Realm High Income Fund

November 2018

Fund Objective

The Realm High Income Fund is a fixed income portfolio, 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	-0.23%	-0.19%	0.12%
3 Month	0.11%	0.22%	0.37%
6 Months	1.04%	1.26%	0.75%
1 Year	1.81%	2.25%	1.50%
2 Years p.a	2.84%	3.29%	1.50%
3 Years p.a	3.72%	4.17%	1.59%
4 Years p.a	3.58%	4.04%	1.73%
5 Years p.a	4.19%	4.66%	1.89%
Since Inception p.a*	4.92%	4.69%	2.07%

* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013. Adviser Units Inception 8 September 2016

Fund Update

Cash and Short-Term Liquidity Weighting: → Remained in line with month prior sitting at approximately 32%.

Interest Rate Duration Position: → Our Interest rate duration positioning remained flat over the month. Heightened market volatility across equities, credit and commodities drove a broader risk off tone which saw bonds catch a meaningful bid with the US 10 year rallying 15 basis points. Rates were also supported by Fed Chairman Jerome Powell's speech to the New York Economic Club, the market interpreted the Fed Chair's comments as indicating that the Fed is likely to take a more data dependent approach moving forward. This doesn't change our fundamental view that US inflation is likely to keep pushing rates higher, we anticipate that this could drive a flattening of the yield curve.

Corporate & Subordinated Debt Allocation: → Remained flat at approximately 30% at month end. While the allocation remained static there was a small increase in budgeted portfolio risk. This was executed through raising our exposure to the subordinated debt of BHP, the senior debt of Incitec Pivot and a position in the subordinated debt of AMP. While we maintain the capacity to increase risk further, we feel this most recent move wider in credit brings markets to fair (rather than cheap). Despite this there are some pockets of value emerging. It is highly likely that a move wider from current levels will see us increase risk in this sector of our allocation further.

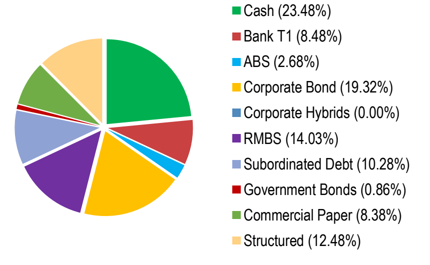
Residential Backed Securities (RMBS): ↓ RMBS remained static at 23% over the month as maturities were replenished by structured securities at higher spreads. The market widened in sympathy with softer credit markets, this was reflected in senior bank spreads which were off 10 basis points over the month (0.5% decline in face value) in addition the tapering of ECB bond buying and the end of the UK term funding scheme has seen an increase in European RMBS issuance which has added to supply. From an asset performance perspective, S&P SPIN data for the September Quarter was released. It showed that total Prime arrears declined modestly from 0.99% to 0.97%, meanwhile non-conforming SPIN remained below its 18 year average of 9.88%, coming in at 3.01% (up from 2.97% in prior quarter).

Fund Statistics

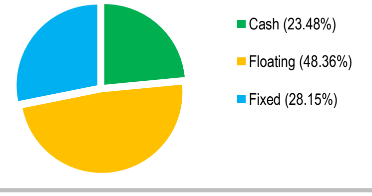
Running Yield	4.77%
Volatility†	0.4%
Interest rate duration	0.30
Credit duration	2.79
Average Credit Rating	A-
Number of positions	148
Average position exposure	0.41%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	2.86
Information Ratio∂	2.93

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

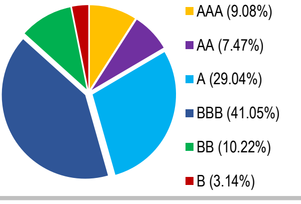
Portfolio Composition



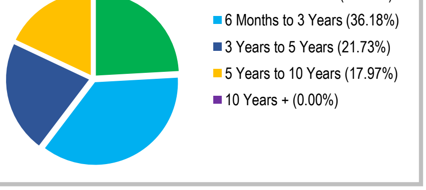
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Despite weak and visibly deteriorating confidence around housing prices, loan performance remains solid on the back of record low interest rates, a full employment environment and the first tentative signs of wage growth.

Additional Tier 1 (AT1) Exposures: ↑ We made a solid increase to our AT1 allocation going from 6.68%to 8.5%. This was done through increasing our USD AT1 exposure by adding to Westpac, ANZ and QBE. This market is back to its wides of the year, its high correlation to US High Yield markets has meant that most names have come off over 5%, with spreads well north of what is available in the listed AT1 (Bank Hybrid) market.

Asset Backed Securities (ABS): → Allocation remains at our SAA target. It's a sub-sector we like as pools are made up of quickly amortising obligations in well subordinated structures delivering reasonable yields. All investments are in large well scaled programs and there is no direct or peer to peer exposure in this allocation.

Targeted risk across the Fund: ↓ Portfolio risk remained broadly in line at 0.93%. Credit markets have weakened materially over the last two months, with the market moving from expensive to fair, with US BBB corporate debt spreads now broadly in line with their 10 year average. That said we do maintain the available liquidity to increase risk if this volatility persists. It is also likely that we will begin actively hedging our market tail risk exposure at the margin as we do this .

Market Outlook

Weak month for risk markets and credit in particular. On face value the recent movement in credit spreads seems largely explainable by the broader risk off tone, however closer examination shows us that US BBB credit spreads are back to 2016 levels, having spent the back half of 2018 under constant pressure.

As this year has progressed credit investors have had to face up to the reality of rising interest rates , the decline of central bank asset purchases (ECB) and more recently the idea that momentum in the global economy is turning.

In addition the last two months have also seen name specific events drive an increase in speculation around the health of some of the larger debt issuers in the US market. For example General Electric has seen its credit spreads widen by approximately 2% since the beginning of October, with this stalwart of debt markets trading like a sub-investment grade issuer. With over $100 bil USD owing, this is a big deal. A number of pundits weighed in on the potential of this signalling a broader deterioration in credit quality, especially for some of the larger debt piles in the market.

Our view is that the recent correction is not a pre-cursor to a significant event, however equally it illustrates that spreads and volatility have been unsustainably tight and will come under pressure as markets normalise. What exacerbates these moves is the fact that market liquidity is poor and very often pro-cyclical, this magnifies market movements.

We maintain a neutral risk position at this stage, despite having incrementally increased risk over the month. If the sell off in credit intensifies, we are likely to dial up portfolio risk, however we are also likely to increase our hedging with a view to protecting capital.

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
Inception Date: 26.9.2012
Fund size: AUD $426 million
APIR Codes:
Ordinary Units - OMF0001AU
Wholesale Units - OMF009AU
Adviser Units - OMF0018AU
Management Fees (inc. GST):
Ordinary Units - 1.20%
Wholesale Units - 0.77%
Adviser 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
- mFund Settlement Service - mFund code: RLM01

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