Realm High Income Fund

May 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	0.16%	0.21%	0.13%
3 Month	1.30%	1.41%	0.38%
6 Months	2.32%	2.54%	0.75%
1 Year	3.39%	3.83%	1.50%
2 Years p.a	2.89%	3.34%	1.50%
3 Years p.a	3.72%	4.17%	1.51%
4 Years p.a	3.66%	4.11%	1.63%
5 Years p.a	3.83%	4.29%	1.79%
Since Inception p.a*	4.91%	4.73%	2.03%

* 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 30.15%, in line with portfolio optimisation, profit taking and the anticipation of imminent primary deals.

Interest Rate Duration Position: ↑ Increase in IRD positioning to 0.50 of a year. In the US a deterioration in the narrative around a China trade deal and a Mexican front impacted the general market mood. The weighted interest rate probability projected by the US yield curve is for 2 cuts with an 80% probability. This requires a significant deterioration in economic conditions to be validated. Here in Australia the market firmly positioned itself for the RBA to cut. The market is now pricing in one more cut with a 40% chance that we get 2 or more. Not a lot of room for error in all of that, bad news and worsening conditions are in the price (even if they aren't in the data). We see little relative value in being long rates at present.

Corporate & Subordinated Debt Allocation: ↑ A slight increase over the month (32.01% current from 31.23% last month) resulting from a marginal increase in both the corporate bond and subordinated debt allocation. Most of the profit taking resulted from lightening corporate senior debt opportunistically. As we see individual names being well bid, we will look to crystallise profits. The selling was offset by buying of bank senior, the focus being on reducing the cash drag on portfolio running yield.

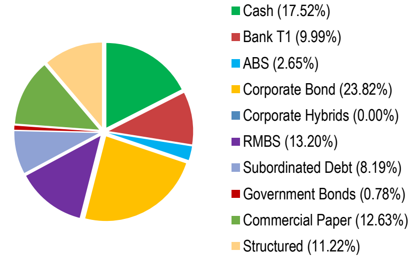
Residential Backed Securities (RMBS): ↓ RMBS decreased by approximately 3.5% to 24.5% over the month. Syndicated exposures remained static at around 11% while on the run assets decreased to 13% from 17% last month. We were a net seller over the month as we took advantage of opportunistic bids. This has put us in a position to be proactive as market issuance rises on the back of a handful of high quality regional bank deals coming to market. On to market performance now, SPIN data for the month showed a small rise in prime arrears (0.02%) while non-conforming arrears declined (0.29%). The data could be described as being in a normal range.

Fund Statistics

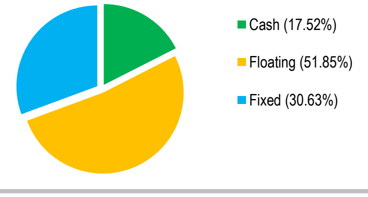
Running Yield	4.80%
Volatility†	0.60%
Interest rate duration	0.49
Credit duration	3.28
Average Credit Rating	BBB+
Number of positions	153
Average position exposure	0.38%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	2.95
Information Ratio∂	3.03

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

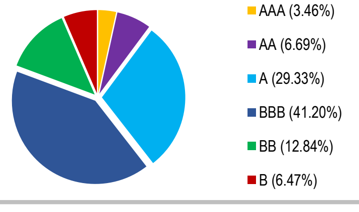
Portfolio Composition



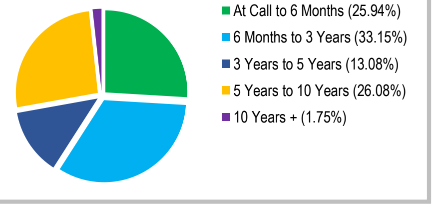
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Big news over the month in the asset class came in the form of an election result which was generally seen as being positive for property and APRA opening the door to repealing the 7.25% interest rate cap. With rates plunging and the pressure on collateral prices lifting, we would expect the market to become constructive for Australian RMBS risk moving forward.

Additional Tier 1 (AT1) Exposures: ↑ A meaningful increase in our AT1 exposure from 7.28% to 9.99%. The entire increase is attributable to our listed Aussie hybrid allocation. The coalition's victory in the election meant the risks posed from the franking policy evaporated. We built the position in a little over a week slightly above where the market had closed going in to election eve (we take this as a evidence of the fact that the market was not pricing in an adverse scenario). We are still short of our 15% strategic benchmark, with the majority of our exposure still coming from higher yielding USD issues.

Asset Backed Securities (ABS): Our ABS allocation declined by a little over 1% over the month on the back of some opportunistic selling.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased from 1.05% to 1.07% on the back of our re-entry to the hybrids sector. We anticipate our targeted risk level to increase further as we engage in pending primary deals and put more of our cash reserves to work.

Market Outlook

A tumultuous month for markets as expectations around a positive resolution in the US / China trade détente evaporated and took with it global economic expectations.

This was evident across asset classes in the US market within bond's rallying, credit widening and equities plummeting. The risk off mood saw the portfolio give up some of the strong early month returns into the last week of May as Asian selling saw Aussie corporate names and USD AT1 experience a high level of volatility.

Here in Australia, none of that seemed to matter, with the coalition victory driving a strong market rally. APRA came to the party a few days later by signalling that they will be repealing the interest rate serviceability cap, which will allow an aggregate increase in household borrowing capacity, before Philip Lowe followed through with a well telegraphed rate cut.

All of that said the real eye opener was the performance of rates markets in the US. Using any fair stochastic approach leads us to taking the view that the market has either severely over shot or that data is set to deteriorate and fast.

Investors will be pushed to take a view as risk free rates collapse and risk premia becomes more attractive in relative terms. The sell off at the time of writing for credit could be described as being moderate, however with volatility persisting it could certainly weaken further. For our part we are still overweight market risk with a targeted tracking error sitting above our long term target.

While we recognise that volatility could persist, we expect central banks to lean hard on levers to buffer the economy and the market. Our focus is on collecting good names across RMBS, AT1 and corporate at reasonable prices while this volatility persists. The view being that a collapse in risk free rates is risk positive assuming risks of a global recession and asset performance are muted (which we believe to be the case). Our view remains that the portfolio is well positioned to exceed its return target over the 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 $467 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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