1.62%
Since Inception p.a*	3.29%	1.59%

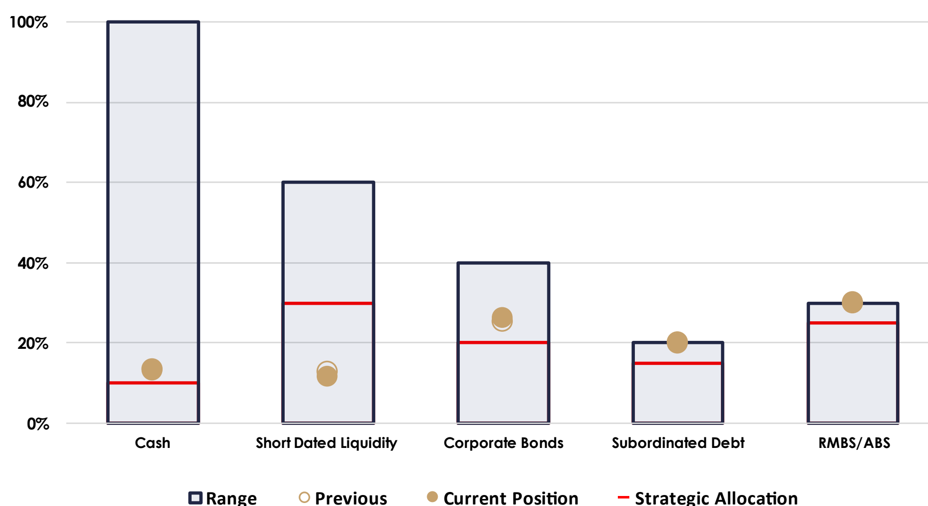
*Past performance is not indicative of future performance. Inception date is 21 December 2017.

FUND STATISTICS

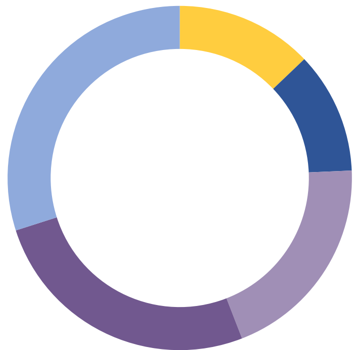
Running Yield	5.50%
Yield to Maturity	5.84%
Volatility†	0.41%
Interest rate duration	0.09
Credit duration	1.49
Average Credit Rating	A
Number of positions	360
Average position exp.	0.18%
Worst Month*	-0.26%
Best Month*	0.72%
Sharpe ratio∂	4.81

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

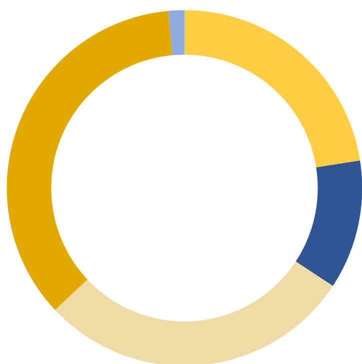


PORTFOLIO COMPOSITION



- Cash (12.87%)
- Short Dated Liquidity (11.44%)
- Sub Debt (19.80%)
- Corporate Bond (25.96%)
- RMBS & ABS (29.93%)

CREDIT DURATION PROFILE



- At Call to 6 Months (22.52%)
- 6 Months to 1 Years (11.75%)
- 1 Years to 2 Years (28.71%)
- 2 Years to 3 Years (35.55%)
- 3 Years to 3.5 Years (1.46%)

FUND UPDATE

Cash and Short-Term Liquidity Weighting: ↓ Cash and Short dated liquidity decreased slightly from 25.43% to 24.31%.

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 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 ended the month 3bp higher, but with a volatile trading range of 44bp. The strategy will, as a rule, only take modest interest rate risk.

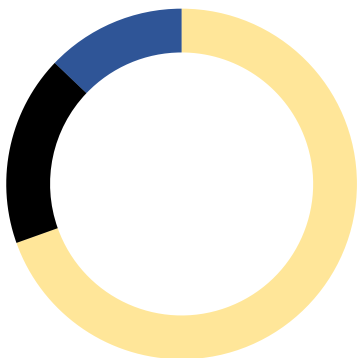
Corporate & Subordinated Debt Allocation: ↑ Increased slightly from 44.86% to 45.76%. Optimisation within the corporate bond sector was once again skewed towards Australian issuers in AUD currency due to relative value opportunities over the month. Corporate bonds, traditionally, present modest relative value over bank senior bonds due to the rating differential; and this relative value was maintained over the month. AUD bonds meaningfully outperformed EUR and USD denominated bonds, due to the volatility posed by the snap French elections and the increasing likelihood of a Trump victory. Subordinated debt optimisation was also skewed towards Australian issuers in AUD. 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 remained steady at 29.93%. As at month end, the portfolio maintained an A average credit rating and a relatively short weighted credit duration of 1.47 years.

