Realm High Income Fund

April 2018

Fund Objective

The Realm High Income Fund is a fixed income portfolio, that invests in domestic investment grade asset backed securities, bank-issued securities and corporate & government bonds. The objective of the Fund is to deliver investors a consistent return (net of fees and after franking) of 3% over the RBA cash rate through the market cycle.

Net Performance

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate Return
1 Month	0.25%	0.29%	0.12%
3 Month	0.40%	0.50%	0.36%
6 Months	1.02%	1.23%	0.74%
1 Year	2.74%	3.19%	1.51%
2 Years p.a	4.19%	4.64%	1.53%
3 Years p.a	3.84%	4.30%	1.69%
4 Years p.a	4.09%	4.55%	1.88%
5 Years p.a	4.89%	N/A	2.02%
Since Inception p.a*	5.26%	5.02%	2.13%

* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013. Adviser Units Inception 8 September 2016

Fund Update

Cash and Short-Term Liquidity Weighting: ↓ Down approximately 5% to a little over 30%. Proceeds reallocated to RMBS, ABS and AT1.

Interest Rate Duration Position: ↑ 0.37 years (remaining within band of 0.3 - 0.5 years dictated via the fund's technical overlay). US 10 year rates sold off to 4.5 year highs, pushing through 3% towards the end of the month. The Australian long end sold off in sympathy, however, US/AUS 10 year spreads widened to 0.19% by month end. At the same time the short end remained under pressure, with the 3 year bond selling off by over 0.20% moving into month end. The move puts the Aussie government curve near enough fair, however, we continue to sit underweight reflecting our cautious view around the US long end.

Corporate & Subordinated Debt Allocation: ↓ marginally, down to 33.82% from 36%. Main changes were driven by profit taking on AGL and Peet. In addition to maturities in APA sub debt. We added some Macquarie senior paper over the period and post month end we have also added to our recently acquired BHP subordinated debt positions and Liberty senior. At the time of writing weighting has increased back to 35%. Funding costs remain elevated. Our research confirms that widening is not driven by a reduction in credit quality. Equally we believe that the decline in interbank funding means spreads are more easily disrupted. The market remains soft even though CDS spreads and market risk has stabilised. This suits an opportunistic approach to building market position. We have seen secondary stock offered at good levels over the month. We stand well positioned to add to risk on market weakness.

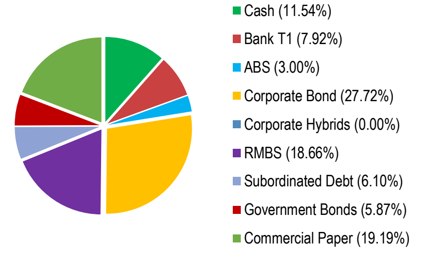
Residential Backed Securities (RMBS): ↑ Exposure increased by a couple of percent to 18.7%. We are looking at executing on a number of market led themes that will see our allocation increase over the next quarter. The interplay of APS 120 and the rise of market disintermediation, as well as the implementation of IFRS 9 accounting standards will present opportunities. This will likely see us drive the RMBS allocation to our benchmark weighting and perhaps even moderately overweight which should drive an increase in portfolio yield.

Fund Statistics

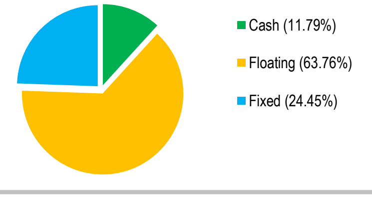
Running Yield	4.21%
Volatility†	0.31%
Interest rate duration	0.37
Credit duration	2.24
Average Credit Rating	A
Number of positions	162
Average position exposure	0.56%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	3.03
Information Ratio†	3.10

Calculated on Ordinary Units unless otherwise stated. *Since Inception 26 September 2012. †Trailing 12 Months Calculated on Daily observations

