Realm High Income Fund

June 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	0.79%	0.83%	0.10%
3 Month	1.63%	1.73%	0.35%
6 Months	3.48%	3.70%	0.72%
1 Year	3.99%	4.43%	1.48%
2 Years p.a	3.14%	3.59%	1.49%
3 Years p.a	3.90%	4.35%	1.50%
4 Years p.a	3.98%	4.44%	1.62%
5 Years p.a	3.85%	4.31%	1.77%
Since Inception p.a*	4.97%	4.81%	2.02%

* 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 28.24% from a little over 30%.

Interest Rate Duration Position: ↑ Increase in IRD positioning to 0.80 from 0.50 at the beginning of the month. Another strong period of performance for rates markets both domestically and overseas, as central bank policy and safe haven buying sent Australian yields to record lows just as US 10 year bonds dipped below 2% for the first time in 3 years. As previously stated the current rate path implies a material deterioration in economic conditions (greater than what the data implies). Our positioning reflects what we would view to be a neutral stance given current interest rates and portfolio risk.

Corporate & Subordinated Debt Allocation: → Weighting to corporate and sub debt remained in line with the prior month. No material changes to composition. Strong month overall as plummeting rates and strong supportive central bank statements acted to buoy markets. In short the market looks moderately expensive, especially in Aussie dollars where a lack of issuance and plummeting yields is leading to outperformance of domestic spread product. That said we have central banks increasing monetary accommodation, a global economy which seems stable (if un-inspiring) and low absolute risk free rates. It is fair to suggest that the recessionary concerns of late 2018 that drove significant weakness in credit markets have (for the moment at least) dissipated. Despite deteriorating technical and fundamentals market momentum will likely be supportive in the shorter to medium term.

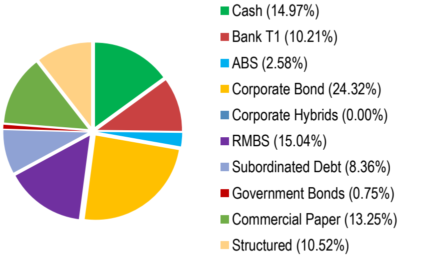
Residential Backed Securities (RMBS): ↑ RMBS increased by approximately 1% in total weight over the month. Investors will see this allocation increase over the coming months. RMBS/ABS suffers from the stigma associated with the GFC and more recently housing weakness. That said faced with an environment where domestic corporate issuance is almost non-existent and at call rates are well under 1% you can expect liquidity will find its way into parts of the market that can deliver returns with a certain level of security. We say this on the grounds that the premium provided by structured credit markets is a function of cultural bias (GFC/Big Short), complexity (lack of specialisation) and liquidity. This premia is likely to become attractive as investor at call deposits are being pushed

Fund Statistics

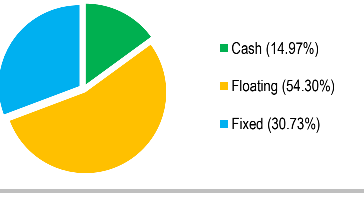
Running Yield	4.61%
Volatility†	0.65%
Interest rate duration	0.79
Credit duration	3.32
Average Credit Rating	BBB+
Number of positions	157
Average position exposure	0.44%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	3.04
Information Ratio∂	3.12

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

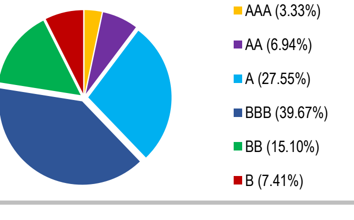
Portfolio Composition



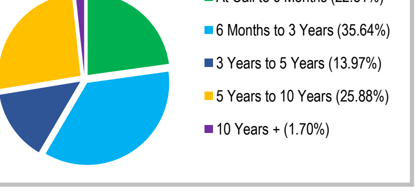
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



Portfolio Managers: Andrew Papageorgiou andrew.p@realminvestments.com.au Rob Camilleri rob.c@realminvestments.com.au Client Services: 03 8560 7297 clientservices@realminvestments.com.au

To the wall. On to market performance SPIN prime arrears for April were flat at 1.13%, while non-conforming arrears rose to 4.11% from 3.63%. All in all we would characterise these numbers sitting within the normal range.

Additional Tier 1 (AT1) Exposures: → Remained stable at 10%. Our exposure is skewed towards Aussie names in USD. In the domestic listed market we saw spreads at the long end of the hybrid curve tighten by 1%, this would characterise this market as expensive both fundamentally and using any recent historical average. That said with plummeting rates and the absence of quality yield alternatives it is no surprise this is the case. Our weighting to the sector is still skewed towards Aussie USD assets which in general are yielding anywhere between 0.6% to 1.2% above the Australian listed like names.

Asset Backed Securities (ABS): Our ABS allocation remains at approximately 2.5%.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 1.07% to 1.17% as we increased our sub–IG allocation, our exposure to fixed rate bonds and RMBS. We would characterise our current positioning as being overweight market risk and reflect our more aggressive positioning in the current environment.

Market Outlook

Markets bounced strongly, driven by central bank signalling and a ceasefire in the ongoing trade spat between the United States and China. Here in Australia the RBA cut to 1% and signalled a pause. Markets are buoyant. Financial conditions are loose and will likely be loosened further, bond markets are delivering risk assets the lowest risk free rate in over 3 years in the US and all time record lows here at home and when all is said and done you have a global economy that is stable (if-uninspiring).

Starting with rates, its hard to find a bond bear anywhere at the moment, which might be a sign in-itself. Current rates are implying very low term premia which reflects high expectations around rate cuts, this is despite the fact that economic performance globally is at or around trend, while in the US economic strength could be described as being comfortably above post GFC averages.

This could be explained by safe haven buying which has moved rates through fundamentals or it may also signal a change in US settings, whereby the Fed seeks to deal with weakening competitiveness and productivity (especially in manufacturing) through focussing on relative currency performance and consequently rates. The markets are implying a 100% probability of a cut in July and a 60% probability of at least 3 by year end. This markedly exceeds Fed guidance.

Domestically the RBA has cut in early July and signalled a pause. Market see's one more before year end. Add to this pending tax cuts, bottoming in property values and of course record low rates and you can expect yield assets and product will be well sought. More specifically we feel that this new environment could challenge the traditional Australian barbell investment strategy which see's an over investment in equities and cash, with the middle of the risk curve (credit, infra and other alternatives) neglected. The reach for yield can be expected to buoy AUD credit and hybrid markets and drive them well into expensive territory. This should be met by increased foreign issuance into AUD and unfortunately will also result in money trickling to all the wrong places. Investors and advisers should remain vigilant in such an environment.

At a portfolio level we remain overweight risk and expect the Realm High Income fund to exceed its return target over the current calendar year.

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 $489 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

Realm Investment House
ABN 34 155 984 955
AFSL 421 336

Level 17
500 Collins St
Melbourne VIC 3000

Email: clientservices@realminvestments.com.au
Website: www.realminvestments.com.au
Tel: 03 8560 7297