Realm High Income Fund

June 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	0.21%	0.25%	0.12%
3 Month	0.42%	0.53%	0.37%
6 Months	0.84%	1.06%	0.74%
1 Year	2.29%	2.75%	1.50%
2 Years p.a	3.85%	4.31%	1.51%
3 Years p.a	3.98%	4.44%	1.66%
4 Years p.a	3.81%	4.28%	1.84%
5 Years p.a	4.69%	N/A	1.97%
Since Inception p.a*	5.14%	4.90%	2.11%

* 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: Cash and short dated liquidity remained static at approximately 32%, in line with prior month. All sectors remained more or less in line with the end of May.

Interest Rate Duration Position: Almost unchanged at 0.14 years. Rates rallied globally as concerns relating to tariff wars drove a risk off tone, which saw 10 year treasuries rally 10 basis points as the Aussie long end flatten by 20 bps. Consistent with the outperformance of Australian rates we also saw AUSUSD decline by almost 2.5%. In terms of drivers, the FOMC maintained its Hawkish stance, the ECB were dovish and the RBA remains sidelined, as funding cost rises and the impact of regulation and the royal commission starts to bite. Yield curves remain flat which presumably speaks to a lack of fundamental belief in the long term prospects of the global economy and indeed the normalisation of rates and nominal growth rates. We feel that the normalisation of inflation is a risk that markets are not entirely factoring in at present, as such we remain well short of our 1 year benchmark target.

Corporate & Subordinated Debt Allocation: In line with prior month. Credit bled wider after a temporary mid-month respite. Interbank funding rates were again volatile which seemed to drive a further sell off in cash credit. In terms of IG credit, Aussie USD lines remain soft, bleeding wider over the month. Patience can deliver opportunity, as axed positions are generally offered on the bank bid side to clear. By contrast Aussie FRN credit has outperformed and is unquestionably expensive by comparison in our opinion. We are actively looking to add risk, we believe Chinese credit tightening combined with the end to ECB corporate credit purchases will ultimately see spreads continue to soften into the second half. We remain poised to increase our corporate and subordinated debt allocation in such an environment. By contrast we remain short Australian floating rate exposure.

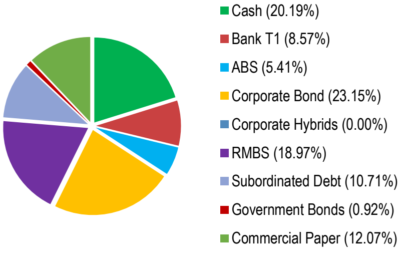
Residential Backed Securities (RMBS): Exposure in line with last month and well short of benchmark. We believe that softness in global spreads have the capacity to create a challenging environment for issuers. As the Asian and European bid softens we expect that the belly of the credit curve (mezzanine AAA down to BBB-) to come under pressure.

Fund Statistics

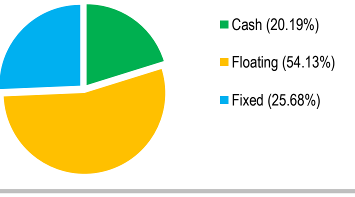
Running Yield	4.51%
Volatility†	0.33%
Interest rate duration	0.14
Credit duration	2.61
Average Credit Rating	A-
Number of positions	149
Average position exposure	0.48%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	2.96
Information Ratio†	3.03

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

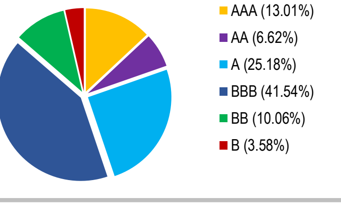
Portfolio Composition



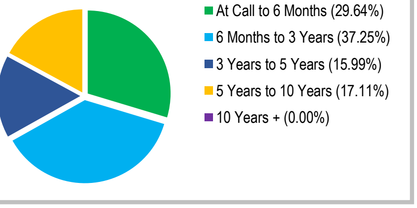
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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This will end an un-interrupted two year grind tighter that has seen structured credit outperform all other types of credit product. That said the conditions of the product class are vastly improved over the last two years, with significant market making activity having delivered improvement in liquidity conditions, however this will also drive higher price volatility as RMBS transitions from a buy and hold product to one where secondary trading delivers increased price transparency. We would expect to increase our weight to benchmark as the market softens. We note the difficulty with which non-bank transactions were launched over the month of May which speaks to the need for issuers to adjust their expectations. This could be particularly painful for some as it coincides with a simultaneous spike in BBSW.

Additional Tier 1 (AT1) Exposures: Reduced to approximately 9% (from 10.5%). The biggest change came in the form of portfolio composition, with the listed component declining to 3.7% just as the over the counter and USD component increased to 6.1%. Our listed selling was driven by aggressive bids that we have met opportunistically. At the same time the USD AT1 complex remains soft, we feel that with patience we will get the opportunity to continue to build this sub-sector at more attractive rates. We do remain constructive on listed AT1 at current levels and will look to replenish stocks on market weakness. Alternatively if listed stocks continue to outperform we are likely to switch the portfolio to USD exposures.

Asset Backed Securities (ABS): Allocation in line at 5.4% on prior month.

Targeted risk across the Fund: Remained in line at 0.97%, a little under the 1% benchmark. This month saw a reduction of listed AT1 offset an increase in USD AT1 and corporate credit. Investors can expect portfolio risk to be dialled up as credit markets soften.

Market Outlook

The newswires were dominated by trade tensions, as Donald took the early train home from Vancouver leaving his trade "partners" nonplussed before he promptly turned his attention to the Chinese trade deficit, re-stoking trade tensions.

Across the Atlantic we saw a Euro summit which spoke to a Franco-German commitment to the European project while they simultaneously ceded to certain demands of the Italians, specifically relating to immigrant flows and border protection. At the same time Merkel finds herself under rising pressure as the European Union seems to be switching its orientation.

The price of further integration may indeed be the creation of right leaning union which focusses on border integrity and a protection of European values (a familiar Western theme these days).

Rising geo-political tensions and the spectre of protectionism are threatening to derail strong global economic momentum. At the same time the Chinese crack down on shadow banking and excessive leverage, normalising US rates and the end to ECB corporate bond buying will increasingly create a challenging narrative for global credit in the short to medium term.

We expect that this will create actionable opportunity that will see the fund increase aggregate portfolio risk to above benchmark.

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 $394 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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