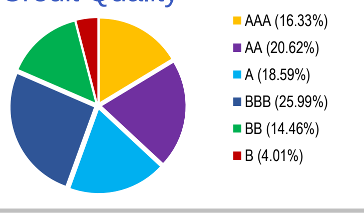
Portfolio Composition



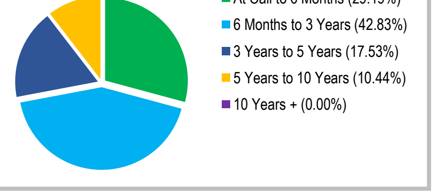
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Additional Tier 1 (AT1) Exposures: ↑ Increased moderately to approximately 7.9% (from 7.5%). Total turnover approached 3.5% of the portfolio. Maturities and the sale of some well bought exposures on the back of the Franking Tier 1 tantrum were used to fund buying in over the counter USD lines and some small additions to the AT1 name. The market has rallied off its wides but still looks fine in spots. The book is very active and we would anticipate that trading activity will now increase given spreads are sitting at fair value at certain maturities. Our dealer has been instructed to aggressively drive the portfolio in line with two way targets.

Asset Backed Securities (ABS): → No portfolio activity over the month. We are reviewing transactions that will see the allocation increase in the medium term.

Targeted risk across the Fund: ↑ A moderate increase to 0.70% in targeted standard deviation. We reduced longer AT1 names and sold out of sub investment grade corporate names while increasing RMBS and shorter AT1 names.

Market Outlook

Funding spreads made a modest recovery over the month as various market concerns subsided. Despite this interbank spreads remain elevated as do credit spreads. The reason for this seems to be the general decline in the interbank market, which as a result makes credit more vulnerable to cash movements.

The movement in markets last month had nothing to do with credit quality concerns or any other systemic plumbing issues, however, they did move credit spreads meaningfully despite this. This speaks to a market where real money flows will become increasingly important as Quantitative Easing subsides.

Indeed the withdrawal of market accommodation remains our key concern. As we move away from goldilocks conditions the question is how the market will respond to the impact of QE withdrawal and rising interest rates.

Our view is that spreads will remain under pressure for the remainder of the year and that the tights seen in January are unlikely to be tested. Indeed the volatility through March supports our long held view that credit markets are more vulnerable than ever to dislocations in market risk.

Credit remains soft, secondary performance of new issues has been stodgy and we continue to see offers across various markets. In this kind of environment we have been able to dial up portfolio risk on our terms.

Our portfolio activity will remain elevated in these kinds of conditions, with aggregate risk rising as and when markets weaken. This is consistent with our stated investment approach. Investors can also expect our fixed rate exposure to rise if the rate sell off continues from here. Our exposure rose to 0.37% from 0.2% at end of month. If yields find another leg higher from here we will likely move closer to our 1 year benchmark.

Sector Allocation

Sector	Asset Allocation Range	SAA Target
Cash	0% - 100%	10%
Government Bonds	0% - 100%	10%
Corporate Bonds	0% - 60%	10%
Corporate Hybrids	0% - 10%	5%
Bank Tier 1 Hybrids	0% - 25%	15%
Sub Debt Hybrids	0% - 25%	15%
RMBS	0% - 60%	30%
ABS	0% - 20%	5%

Fund details

Distribution Frequency: Monthly
Liquidity: Daily
Buy/Sell: 0.05% / 0.05%
Direct Minimum Investment:
Ordinary Units - $25,000
Wholesale Units - $1,000,000
Adviser Units - $25,000
Inception Date: 26.9.2012
Fund size: AUD $381 million
APIR Codes:
Ordinary Units - OMF0001AU
Wholesale Units - OMF009AU
Adviser Units - OMF0018AU
Management Fees (inc. GST):
Ordinary Units - 1.20%
Wholesale Units - 0.77%
Adviser Units - 0.77%
Responsible Entity: One Managed Investment Funds Ltd
Custodian: JP Morgan
Unit Pricing and Unit Price History:
www.realminvestments.com.au/media/4

Platform Availability

- BT Wrap
- BT Panorama
- Credit Suisse
- Crestone
- First Wrap
- Hub24
- Macquarie Wrap IDPS
- Managed Accounts – IAS
- Netwealth
- Powerwrap
- Praemium
- mFund Settlement Service - mFund code: RLM01

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