Structured markets continued to rally over the month of June, with substantial investor continuing to push spreads tighter. Capital structures remain overbid across both the mezzanine (A-BBB) rated, and the junior mezzanine (Sub-investment grade), while senior spreads (AAA /AA rated) remain less bid. Tighter yields allow issuers to issuer new transactions more efficiently, and as a result deal flow over the month was substantial with 6 new trades across bank, prime and nonconforming programs entering the market. Secondary markets remain slower, where investors prefer to hold stock rather than sell, resulting in low auction volumes over the month

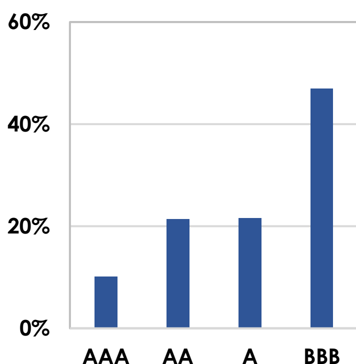
With respect to market performance, Prime arrears as reported by S&P's SPIN index for May remained steady at 1.00%. Nonconforming arrears also improved, reducing17bps to 4.07%. Both results remain strong in comparison to both market expectations and historic index levels.

ISSUER DOMICILE



- Australian/NZ Domiciled Issuer (69.54%)
- Foreign Domicilied Issuer (17.59%)
- Cash (12.87%)

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

Targeted risk across the Fund: ↓ Targeted risk decreased from 0.71% to 0.70%, reflecting the optimisation within portfolio limits. Meanwhile, realised standard deviation is at 0.41%. 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 7.27% 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 OVERVIEW

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 and are not expected to change in the near term. 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.

The portfolio's prospects for delivering the target performance relative to RBA cash are reasonable despite market spreads being tight. Risks arising from higher arrears rates in structured credit remain well contained. The prospect of permanent capital losses in the portfolio remains remote.

With a yield-to-maturity of 5.8% pa and very conservative settings, the portfolio is very unlikely to experience negative performance over a six-month period.

ECONOMIC AND OTHER DEVELOPMENTS

United States Industrial Production for May (0.9%) was stronger than the prior month (0%) and expectations (0.3%). However, core durables (ex Defence/Air) disappointed at -0.6% MoM (p0% e0.1%). Consumption continues to moderate with Retail Sales (May) ex Auto at -0.1% (p-0.2% e0.2%), The UMich Consumer Consumer Sentiment Index (Jun) came in at 68.2 (p69.1 e65.8) which remains below the long-term average and points to ongoing financial pressures. Existing home sales remain very low (4.1m units per month) as current mortgagees are reluctant to reset low fixed rate loans. The S&P/Case-Shiller House Price index rose 7.2% YoY. The S&P Composite PMI (54.8 p54.5) indicated robust activity levels in June, with a strong order book in place.

Inflation cooled with Core Inflation MoM (May) at 0.2% (p0.3% e0.2%) and Headline at flat (p0.3% e0.1%). Producer Price Inflation (May) was flat (p0.5% e0.3%). The Fed's preferred inflation gauge, the Core PCE, was reported at 0.1%. The UMich survey of inflation expectations (Jun) remained well anchored and showed a 1 year reading of 3% (p3% e3.1%).

The labour market also cooled with unemployment (May) rising to 4% (p3.9% e3.9%). Job openings, the quit-rate and participation rate also pointed to easing labour market conditions. Although the non-farm payroll survey reading of +272k jobs (e+185k) was strong, this survey has been subject to large downwards revisions and has become less important.

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/

The Fed released an update of its economic projections. These showed an expectation of only one rate cut in 2024. The inflation profile was also lifted for 2024 to reflect recent outcomes, but still converged to target rates in 2026. FOMC members spoke of the need for data dependency and a surprisingly robust economy. Most awaited more data to support the case for further cuts. The market is expecting 2 rate cuts this year.

The first debate between Biden and Trump for the upcoming Presidential election produced a dramatic shift towards the prospects of a Republican outcome.

The Q1 GDP reading for Australia was 0.1% (e0.2%) which was the softest pace in 6 quarters due primarily to subdued domestic demand. GDP was -0.4% in per capita terms. The savings rate fell to 0.9%. The NAB Business survey suggested that corporations were increasingly pessimistic. The Composite PMI reading of 50.7 is consistent with very modest growth, and the inflation component of this survey moderated further. The Westpac Consumer Confidence Survey remained in distressed territory due to ongoing cost of living pressures which offset effect of the energy and rental benefits announced in the Federal Budget. Private house approvals (Apr) fell 1.6% and adds to evidence that housing supply will remain tight for years to come. The Composite PMI of 50.7 suggested that business activity for June was close to steady.

