Realm High Income Fund
March 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	0.47%	0.50%	0.13%
3 Month	1.82%	1.93%	0.37%
6 Months	1.29%	1.51%	0.75%
1 Year	2.75%	3.19%	1.50%
2 Years p.a	2.73%	3.17%	1.50%
3 Years p.a	4.04%	4.49%	1.54%
4 Years p.a	3.56%	4.01%	1.66%
5 Years p.a	3.97%	4.43%	1.82%
Since Inception p.a*	4.90%	4.71%	2.04%

* 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: ↑ Increased to 27.44% over the month. The increase in liquidity was the result of a reduction in risk within the corporate bond, subordinated debt and AT1 allocation.

Interest Rate Duration Position: → Our Interest rate duration positioning remains at 0.50 of a year. Bond yields crashed over the month as the Federal reserve capitulated in the face of market concerns. Forward projections saw significant cuts to forward Fed Fund expectations just as nominal growth assumptions remained largely in line with prior estimates. In addition the Fed's decision to redirect balance sheet purchases from agency MBS to treasuries is logically expected to support the long end of the Treasury curve. Despite the bullishness of price action, term premium seems very light. The NY Fed's term premia model is currently indicating that term compensation is the lowest in history. We concur with this sentiment, preferring to position ourselves at the low end of our 0.4 to 0.8 of a year, targeted range.

Corporate & Subordinated Debt Allocation: ↓ Decreased by approximately 4% over the month. Credit had a reasonable month with benchmark BBB curves rallying by 3 to 4 points at the longer end. This modest compression is spreads was again a strong driver in monthly performance. We reduced a range of positions over the month as price targets were met. The majority of selling related to our shorter corporate maturities which remain very well sought by investors who remain sheepish. We are likely to hold our exposure at current levels and may even opportunistically increase. The strong rally in rates now creates an environment that we expect to be positive for credit performance. Credit premia currently looks as attractive as it has since early 2016.

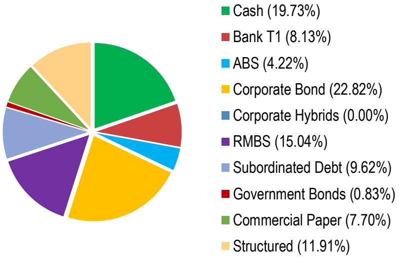
Residential Backed Securities (RMBS): ↑ RMBS increased by 1% to 27% over the month. This is made up of on the run assets (15%) and Syndicated exposures (12%). We spoke last month of our expectation that a surge in issuance over the coming months is likely to push market spreads wider. This has begun, with a number of public deals being sounded and pricing through March. More issuance and softer coverage ratios has seen a good part of the curve widen between 20 to 50 basis points. This is getting back to levels that could be characterised as fair.

Fund Statistics

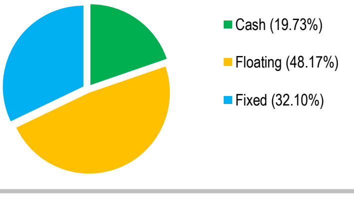
Running Yield	4.87%
Volatility†	0.57%
Interest rate duration	0.50
Credit duration	2.98
Average Credit Rating	BBB+
Number of positions	156
Average position exposure	0.41%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio[∂]	2.90
Information Ratio[∂]	2.98

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

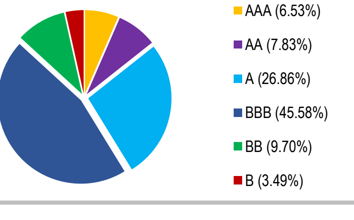
Portfolio Composition



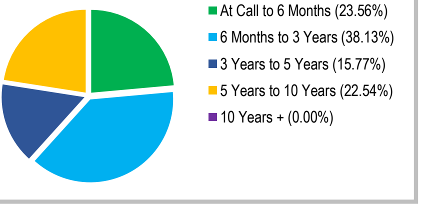
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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The non-banks have continued to capitalise on an increase in awareness of their product in both North American and Asian markets, with Asian banks becoming increasingly prominent as deal leads or JLM's and a rising number of private placements being sold to large Asian investors. Some question whether the Asian bid will be enduring over the years to come. Our opinion is, all things being equal Australian structured credit product delivers the highest yield by rating in any developed country. The spread provided by Aussie non-bank RMBS is near enough the highest on the planet. In an environment where term premia is negligible this will be almost too got to refuse for Asian defined benefit investors. We will continue to roll maturities into new product at attractive spreads selectively.

Additional Tier 1 (AT1) Exposures: ↓ Our holdings within the AT1 sector reduced modestly from 9.71% to 8.1%. We sold one of our USD AT1 holdings at a reasonable profit. On to listed markets, new issues performed well over the month, with Macquarie issuing MQGPD and NAB issuing NABPF, both have listed at a healthy premium to their issue price. We did participate in the Macquarie transaction (our first listed AT1 investment in some time). We feel that the listed market could be broadly characterised as fair given prevailing concerns, however with the election just around the corner and Labor committed to their stance we do not feel the need to rush in. Additionally we feel that APRA's TLAC measures could drive increased T2 issuance into the listed market , which could impact AT1 listed pricing indirectly.

Asset Backed Securities (ABS): → Our ABS allocation remained unchanged over the month. Flexigroup came to market with a new primary transaction, the deal was well sought and priced tight on our numbers. The cash-flow profile of established ABS programs sees it generally well sought by market participants.

Targeted risk across the Fund: ↓ Portfolio risk reduced back to a tracking error of 0.92% from 0.95%, our bias is to hold risk here, if not to moderately increase exposure.

Market Outlook

The big move over the month came in rates, where bonds roared higher on the back of central banks being cowered by markets. Risk asset performance was choppy, with equity and credit up modestly while volatility indices were for the most part higher.

The capitulation of central banks to market sentiment seemed to spook participants on some level. While low rates have proven to be positive for risk markets in the post GFC period, this time around investors seemed to be more circumspect. The acronym FONGO (Fear Of Not Getting Out) has now emerged and acts as a counter balance to FOMO (Fear Of Missing Out).

Ultimately no one really wants to be holding risk if we are headed into a recession. In some way the market took the Feds action as a tacit nod to those who have been prognosticating a more severe deterioration in economic conditions. Our belief is that risks to the global economy are balanced to negative, however equally we feel central banks have over-reacted. If anything they may have sowed the seeds for the next run up in yields with their actions.

On to risk, we are not in the camp expecting imminent economic calamity. We believe that credit risk might only look fair to moderately dear in its own right, however in the context of where bond yields sit, and considering the fact that 65% of the worlds pension assets are dealing with defined benefit targets and deteriorating demographics, credit may well find a solid level of support over the coming months . We believe market conditions will be supportive for our current positioning over the medium term.

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 $441 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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