Realm High Income Fund
March 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	-0.01%	0.02%	0.13%
3 Month	0.42%	0.52%	0.37%
6 Months	1.15%	1.36%	0.75%
1 Year	2.70%	3.15%	1.50%
2 Years p.a	4.69%	5.14%	1.55%
3 Years p.a	3.82%	4.28%	1.71%
4 Years p.a	4.27%	4.74%	1.90%
5 Years p.a	5.07%	N/A	2.04%
Since Inception p.a*	5.29%	5.04%	2.14%

* 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: → In line with prior month at approximately 35%.

Interest Rate Duration Position: → 0.20 years (remaining within band of 0.2 - 0.4 years dictated via the fund's technical overlay). This month saw rates move back into moderately expensive territory, as the Aussie long end rallied 20 points and the US 10 year rallied 13bps. This rally was not altogether unexpected given how far yields had backed up over the last 6 months. However, by the same token we do not see this as a sign of a trend reversal. While we expect our own bond market will continue to outperform and exhibit a lower correlation to the US long end versus historical averages, US weakness will still keep the pressure on.

Corporate & Subordinated Debt Allocation: ↑ increased by approximately 1% to 35.76%. The highlight of the month centred around the weakness within financial credit, with senior bank curves selling off by as much 15bps over the month. While bank spreads widened, corporate credit remained pretty well contained. There were a few hot spots , with higher beta Aussie credit taking a reasonable hit to prices. We added USD lines in Macquarie (3x), BHP Sub (2x) and Ausgrid sub (1x) over the month, which is consistent with our approach of wading into markets as they weaken. Our view is that the volatility will be enduring and might be a present theme for most of 2018, allowing us to dial risk up on weakness as per our investment philosophy.

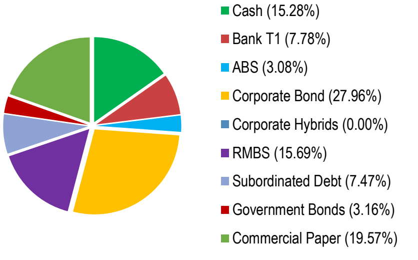
Residential Backed Securities (RMBS): ↓ Exposure reduced by a couple of percent to 15.7%. One primary deal occurred over the month as Latrobe brought their first non-conforming transaction of the year to market. Very little sign of the very obvious funding stress that has been evident within the unsecured bank market, with the exception of a couple of large portfolio liquidations (rumoured to be US selling). If weakness persists its hard to see RMBS spreads remaining so benign. We remain well short of our strategic benchmark of 30%. We are well positioned to increase our exposure as opportunities avail themselves. We expect this to occur on the back of major bank issuance in addition to rising capital requirements within revolving credit facilities.

Fund Statistics

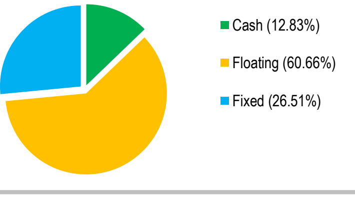
Running Yield	4.07%
Volatility†	0.32%
Interest rate duration	0.19
Credit duration	2.10
Average Credit Rating	A
Number of positions	167
Average position exposure	0.52%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	3.04
Information Ratio†	3.11

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

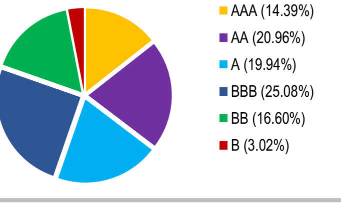
Portfolio Composition



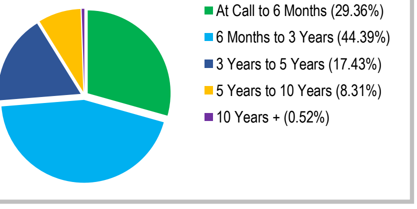
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Additional Tier 1 (AT1) Exposures: ↑ Increased to approximately 7.5%. We have increased our weighting from a little under 5% as at the end of February. The major event over the month related to Labor's proposed changes around the use of excess franking credits. There is of course a cumulative probability equation which needs to be accounted for here (eg Labor election victory, no further tweaking to exempt AT1, no Grand-fathering for affected securities and no make good from the banks themselves). Worst case will see the size of this market shrink. Our research has lead us to a view that the impact to the book build process as it currently stands may be quite significant in retail land. As the top end of most retail adviser books will be affected, consequently impacting the ability of retail advisers to aggregate demand quickly. The question is, will the banks respect a smaller market by moderating supply or will they simply pay more to find the clearing bid if the worst case materialises. We think the latter. In addition, this event itself should provide a wake up call to investors and advisers around the idiosyncratic risk associated within this product class (a risk that must be compensated for by spread). While we are constructive on certain names, we note that a catalyst this side of the election may be difficult to come by. This could be exacerbated by new deal flow which provides a clearer view on the aggregate market impact in addition to general market weakness.

Asset Backed Securities (ABS): → Exposures increased moderately. We added a AAA note issued out of a major bank. This position was established on the back of US RMBS/ABS portfolio liquidations.

Targeted risk across the Fund: ↑ Targeted portfolio risk decreased to 0.68% from 0.60% over the month. This was the first meaningful increase in targeted portfolio risk in quite a while. Beta was increased through a higher allocation to AT1 and higher beta subordinated debt names. The portfolio retains significant headroom to add risk on weakness. Our action over the month is indicative of how we will approach market weakness, ensuring that clients are positioned for growth at a time where risk is being compensated by the market.

Market Outlook

A weak month for credit overall, with high yield product selling off across the board. The weakness was also evident in domestic senior bank funding curves and Australian bank swap rates as well as various other measures such as LIBOR-OIS spreads, which in our opinion speak to a withdrawal of not insignificant liquidity globally. Commentators point to the reason being the Donald's Tax Cuts and Jobs Act that has driven a repatriation of significant liquidity which in turn has left a funding hole as well as a shortage of US dollars which has lead to the financial systems plumbing creaking. This coincided with Japanese inactivity going into their fiscal year end which seemed to exacerbate the impact. The question is whether this is a technical event which resolves itself or whether the hole left by this repatriation provides an enduring impact on bank funding margins. The incremental ratcheting up of trade tensions, as well as central bank balance sheet moderation and rising rates speak to a tougher environment that investors have become accustomed to over the last few years. In our opinion as the goldilocks environment unwinds (a market that is perfect for asset speculation) the opportunities to ratchet up risk will avail themselves and will reward us for the patience shown in playing defensively over the last 12 months.

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 $381 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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