The monthly inflation print of 4% YoY (p3.6% e3.8%) saw a revision to rate path expectations and biased expectations towards a rate hike in September. Consumer inflation expectations for the coming year (4.4% p4.1%) also rose. However, the FWC minimum wage determination allowed for a 3.75% increase. This was below the 5.25% approved last year.

In the labour market, employment increased by 40k (e30k), and the unemployment rate slightly declined to 4% (p4.1%). The outlook continued to be for a softer labour market with the ANZ-Indeed Job Ads count for May dropping by 2.1%.

The last payment from the $188bn Term Funding Facility, an emergency measure to protect bank liquidity and profitability during covid, was returned.

Europe's Q1 GDP figure of 0.3% was the strongest since Q3 2022, with net trade making a solid contribution. However, more timely indicators suggest a slower outcome in Q2. April readings for retail sales, trade and industrial production were weaker.

The ECB cut the deposit rate to 3.75% and associated rates by 0.25%. This was despite core inflation readings accelerating in May (2.9% YoY p2.7%). The BoE left rates unchanged at 5.25%.

REALM INVESTMENT HOUSE CONTACTS

DISTRIBUTION

Broc McCauley
Head of Distribution
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
Business Development Manager
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Finbarr Warren
Business Development Analyst
T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

LEVEL 17, 500 Collins street
Melbourne VIC 3000

LEVEL 6, 31 Market Street
Sydney NSW 2000

The strong outcome for hard/far right parties in the European parliamentary elections, and French President Macron's decision to call an election, shook bond markets with distress in French sovereign debt being a key focus. Whilst Ursula von der Leyen remained as President of the European Commission, governance in France was challenged by a lack of a clear majority in the Parliamentary elections. This complicates the selection of a PM and hampers efficient law-making in domestic activities. S&P had downgraded French debt by a notch to AA- ahead of the elections.

China's economic releases suggested ongoing difficulties with generating growth. The PMIs suggested that business activity was close to unchanged in June. House prices have declined 3.9% in the year to May. Unemployment was steady at 5%. However annual retail sales growth accelerated (3.7% p2.3% e3.0%). Whilst much of the world seeks to contain inflation, China's consumer inflation was -0.1% for May.

The PBoC left rates unchanged but has taken increasing steps to control the government yield curve as it develops its practices under Governor Pan Gongsheng. Immediate priorities include stabilizing the Yuan exchange rate, which has weakened considerably, and also protecting the profitability of its banks (which prefer a steeper yield curve). The date for the 3rd Plenum, a critical forum for policy development, was announced for mid-July.

Japan's economic performance continues to challenge efforts to normalize monetary policy. Q1 GDP fell 0.5% (p0.1%, e-0.5%). Industrial production fell in April (-0.9% p4.4% e-0.1%) and contracted by 1.8% over the year. Whilst wage growth is evident, consumption is restrained by an even higher rate of inflation, which has been driven by a significant depreciation in the JPY. Unemployment remained at 2.6%.

The BoJ left policy settings unchanged but will be looking to reduce the volume of regular government bond purchases (outside of QE activities).

In other developments, the IEA warned of a significant oversupply of oil by 2030 as US production rises. The G7 met and called for a comprehensive deal leading to a ceasefire in Gaza. Israeli PM Netenyahu, who dissolved the war cabinet after centrist members resigned, made intonations that the end of major combat operations may be near. However, focus shifted to a potential escalation in efforts against Hezbollah.

China sought to restore relations with Australia and President Xi called for the global south for play a bigger role in world affairs. Notably, Thailand and Malaysia have recently joined the BRICS organization. Europe increased tariffs on Chinese EVs.

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Broc McCauley
Head of Distribution
T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
Business Development Manager
T: 0424 837 522
E: matthew.b@realminvestments.com.au

Finbarr Warren
Business Development Analyst
T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

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MARKET COMMENTARY

The European elections stirred markets over the month. The voting outcomes were favourable for the far/hard right parties with populist agendas. The Green vote was materially weaker. Whilst control of the European parliament remained with the centrist parties and Ursula von der Leyen was re-appointed as European Commission President (held since 2019), French President Macron called an early Parliamentary election to stall the further advance of Le Pen's National Rally party.

Markets were concerned that National Rally and its allies, with its significant spending agenda, would control the parliament. French/European risk sold off. The OATS-Bunds spreads widened to levels last seen during the European debt crisis in 2012. Members of the ECB even felt compelled to mention that the Transmission Protection Instrument, a backstop to prevent disorderly bond market moves that were evident in the peak of the debt crisis, remained available. Markets eventually settled as the prospect of an absolute majority for the far right party receded.

