Realm High Income Fund
August 2018

REALM investment house

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	0.25%	0.29%	0.13%
3 Month	0.93%	1.04%	0.38%
6 Months	1.12%	1.35%	0.75%
1 Year	2.57%	3.02%	1.50%
2 Years p.a	3.42%	3.88%	1.50%
3 Years p.a	3.99%	4.45%	1.63%
4 Years p.a	3.79%	4.25%	1.79%
5 Years p.a	4.56%	N/A	1.94%
Since Inception p.a*	5.11%	4.89%	2.09%

* 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: ↓ Reduced by a little under 5% to 32%, funds were re-allocated to RMBS sector exposure.

Interest Rate Duration Position: → Remained flat at 0.10 years. Market tighter over the month at the long end as the looming threat of trade war, combined with a dovish performance by Powell at Jackson Hole drove back the shorts. Market still polarised, with actual realised inflation now well above long term market inflation expectations. With the Fed now focussing on market inflation expectations versus realised numbers, we are concerned that a degree of confirmation bias is sneaking into rate expectations with the result being that the Fed could get caught well behind the curve. Given prevailing risks we maintain a position well short of benchmark in fixed rates.

Corporate & Subordinated Debt Allocation: ↓ Reduced modestly to approximately 34%. Only real changes related to maturities which were replaced by our adding to subordinated bank debt and some investment grade corporate senior. The rally in prices over July has moved the market back to fair as such we are simply maintaining our market risk exposure which means that we will on the whole not be adding to portfolio risk in the current environment.

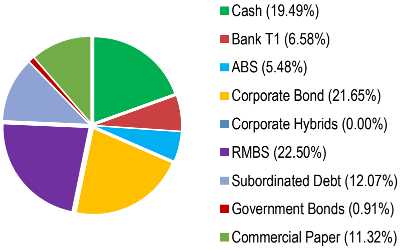
Residential Backed Securities (RMBS): ↑ RMBS increased by approximately 6% over the month. We increased our exposure by participating in public non-bank issuance, while also increasing our structured exposure though the purchase of a highly rated secured facility. Our expectation is that our RMBS allocation will continue to move towards our 30% strategic target. On market performance and arrears, we note that prime arrears have increased to levels just below what was seen during the GFC here in Australia, however interestingly this has coincided with a period where non-conforming loan performance has improved. This could be explained by more marginal loans being pushed out of prime into the non-conforming market which in turn improves aggregate performance within this sector. At the same time, prime arrears seem to be reflecting the fact that interest only borrowers are experiencing above average stress when converting to a principle and interest loan.

Fund Statistics

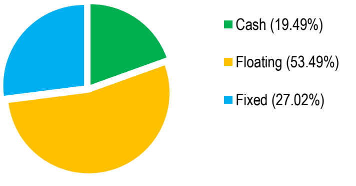
Running Yield	4.56%
Volatility†	0.37%
Interest rate duration	0.10
Credit duration	2.78
Average Credit Rating	A-
Number of positions	146
Average position exposure	0.48%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	2.98
Information Ratio†	3.05

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

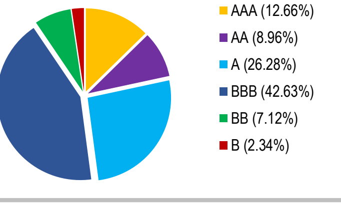
Portfolio Composition



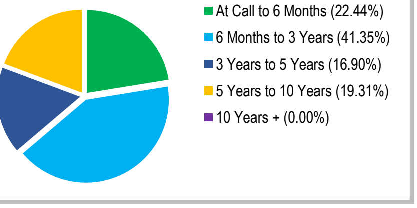
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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This has created an adjustment period which we would expect to normalise over the next couple of quarters. On asset quality a moderation in property prices and interest only/investor volumes is a positive for the medium term health of the system, as such we view the adjustment in arrears that goes with this as a healthy reaction.

Additional Tier 1 (AT1) Exposures: → As per last month, we maintain no exposure to listed franked hybrids. To re-iterate, Shortens divisive class driven platform has been validated. This means that the probabilities are now stacked against the status quo prevailing for franking, which means prices should be adjusting to this reality. The AT1 market is small, participants with vested interests will do everything to stop this market entering a disorderly transition, there ability to be successful will depend on inflows versus outflows and new issuance. We don't feel that a change in franking rules will kill the AT1 market but it should all things being equal drive a transition where those that value franking the most take the assets off those that value them the least. We are happy to sit out for the moment and let it all play out. In the meantime we are using USD AT1 in Australian names to deliver this exposure, which of course will not be affected by any changes to the franking landscape.

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 just a little under 1%. We aren't inclined to increase this materially from here given broader market risks, at the same time if higher beta USD credit continues to rally we are likely to take profit on certain risk positions, which would in turn bring us back to a more defensive stance once again.

Market Outlook

Our market risk indicators continue to point towards the normalisation of risk measures globally. This has been driven by EM weakness on the back of Turkish and Argentinian turmoil. Turkey has been a particular source of concern as investors work to understand what kind of linkages exist between the European banking system and Turkey.

Beyond Turkey, Europe is now once again seemingly lurching into another face off with a European nation around budgetary discipline. Italian synthetic five year risk has blow out by 180 basis points while at the same time Italian bank risk has also suffered a blow out.

Despite all of this, domestic and US equity and credit markets continue to truck on, showing scant regard for what are seemingly not immaterial market risks that are building in the background.

The market continues to have a distinct late cycle feel, while market momentum has been positive for credit over the last two months, its very likely that this ends up being temporary, with a very real possibility being that unanticipated bad news from here could drive a more meaningful risk off environment.

For the Realm High Income Fund this mean risk is being monitored with the view being to reduce risk where price targets are met, especially in the higher beta part of our book.

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 $400 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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