Realm High Income Fund

February 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	0.16%	0.19%	0.11%
3 Month	0.56%	0.66%	0.37%
6 Months	1.42%	1.64%	0.74%
1 Year	3.23%	3.68%	1.50%
2 Years p.a	4.96%	5.42%	1.57%
3 Years p.a	3.95%	4.40%	1.73%
4 Years p.a	4.42%	4.88%	1.92%
5 Years p.a	5.18%	N/A	2.07%
Since Inception p.a*	5.38%	5.14%	2.15%

* 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: → at approximately 35%.

Interest Rate Duration Position: → 0.30 years (remaining within band of 0.2 - 0.5 years dictated via the fund's technical overlay). Our monitors are starting to indicate that the majority of Australian & US rate curves now sit in fair territory. In addition our eco momentum monitors tell us that the current rate of global macro outperformance is unsustainable. This doesn't of course mean that rates can't sell off further still and enter "cheap territory", as such we maintain a level of caution. However, in the event of a meaningful widening in yields from current levels we are likely to become quite constructive on rates which would be reflected through an increase in portfolio interest rate duration.

Corporate & Subordinated Debt Allocation: ↑ increased by approximately 3.5% to 34.95%. Our buying was focussed on securities with less than 12 to 18 months to call or maturity. The market experienced some secondary market softness over February, with traders more inclined to haggle on their indicative levels, this has also coincided with a softening of re-offer strength in new issuance. We feel the market is probably a bit softer than revaluations might suggest and believe it will be interesting to see what direction it takes if we see another leg up in volatility from here. The portfolio remains bunkered down and well positioned to benefit from an increase in market instability.

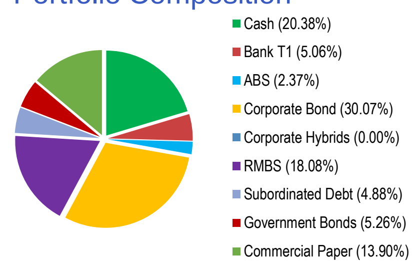
Residential Backed Securities (RMBS): ↓ Exposure reduced by a couple of percent to 18%. Contrary to unsecured credit the structured market remains well bid, with bank trading book activity high over the month of February. Structured credit as a product has benefited off a number of tailwinds, most notably the change in capital treatment for AAA and AA rated mezzanine RMBS (APRA reduced the impost for Australian banks holding these assets), in addition to the entrance of meaningful overseas market making capacity. This has changed the dynamics around the liquidity premium investors can expect from this market and seen it meaningfully outperform. We have taken advantage of the strength in this bid for two reasons: 1 – we feel credit spreads are generally tight, 2- We continue to expect that large banks will bring additional supply to market.

Fund Statistics

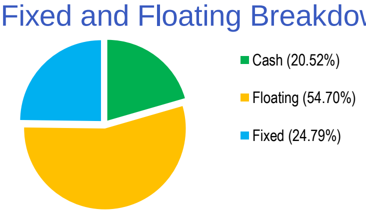
Running Yield	3.76%
Volatility†	0.36%
Interest rate duration	0.30
Credit duration	2.12
Average Credit Rating	A
Number of positions	160
Average position exposure	0.51%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	3.10
Information Ratio†	3.16

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

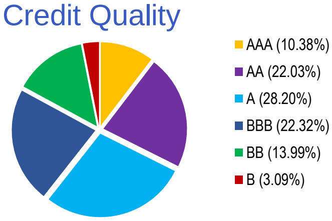
Portfolio Composition



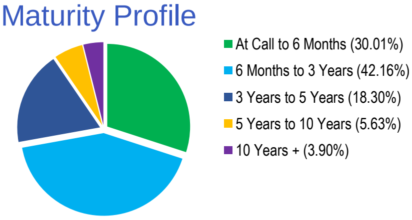
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Additional Tier 1 (AT1) Exposures: → Remained around 5%. We have seen some softness over the month as a couple of deals coupled with general market volatility lead to spreads widening by .10% to .30% across the curve. This might be an indication that investors are looking to fund new issuance by liquidating existing holdings. This will make the sizing of the upcoming CBA AT1 transaction quite important. We wouldn't describe recent activity as a supply side disruption (a point well made by numerous treasurers), however we still shouldn't forget that these assets do exhibit higher volatility and lower liquidity at times of stress. What you pay today should compensate you for that sinking feeling you will feel when the current complacency has gone and prices are 5 to 10% lower. Incidentally the differential between equity grossed up, bank equity yields and AT1 coupons still looks compelling and will add to the pressure if market volatility rises. Indeed it wouldn't surprise us to see a very high correlation to the equity in the event of a broader market correction.

Asset Backed Securities (ABS): → Exposures reduced moderately as existing securities paid down.

Targeted risk across the Fund: ↓Targeted portfolio risk decreased to 0.60% from 0.66% over the month. We have started to manage risk down further, we have made this decision on the grounds that we feel the secondary market is beginning to soften and on the grounds that we feel that market volatility is likely to remain elevated for the remainder of 2018 increasing market vulnerability to negative news and shocks (to be distinguished from the extremely high level of complacency that we became accustomed to through 2017)

Market Outlook

Global economic momentum remains strong on our measures, with our Global macro momentum index measuring in at a level which would generally be indicative of a strong economic expansion. The majority of major economic centres continue to make a positive contribution with European and Japanese momentum strong, while the US is also cycling highs. That said current momentum is at a level that we would deem to be unsustainable.

Put simply we expect that data will start to miss ever rising expectations and estimates and indeed will start to soften in absolute terms also. That will mean that the Fed could well be ratcheting up rates at a time where data is as good as it gets. Furthermore we should note that good data papers over a lot of cracks. The system remains over-indebted and certain jurisdictions are still structurally unstable, while these don't feel like issues today, a lot can change if you were to remove economic momentum.

Meanwhile the debate around the rate path has kept bonds under pressure and kept the level of market volatility elevated (albeit off its January highs). That said we do not believe the January burst was episodic, but rather we feel it may reflect the early stages of a broader turning for risk markets, which will see the complacency of 2017 melt away and greater rationality around pricing return.

Our portfolio maintains capacity to take advantage of a policy error around rate tightening or weakness in credit markets, with ample head room to increase risk on both fronts.

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 $376 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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