Realm High Income Fund

February 2019

Fund Objective

The Realm High Income Fund is a fixed income strategy, 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	0.59%	0.62%	0.11%
3 Month	1.01%	1.12%	0.37%
6 Months	1.12%	1.34%	0.74%
1 Year	2.26%	2.71%	1.50%
2 Years p.a	2.74%	3.20%	1.50%
3 Years p.a	4.06%	4.51%	1.55%
4 Years p.a	3.53%	3.98%	1.67%
5 Years p.a	3.99%	4.45%	1.84%
Since Inception p.a*	4.89%	4.69%	2.05%

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

Fund Update

Cash and Short-Term Liquidity Weighting: ↓ Reduced by a little over 1% to 23.1%

Interest Rate Duration Position: ↑ Our Interest rate duration positioning increased from 0.08 of a year to 0.50 of a year over the month. Yields in the US traded in a 10 basis point range before ending the month modestly higher, while here in Australia we ended the month tighter again, with the spread between Aussie and US yields now widening to over 0.6% at month end from a level of 0.38% at the beginning of February. The bond market is taking a pessimistic view at present and implying a rate of economic deterioration that isn't necessarily justified by the prevailing data. In spite of this we have chosen to increase our interest rate duration from a very low level. This decision is primarily driven by our desire to balance portfolio risk. We remain short versus what we would deem to be our optimal IRD level, our preference being to increase our fixed rate exposure as rates sell off from here.

Corporate & Subordinated Debt Allocation: ↑ Increased approximately 2%. Credit had another strong month as the rally in risk markets extended well into February. Last month we stated that we could discern a switch in market attitudes as concern relating to monetary and quantitative tightening gave way to expectations that central banks will continue to support the market. We believe market conditions remain constructive in the short term as this trend continues. In addition we believe that a number of our positions continue to present good relative value. Looking forward we feel that the market will present a range of opportunities over 2019 to take advantage of supply/demand imbalances driven by regulatory changes. In the meantime current holdings should continue to underpin portfolio returns.

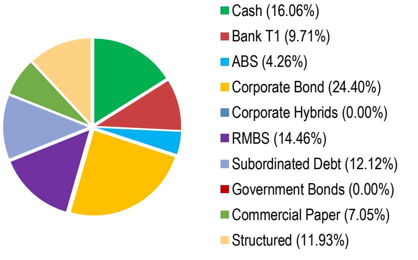
Residential Backed Securities (RMBS): ↓ RMBS reduced by 1% to 26% over the month. This is made up of on the run assets (16%) and Syndicated exposures (11%). We continue to expect busy issuance in 2019 with three new deals issued into the Australian market over the month and several others sounding.

Fund Statistics

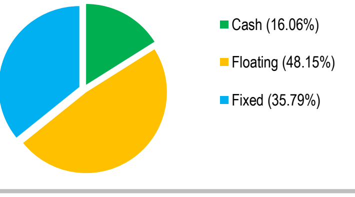
Running Yield	5.17%
Volatility†	0.56%
Interest rate duration	0.49
Credit duration	3.28
Average Credit Rating	BBB+
Number of positions	159
Average position exposure	0.41%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	2.88
Information Ratio∂	2.95

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

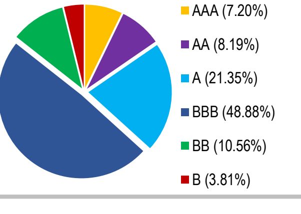
Portfolio Composition



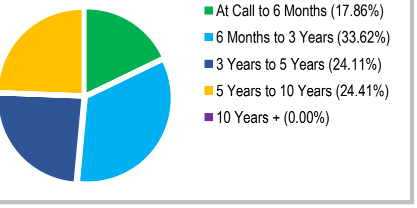
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Our expectation is that continued issuance will push the Australian market wider over the first half of the year, especially in the non-bank sector, given the absence of offshore investors and regulatory headwinds. We remain well positioned for this with approximately 24% of on the run exposures maturing within the next 18 months. On the syndicated front demand for capital is the strongest we have seen in 2 years. Finally, December arrears as reported by S&P increased slightly to 1.01% from 0.95%, however there is always a degree of seasonality in the Christmas number and therefore this causes us no real concern.

Additional Tier 1 (AT1) Exposures: ↑ Our holdings within the AT1 sector increased modestly from 8.3% to 9.91%. This increase related to our decision to participate in the recent Macquarie Listed Tier 1 issue. This was our first investment into the listed AT1 market in some time and was motivated by the offered trading margin and the fact that the security is only partially franked, meaning that the security will be less sensitive to any changes to the treatment of franking credits. This does not signal a change of intentions on our part. We continue to feel that technical and legislative factors will give us the opportunity to get set in the AT1 market at more attractive levels. This is likely to be funded by our USD AT1 positions as these meet price targets.

Asset Backed Securities (ABS): → Our ABS allocation remained unchanged over the month. Post the royal commission, both S&P and Fitch have released reports which summarise that the commission final reports should be considered neutral to Australian structured finance. Although both reports note that the commission report could see changes to underwriting standards, both conclude that there are no expectations for changes in ratings in current structured finance transactions. That said some of the findings around point of sale lending will force business models to evolve.

Targeted risk across the Fund: ↓ Portfolio risk reduced back to a tracking error of 0.95%, from 1%. We expect that risk will remain static in the short term and then trend lower as positions in our corporate and tier 1 book begin to trigger price targets.

Market Outlook

Financial conditions continue to ease, this has been particularly evident within credit markets. Inter-bank lending spreads and USD cross currency basis indicates that the funding stress that was evident through most of 2018 now seems to be reversing.

We spoke previously around the change in narrative in interest rate expectations and central bank accommodation, with the market now firmly of the view that rates will not rise (despite record low term-premia in the bond market). In addition the Chinese decision to increase liquidity to the debt market has seen Chinese on-shore credit perform very strongly, with the conventional view being that this will bleed into other jurisdictions such as Australia. Positivity could be further supported by the increasingly likely US/China trade resolution.

On the flip-side there are still a range of concerns that need to be closely followed: Brexit, a deteriorating economic environment in Europe, and Chinese growth downgrades chief among them.

Portfolio settings remain at or around a neutral risk positions, putting us in the position to exploit near term strength without being over-extended if unforeseen circumstances were to eventuate.

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
mFund Units - $25,000
Inception Date: 26.9.2012
Fund size: AUD $437 million
APIR Codes:
Ordinary Units - OMF0001AU
Wholesale Units - OMF009AU
Adviser Units - OMF0018AU
mFund Units – OMIF1394AU
Management Fees (inc. GST):
Ordinary Units - 1.20%
Wholesale Units - 0.77%
Adviser Units - 0.77%
mFunds 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
- uXchange
- mFund Settlement Service - mFund code: RLM03

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