Realm High Income Fund

July 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	0.47%	0.49%	0.13%
3 Month	0.63%	0.74%	0.38%
6 Months	1.04%	1.24%	0.74%
1 Year	2.46%	2.91%	1.50%
2 Years p.a	3.72%	4.17%	1.50%
3 Years p.a	3.93%	4.39%	1.65%
4 Years p.a	3.80%	4.26%	1.82%
5 Years p.a	4.64%	N/A	1.95%
Since Inception p.a*	5.14%	4.91%	2.10%

* 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: ↑ Up approximately 4% to a little under 37%. Lightened most risk positions on the back of market strength, the most notable reduction was in listed bank AT1.

Interest Rate Duration Position: remained flat at 0.12 years. The long end both here and in the US sold off into the end of the month, which coincided with the Bank Of Japan indicating (implicitly) that they may be loosening their commitment to their long end. Rates need to move further for us to commit to a meaningful risk position in rates, in light of our fair value modelling, recent momentum and the theme around the normalisation of central bank activity.

Corporate & Subordinated Debt Allocation: Reduced modestly to a little under 34% at month end. Portfolio remained heavily weighted towards Aussie names in USD. This position was taken as Chinese deleveraging bled through to Aussie USPP names. One of the up-shots of the Trump trade war is that the Chinese have responded by loosening the shackles on the banks, the result being that Chinese names in USD have roared in tighter, which has indeed been the case for most forms of USD credit risk. The strength in this sub-sector was reflected in our monthly performance. Indeed we expect that the market will continue to perform on the back of Asian liquidity re-entering the market. This strength will be less apparent in Australian FRN and sub debt markets which had been largely un-affected by the volatility.

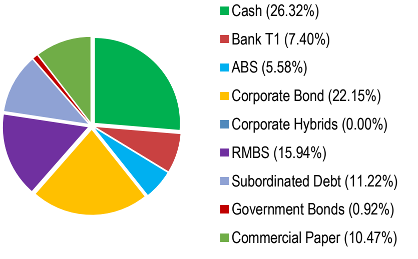
Residential Backed Securities (RMBS): RMBS reduced moderately to approximately 16% on the month, however we are in the process of increasing this figure to the low 20% mark. Recent issues have laboured to match recent tights at the AAA and AA attachment point, which in turn feeds into the rest of the rated capital structure. We believe that this will provide us with the opportunity to increase our allocation on our terms. In addition we continue to evaluate warehouse opportunities that meet the funds underlying objectives. All in all we are comfortable with how the portfolio is positioned. Our focus now is on building a portfolio on the back of loans that are originated in this more stringent environment as the regulator and banks become more focussed on the application of serviceability criteria.

Fund Statistics

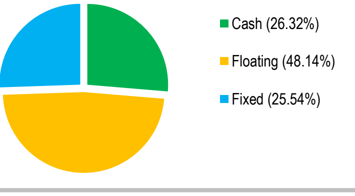
Running Yield	3.90%
Volatility†	0.34%
Interest rate duration	0.12
Credit duration	2.53
Average Credit Rating	A-
Number of positions	137
Average position exposure	0.47%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	2.96
Information Ratio†	3.03

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

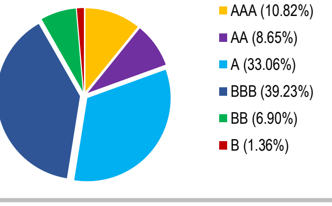
Portfolio Composition



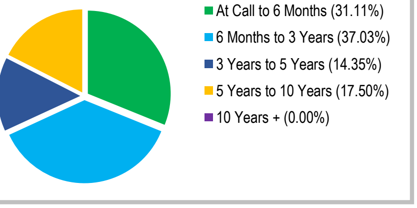
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Additional Tier 1 (AT1) Exposures: ↓ Decreased to approximately 7.5% (from 9%). Source was a further reduction in listed debt which has rallied strongly since the recent selloff to sit slightly tighter than fair on our relative value model. Our listed selling was motivated by aggressive bids into the market, among our holding Macquarie's recent issue was a standout. We believe the events of super Saturday make it clear that the electorate may be more polarised than those of us who exist in our fin services bubbles may have realised. The result delivers a clear mandate to Shorten and buries Albanese's more conciliatory tone towards business. Putting it simply franking utilisation risk is real and should be getting accounted for today. The majority of our exposure is to USD unfranked AT1's, which have outperformed over the month on the back of the recovery in Asian real money buying. Sector looks to still present value and does not carry the burden of political risk which listed AT1 does at present.

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 approximately 1%, which is our long term benchmark target. The heavy investment made over the last 2 months into USD Aussie risk has begun to pay off. The position now maintains some solid momentum which will see us maintain our position in the shorter term, however as the market rallies we are unlikely to add risk in aggregate.

Market Outlook

Global synthetic and real money credit indices performed strongly over the month as the Peoples bank of China abandoned their deleveraging drive in the face of looming US tariffs and the real potential of a more meaningful trade confrontation with the worlds largest economy (the US).

The PBOC directive that banks once again fund state owned enterprises and support the onshore bond market is a meaningful event. Over the last four months we had seen Chinese companies forced into USD issuance at punitive rates, something which had begun to bleed into broader global credit indices. We have spoken in the past on the growing importance of the Asian bid, especially for certain asset types such as USD AT1, USD subordinated debt and Aussie issued USD paper. The re-emergence of this bid acts as a meaningful form of quantitative support for the global credit market, which has been reflected in spread performance over the last month.

Interestingly while credit rallied as a consequence of the re-emergence of liquidity, barometers of Chinese prospects such as copper, Chinese equity and Chinese CDS weakened. This divergence is symbolic of the perverse nature of quantitative easing, which of course transforms something which is inherently negative, (eg a trade war between the two largest global economies, which could cost hundreds of billions of dollars) into a positive (eg liquidity for the credit market). Either way, momentum seems to have turned and is likely to carry the market tighter in the short term, the question is of course, for how long?

At a fund level we are benefitting from the risk taken over the last three months, however at a certain point we will look to square up as assets push through our fair value estimates.

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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