Despite the brief bout of risk aversion, sentiment amongst fund managers remained bullish overall. Inflation risks were seen to be the most pressing medium term concern.

KEY MARKET DEVELOPMENTS

The Bloomberg BBB OAS widened (1.37% prior 1.25%) following developments in European politics. European credit synthetics were particularly impacted with iTraxx Main at 61bps (p53bps) and iTraxx XO at 319bps (p296bps).

Equity markets were mixed. Chinese equities underperformed with the CSI down 3.3% on concerns for an economic slowdown. Whereas the S&P500 rallied 3.5%, driven by the Tech sector. Developments in Europe did not create much of a fuss in the VIX (12.4 p12.9), which traded within a tight range.

The USDJPY (161 p157) reached levels last seen during the Paris Accord in 1986, when the JPY was deliberately depreciated in an ultimately failed effort to reduce the US bilateral trade deficit. Major Western bond markets rallied with Australian 10yr bond yields at 4.31% (p4.41%) and US 10yr bonds at 4.40% (p.4.50%).

WTI rose 6.0% to $81.54bbl partly due to an increasing likelihood of significant Israeli military conflict with Hezbollah. Ukraine also launched drone attacks against Russian refineries. The US summer driving season commenced and OPEC extended production cuts. On the other hand, Copper fell 4.4% to USD 9599/ton on higher than expected Chinese inventory accumulation.

The portfolio was largely unchanged over the month in terms of broad characteristics.

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ECONOMIC OVERVIEW

Nowcasts from the New York and Atlanta Federal Reserve Banks suggested that US Q2 GDP was at healthy levels albeit slightly below consensus estimates. The outlook for growth remains robust and is expected to approximate potential. As labour market conditions ease, some concerns are arising that labour hoarding practices may unwind suddenly and cause unemployment to rise disproportionately to any economic slowdown. At present, the US economy is projected to continue to add jobs despite experiencing a rising unemployment rate. Commentators focused on the Federal Budget following the Congressional Budget Office's update which estimated that the deficit would reach 7% of GDP for 2024 (2025: 6.5% deficit).

European households are expected to underpin a recovery, supported by rising real wages. Productivity improvements and net inward migration are expected to deliver growth without altering the rate of unemployment. Nonetheless, there is considerable uncertainty in how the links between wages, productivity and corporate profitability will play out.

China continues to generate growth which is commensurate with a 5% target for 2024. This is despite ongoing liquidity issues amongst property developers and increasing hostility to its export-oriented trade policies.

Australia's inflation outcomes, labour force figures and significant upwards revisions to prior estimates on tourism expenditure led to a strengthening reassessment of household economic resilience. Despite some distress amongst households emerging, economists revised the probability of a recession in the coming 12 months from 30% to 22.5%.

CREDIT MARKET OVERVIEW

Credit spreads remain near historical tights despite a bout of risk aversion related to the European and French elections. Historically, IG spreads at these levels were associated with the development of bubbles or the result of QE. Although HY spreads in the US are also tight, allowance for economic risks arising from tight monetary policy results in these spreads being less extreme relative to its history. Within the HY universe, concern for credit distress can be found most prominently in TMT and healthcare sectors. President Macron's decision to call a parliamentary election to fend off a significant improvement in Le Pen's RN party created risk aversion for the debt of French banks which saw their capital stack sell off and subsequently revert.

Derivative markets are anticipating a low level of price volatility. However, an elevated risk of a left-tail event is priced into credit related options markets in the US and Europe.

Australian structured issuance has been very strong and spreads are narrow and relatively undifferentiated within IG rated notes. Australian ADI issuance has been very notable with banks tapping the market in relatively high volumes. ABS issuance, primarily Auto, has also be strong this year. Spreads continue to compress, with the BBB-AAA premium now tighter than in 2021. S&P's arrears analysis on RMBS suggests these have been reasonably stable at pre-Covid levels.

Within CLOs, spreads have rallied over recent months with BBB lines tightening further in June. Although refinance and reset activity has been high, creating considerable gross issuance, net issuance is limited. As spreads in underlying levered loans have not compressed as much in recent months, the incentive to form CLOs has improved.

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T: 0433 169 668
E: broc.m@realminvestments.com.au

Matthew Blair
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T: 0424 837 522
E: matthew.b@realminvestments.com.au

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T: 0405 543 196
E: finbarr.w@realminvestments.com.au

Rhys Kostopoulos
Client Services
T: 03 9112 1150
E: clientservices@realminvestments.com.au

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