Realm High Income Fund

January 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	0.27%	0.31%	0.13%
3 Month	0.61%	0.71%	0.38%
6 Months	1.41%	1.63%	0.75%
1 Year	3.38%	3.83%	1.50%
2 Years p.a	4.93%	5.39%	1.60%
3 Years p.a	4.01%	4.48%	1.75%
4 Years p.a	4.51%	4.98%	1.94%
5 Years p.a	5.29%	N/A	2.09%
Since Inception p.a*	5.43%	5.19%	2.16%

* 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). We have increased our rate exposure moderately in early February, as rate markets sold off and yield curves steepened over the month. This was particularly evident in the US where the long end blew out by over 30 basis points. Australian rates significantly outperformed, leading to a good portion of the US government curve yielding more than the Aussie equivalent. The steepening of the curve attributed positively to the portfolio over the month. In addition we note that the US long end is now at our broader fair market level. We are likely to become constructive on rates if the sell off continues from here, as our fair value and relative return models start to signal signs of value.

Corporate & Subordinated Debt Allocation: ↓ decreased by approximately 10% to 31.59%. The year started with the market particularly well bid, however this softened as the month rolled on and rates markets started to turmoil. The first signs came in the form of weaker demand for a CBA senior debt issue and continued from there as we started to see the first signs that Asian investors were turning into better sellers of longer credit names. As we have stated previously, the Asian bid is incredibly important for longer credit maturities, however these investors have had a tendency towards capricious behaviour which will add an interesting dynamic to any kind of meaningful market volatility.

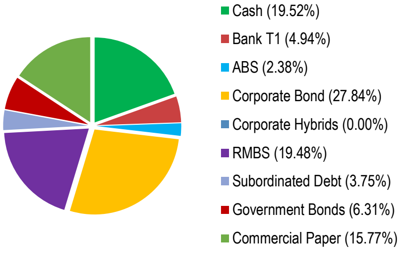
Residential Backed Securities (RMBS): → Exposure remained static ending the month at around 20%. January was a quiet month, however the one marker provided by the market came in the form of the AOFM auction. This was particularly well covered and speaks to this market remaining well supported. A major bank sounded the market into late January with the indicative levels remaining tight. We wait to interest to see whether Asian and European support will waiver as volatility rises. We note that sell lists are fattening up, especially in lower rated tranches. We remain underweight this sub-sector.

Fund Statistics

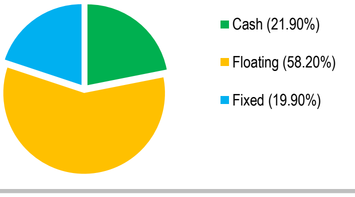
Running Yield	3.51%
Volatility†	0.39%
Interest rate duration	0.21
Credit duration	2.04
Average Credit Rating	A
Number of positions	146
Average position exposure	0.58%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	3.12
Information Ratio†	3.18

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

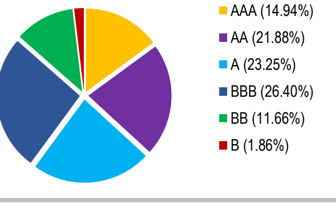
Portfolio Composition



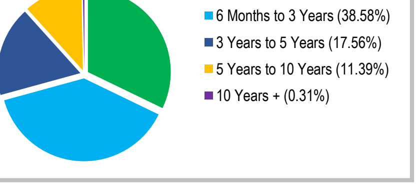
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



Portfolio Managers: Andrew Papageorgiou andrew.p@realminvestments.com.au Rob Camilleri rob.c@realminvestments.com.au
Head of Distribution: Kate McDermott – 0412 260 095 kate.m@realminvestments.com.au

Additional Tier 1 (AT1) Exposures: → Remained around 5%. We increased turnover moderately within the portfolio, taking some profit in regional names and moderately reducing our exposure to ME Bank's recent issue. With two major banks sounding the market we will get a clear sense of where we stand. Talk of stamping fee reductions, coupled with indicative levels that inside the existing secondary curve speaks to JLM's getting back to their old tricks. The issuers need to be carful here not to scare off the primary bid cover, lest we see a transaction opening sub $100, which would effectively turn the Tier 1 market into a harder sell and promptly send stamping fees back to 1%. Unfortunately there is an absence of patience here with bank treasurers showing a lack of regard for investor behaviours and playing games with stability. On the back of all of this one really has to wonder why retail investors aren't looking elsewhere. Incidentally the differential between equity grossed up bank equity yields and AT1 coupons is starting to look 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 0.66% from 0.74% over the month. We reduced portfolio risk by reducing our longer duration fixed corporate exposure and switching into shorter senior debt within financial names. This has reduced total portfolio beta and leaves the portfolio exceedingly well positioned to face rising volatility and market uncertainty.

Market Outlook

January was broadly speaking a solid month for credit markets as maturities coupled with the holiday hiatus saw investors come back into the market with a solid bid. However as the month continued we began to see a general softening of conditions.

This was motivated by a steep increase in long term rates, this was particularly evident in the US where the benchmark US 10 year government bond sold off from 2.4% up to 2.84% in early February. We have noted previously that the market is dispersed in terms of view. At one extreme there are those that are saying that we have just set out on the path of rate normalisation and that markets are yet to fully comprehend what that means.

If the bond bears are right, we ultimately don't know exactly what it will mean for risk. Logically the removal of accommodation and an increase in discount rates will likely be disruptive to a lot of asset classes and will also likely make certain forms of risk premia (at current prices) look quite anaemic.

Given portfolio positioning we would of course be very comfortably with a deterioration in general market conditions.

We are coming out of a period where volatility is understating likely value at risk, something which will become more apparent as any correction intensifies. We are well positioned for this eventuality and continue to invest in line with our risk first approach.

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 $370 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

Realm Investment House
ABN 34 155 984 955
AFSL 421 336

Level 17
500 Collins St
Melbourne VIC 3000

Email: clientservices@realminvestments.com.au
Website: www.realminvestments.com.au
Tel: 03 8560 7297