Realm High Income Fund

October 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	0.04%	0.08%	0.13%
3 Month	0.59%	0.71%	0.38%
6 Months	1.22%	1.45%	0.75%
1 Year	2.25%	2.70%	1.50%
2 Years p.a	3.15%	3.61%	1.50%
3 Years p.a	3.88%	4.33%	1.61%
4 Years p.a	3.77%	4.23%	1.75%
5 Years p.a	4.31%	N/A	1.90%
Since Inception p.a*	5.03%	4.81%	2.08%

* 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 34%.

Interest Rate Duration Position: → Our Interest rate duration positioning remained flat over the month. Our optimised neutral rate position sits at 1 year through the cycle, as such we remain meaningfully short at 0.33. At the same time we believe risks for bonds are skewed to the downside. While data was patchy over the month, there was still enough there to support the Feds continued tightening bias. In addition, US dollar strength has impacted Treasury demand out of Europe and Japan. As bonds sell off from current level we are likely to continue to bridge the gap between our current tactical position and our 1 year benchmark allocation. However, as things stand we feel that the diversification benefit of rate exposure is negated by the Feds stated intent.

Corporate & Subordinated Debt Allocation: → Remained flat at approximately 30% at month end. However, post 31st October we have increased our allocation through participating in the new AUD transaction of Lend Lease. Specifically we hold larger positions in the names of Santos, Bluescope Steel, BHP Subordinated Debt, Seek and Lend Lease. Our assessment of these corporates (both quantitative and qualitative) leaves us relaxed with the risk we are taking here. We are near our limit for this risk at present, which reflects our view that this part of the market is delivering the best compensation for risk under current conditions. By contrast, we remain underweight risk in Australian Bank subordinated debt and Australian floating rate notes.

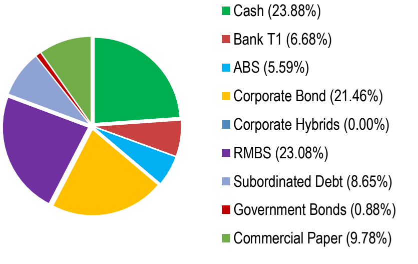
Residential Backed Securities (RMBS): ↓ RMBS reduced to 23%, as sales coupled with pay downs saw total holdings moderate. On deal flow we saw another solid month of non-bank issuance as Firstmac, Pepper, Resimac and Latrobe all sounded the market on the back of continued growth in their lending books. We did not participate in any of these primary transactions. Pool quality has been mixed. In addition, domestic pricing is still not properly reflecting widening global spreads. While we remain open to moving our weighting to RMBS to our strategic target, this would require margins to widen from current levels.

Fund Statistics

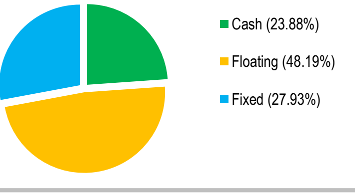
Running Yield	4.56%
Volatility†	0.37%
Interest rate duration	0.33
Credit duration	2.56
Average Credit Rating	A-
Number of positions	149
Average position exposure	0.43%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	2.95
Information Ratio†	3.02

Calculated on Ordinary Units unless otherwise stated. *Since Inception 26 September 2012. †Trailing 12 Months Calculated on Daily observations. Information Ratio is calculated over Bills, Sharpe Ratio is calculated over the RBA Cash Rate.

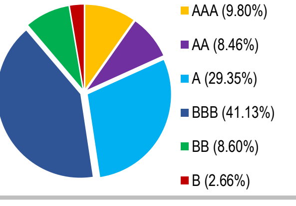
Portfolio Composition



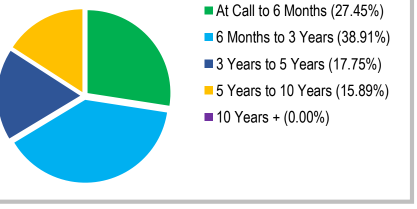
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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From an asset performance perspective, we continue to see seasoned deals benefit from ratings upgrades with six pools and over 21 tranches upgraded over the month (most issued by non banks). This occurs as loans pay down these deals benefit off higher capital support. In addition, we are not seeing any signs of deteriorating arrears performance within our held pools. Despite a clear softening in real-estate values the economy maintains solid footing and rates remain too low to drive any weakness in loan performance.

Additional Tier 1 (AT1) Exposures: ↑ Only a modest change to our AT1 holdings, as we made a small increase to our Westpac USD line. On the listed AT1 market we continue to believe that pending target market legislation coupled with the potential downside to demand on the back of Labour's mooted franking changes are unequivocally negative for the sector. We note the launch of CBA 's new AT1 transaction in the shadow of these concerns. In fairness the book is building reasonably well, however, we believe this speaks to a general complacency around what franking changes will eventually look like and a general lack of understanding around the target market legislation. On our existing holdings, it was a softer month as US risk market weakness saw Aussie names in US dollars decline by between 1.5 and 2.5%. The value of USD lines is once again presenting reasonable value. Almost all of our exposure to AT1 is currently focussed on the USD sub-sector.

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 reduced to 0.92%. The reduction was driven by a softening in our interest rate curve positioning and a slight reduction in aggregate portfolio risk. Portfolio composition is approximately in line with where it needs to be to deliver on a return of 3% over cash.

Market Outlook

Weak month for risk markets generally, with the S&P off nearly 10%, the near contract for VIX moving from 12 through 20 and global credit markets generally weaker. This manifested itself within aggregate portfolio performance with the net result of 0.08% of the month. Most heavily impacted by weakness in our higher beta holdings, most specifically our USD holdings in corporate and AT1 names delivered a negative attribution of approximately 0.25% for the month, while our curve positioning also delivered a negative return of approximately 0.05%. Meanwhile Australian credit markets were benign, with spreads largely unchanged. Our view remains that domestic markets could be described as expensive when compared to USD markets, which is the reason why our larger risk positions remain in USD.

It is fair to suggest a pull back of sorts was well overdue, especially on the back of a strong increase in long term rates in prior months. We aren't of the view that this event portends a broader more meaningful decline, however, its still important to note that the cycle is now well advanced which means our focus is on risk adjusted returns on a name specific basis. This is especially important as the momentum trade begins to fade in the face of monetary tightening.

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 $416 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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