Realm High Income Fund

July 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	0.90%	0.94%	0.09%
3 Month	1.86%	1.98%	0.32%
6 Months	3.63%	3.84%	0.68%
1 Year	4.44%	4.89%	1.44%
2 Years p.a	3.45%	3.89%	1.47%
3 Years p.a	3.96%	4.41%	1.48%
4 Years p.a	4.06%	4.51%	1.60%
5 Years p.a	3.92%	4.38%	1.74%
Since Inception p.a*	5.04%	4.91%	2.00%

* 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: ↓ Decreased to 19% from 28% as at the end of the month with liquidity reallocated to government debt and higher grade credit.

Interest Rate Duration Position: ↑ Increase in IRD positioning to 1.17 from 0.80 at the beginning of the month. Portfolio interest rate duration increased in the middle of the month as rates sold off and credit rallied. We use rates to maximise portfolio risk adjusted returns. Our rate positioning was a positive contributor to total portfolio performance as bonds rallied in the second half of July. This was reflected in our increase of government and semi government securities.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate and sub debt increased to 37%. It was our view that the pending influx of T2 issuance from the major banks will reduce their need to issue senior securities. We hypothesized the scarcity premium for senior securities and the increase in subordination would drive down margins, hence we increased our allocation to bank senior paper during the start of the month. The market saw three of the four major banks issue Basel III compliant Tier 2 securities since the APRA announcement around capital requirements. Both Westpac and NAB issued in the US market while ANZ issued domestically in AUD format. Despite this our net position in sub debt hadn't changed month-over-month as we expect supply side pressures to drive a relative widening in this market in the shorter to medium term. There were no other changes in our corporate allocation.

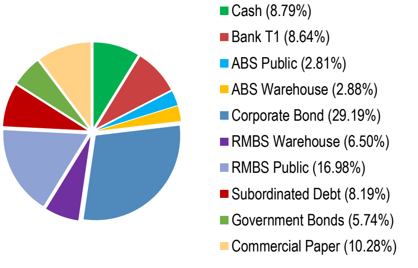
Residential Backed Securities (RMBS): ↑RMBS increased by approximately 1% over the month, driven by our participation in new public RMBS deals. Strong issuance was seen with regional banks (AMP and Bendigo Adelaide Bank), a non-bank issuer (Redzed) and a major bank (ANZ) issuing into a well bid market. Market pricing strengthened with many of the new deals bid very well in secondary. Moving to performance now, S&P Index SPIN prime arrears for May improved, falling 2 bps to 1.11%. Non-conforming arrears also improved, falling from 4.11% to 3.80%. Geographically, most states saw an improvement in arrears over the month. Notably, NSW and VIC both saw improvements in arrears, decreasing to 4 bps and 3 bps to 1.24% and 1.40% respectively.

Fund Statistics

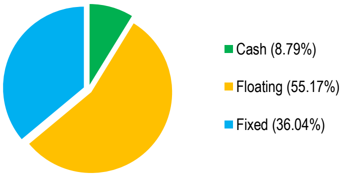
Running Yield	4.53%
Volatility†	0.68%
Interest rate duration	1.17
Credit duration	3.47
Average Credit Rating	BBB+
Number of positions	167
Average position exposure	0.45%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	3.14
Information Ratio∂	3.23

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

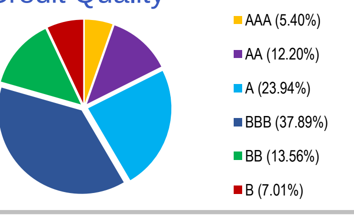
Portfolio Composition



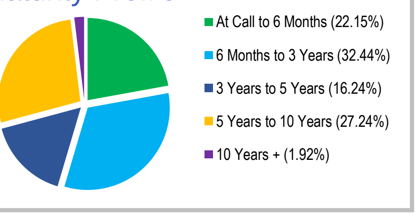
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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WA and the NT also saw improvements with a 10bp decrease to 3% in WA and a 23bp decrease to 3.1% in the NT. All in all we would characterise these numbers sitting within the normal range.

Additional Tier 1 (AT1) Exposures: ↓ AT1 exposures decreased to 8.6%. This is due to lightening of our domestic listed hybrid positions. Plummeting rates and the chase for yield has caused the domestic listed hybrid sector to rally well beyond what we think is fair value for the inherent risk characteristics of this sub-sector. Over the course of the month, we have maintained our exposure to Aussie USD T1 assets as they still provide relative value over value over listed domestic securities.

Asset Backed Securities (ABS): → Our ABS allocation remains stable at approximately 5%.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 1.17% to 1.23%. A marginal increase in targeted risk resulted from an increase in Corporate and RMBS allocations which were offset by a slight reduction in Bank T1 securities. Current positioning extends on our aggressive overweight market risk view.

Market Outlook

July was another strong month for credit and rates as bond yields plummeted and credit spreads tightened both here and abroad. The market could be characterised as buoyant as positive news flow relating to global trade coupled with stable economic data, declining volatility and lower rates created a goldilocks environment for credit assets.

At a sector level all of our major asset classes rallied strongly with Australian major bank performance particularly notable. Major bank 5 year benchmark senior debt tightened by 21 basis points (up over 1% for the month). The performance of bank senior was also reflected more broadly within the Australian financial sector, with Australian RMBS also delivering a very strong month while domestic tier 2 spreads held their ground despite three large issues from ANZ, NAB and Westpac.

At the time of writing this narrative is being challenged as the unravelling of trade negotiations has seen a surge in volatility, this has also been reflected in a widening of global credit spreads. This being said, movements in credit have been relatively contained by comparison to the volatility in equities. Rates have once again responded to the headlines with Aussie 10 year bonds touching 1% in early August and threatening an inversion across the curve. Meanwhile US forward curves are now implying a 1 year forward fed funds rate of nearly 1%.

In this kind of environment the outlook for credit becomes interesting. Low absolute levels of rates and plummeting bond yields provide a significant buffer for corporate P&L's as will more meddling from the central bankers through ever increasingly unconventional support for markets. In Europe for example we are looking for a Lagarde led ECB to re-ignite purchases of credit, just as the BOJ threatens YEN bulls with more accommodation.

Here in Australia the forward curve is pointing to up to 2 more cuts by calendar year end, this will only exacerbate the reach for yield which we expect will see credit deliver stable performance. We note that assets like RMBS that have long provided a healthy liquidity and complexity premium may be a beneficiary of this, as will Australian corporate credit more broadly.

We are inclined to maintain an overweight risk position basis our short term outlook, albeit with a healthy level of rate exposure to balance total portfolio risk.

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 $511 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
- Managed Accounts – IAS
- Netwealth
- Powerwrap
- Praemium
- uXchange
- mFund Settlement Service - mFund code: RLM03

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