Realm High Income Fund

September 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	0.30%	0.33%	0.12%
3 Month	1.02%	1.12%	0.38%
6 Months	1.44%	1.66%	0.75%
1 Year	2.61%	3.05%	1.50%
2 Years p.a	3.47%	3.92%	1.50%
3 Years p.a	4.14%	4.60%	1.62%
4 Years p.a	3.89%	4.35%	1.77%
5 Years p.a	4.42%	N/A	1.92%
Since Inception p.a*	5.09%	4.88%	2.08%

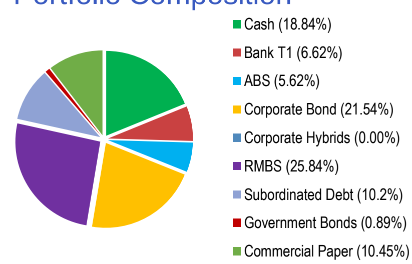
* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013. Adviser Units Inception 8 September 2016

Fund Statistics

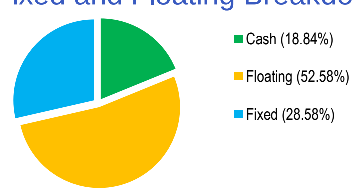
Running Yield	4.81%
Volatility†	0.37%
Interest rate duration	0.35
Credit duration	2.75
Average Credit Rating	A-
Number of positions	153
Average position exposure	0.41%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	2.99
Information Ratio†	3.06

Calculated on Ordinary Units unless otherwise stated. *Since Inception 26 September 2012. †Trailing 12 Months Calculated on Daily observations

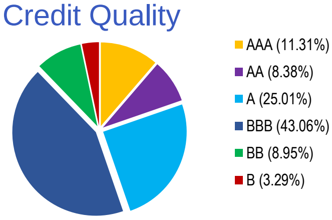
Portfolio Composition



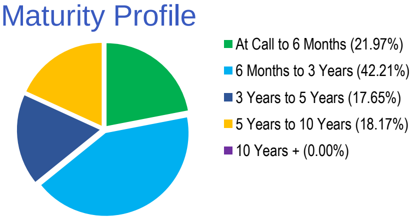
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



Fund Update

Cash and Short-Term Liquidity Weighting: → Remained in line with month prior sitting at approximately 30%.

Interest Rate Duration Position: ↑ A 20 basis point sell off in the long end of the US bond curve led to us increasing interest rate duration to a little under 0.35 of a year. Neutral interest rate positioning for the portfolio is at 1 year. As such we are still well short of a benchmark IRD position, as we believe the market is starting to move close to a fair range level (3.3% for US 10 year). At the same time we believe that Aussie 10 year is approximately fair at 2.71%, highlighting our expectation that the US economy will continue to outperform our own, leading to an increase interest rate differentials and as a consequence the Australian dollar. While we are not constructive on rates as yet, another sell off from here will make them look interesting from a valuation standpoint.

Corporate & Subordinated Debt Allocation: ↓ Reduced modestly to approximately 32%. Sold some shorter big 4 senior exposure, while a couple of securities also slipped into the twelve month or less bucket. Most of our risk in this sub-sector is in the form of Aussie USD issues, which didn't do a great deal over the month from a price action standpoint. At the same time we continue to run underweight bank subordinated debt and Aussie FRN's, which we believe continue to look relatively expensive.

Residential Backed Securities (RMBS): ↑ RMBS allocation increased slightly over the month, however, we remain positively pre-disposed to building our market allocation. Our belief is that the end of the UK's term funding scheme combined with the scaling back and eventually the end of the ECB asset backed purchase program will see our market soften. European and British product spreads had been artificially supressed due to central bank activity meaning that our product tightened in sympathy as investors looked for alternatives. As this trend reverses, we believe Australian issuers will look to the US to replace demand, the likely short term impact being some spread widening. Longer term we believe the pivot of domestic issuers to US capital markets will be a positive in providing capital market diversity and depth which will help these businesses in the longer term. Anecdotally our investigation has lead us to believe that the Americans are broadly constructive on dynamics in our market.

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On asset performance, our process sees us review arrears performance of all existing holdings on a monthly basis. Put simply there is absolutely nothing coming through in the arrears performance of our current and monitored transactions that is leading us to increase our concern. In addition, we continue to see the outperformance of non-banks versus big 4 and regionals and we are also observing solid performance within non-conforming pools. To re-iterate prior sentiments, we think the focus on improving underwriting and dealing with system imbalances is a positive. While the market will debate whether the regulators have gone too far in crimping credit growth, the fact is it was necessary and will see this part of the economy move in a narrower and more sustainable channel moving forward. As a buyer of systemic risk we view this as a positive development.

Additional Tier 1 (AT1) Exposures: → Our tier 1 exposure sits approximately in line with month prior. As per the prior month we maintain a zero weighting to ASX listed AT1, preferring instead to focus on USD AT1 over the counter securities. We continue to feel that USD AT1 securities present superior risk adjusted value to the listed market, especially when one considers idiosyncratic factors relating to franking.

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 remains at 1.01%. This is broadly in line with last month and would qualify as a benchmark risk weight. This level of risk is consistent with us meeting our targeted return of 3% over cash net of fees over the medium term.

Market Outlook

From a global standpoint the key story over the month related to US rate markets, with the Federal reserve delivering an already priced 25 basis point rate hike. Furthermore, the likelihood of another hike in December is looking increasingly likely. The relief rally in bonds post the announcement was relatively modest, indicating that the US long end remains positioned to grind wider.

In terms of broader market risks, looking at movements its clear to us that Brexit has become the dominant concern, with UK bank CDS the big loser over the month, just as Italian bank risk outperformed. This summarises where the two dominant European worries sit right now. On the one hand confidence relating to the Italians coming under their 2% fiscal deficit target in their upcoming budget is high, despite politicking from the five star movement, however, at the same time concern around a hard Brexit seems to definitely be building with Standard, Barclays, RBS and Lloyds big losers over the month.

Outside of Europe markets remained reasonably well contained, with the rest of the world trading in a relatively tight range. While trade war headlines did raise the ire of markets periodically, it would be fair to suggest that risk markets remained stable over the last 30 days.

This is also reflected by our market risk measures which points to market complacency being at neutral presently. We are finding fair value in pockets, with risk positioning from here likely to be price dependant.

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 $411 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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