Realm High Income Fund

May 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	-0.04%	-0.01%	0.13%
3 Month	0.20%	0.31%	0.38%
6 Months	0.76%	0.97%	0.75%
1 Year	2.40%	2.86%	1.50%
2 Years p.a	3.89%	4.34%	1.52%
3 Years p.a	3.75%	4.21%	1.68%
4 Years p.a	3.94%	4.40%	1.86%
5 Years p.a	4.75%	N/A	1.99%
Since Inception p.a*	5.18%	4.93%	2.12%

* 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 2% to a little under 33%. A high level of activity within the corporate bond allocation saw a net reduction in weighting to this sector, as well as a reduction to government bonds.

Interest Rate Duration Position: ↓ 0.14 years (reducing the band to 0.1 to 0.3). US 10 year rates sold off to 4.5 year highs, pushing through 3% towards the end of the month. Long end here in Australia and in the US rallied by approximately 10 basis points over the month post Italian election jitters. Market positioning was particularly short which likely set the scene for a broader sell off also. Data remains solid, which continues to point to rate normalisation which absent a large external event keep the pressure on interest rates and bonds more generally.

Corporate & Subordinated Debt Allocation: Broadly remained in line as the corporate bond allocation reduced by 4% while our subordinated debt allocation increased by approximately the same amount. There was a lot of activity in this part of the portfolio and this is likely to be the case in the coming month also. Specifically softness in the Asian bid has led to certain types of products exhibiting material underperformance versus like or lesser risk. This is the type of opportunity that the strategy is built to capitalise on. Over the last three weeks we have seen an increase in USD subordinated debt (fully hedged), in the names of BHP, Ausnet, while also seeing an addition in the names of Bluescope and Santos. Also weakness in the AMP name saw us add sub debt exposure, at prices close to 2% below like rated paper. Indeed the markets response to the AMP name went a long way to showing how anaemic and pro-cyclical liquidity is when something goes wrong.

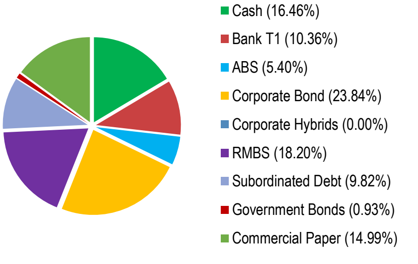
Residential Backed Securities (RMBS): Exposure in line with last month. We are looking at executing on a number of market led themes. Meanwhile the primary market remains well bid and moderately expensive. We are looking at a number of strategic themes that will see portfolio yield and weighting to RMBS increase over the next months. We will be able to say more as we execute on these themes which are well supported by regulatory themes and supply demand dynamics. IN the meantime we are happy to run a net underweight position.

Fund Statistics

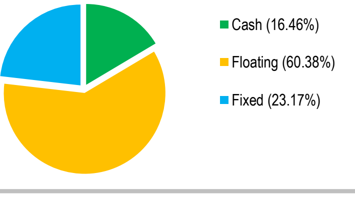
Running Yield	4.45%
Volatility†	0.34%
Interest rate duration	0.14
Credit duration	2.63
Average Credit Rating	A-
Number of positions	153
Average position exposure	0.52%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	2.97
Information Ratio†	3.04

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

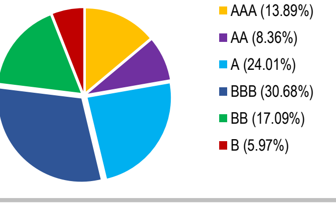
Portfolio Composition



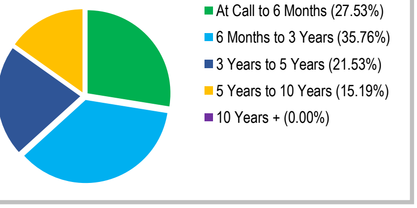
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Additional Tier 1 (AT1) Exposures: ↑ Increased to approximately 10.5% (from 7.9%). Largest source of the increase came through USD Perpetuals in the Westpac, Macquarie and ANZ names, in addition to the over the counter AMP name. The listed market sold off through the month, on the back of a combination of factors , including bank equity volatility , Italian concerns and supply side dynamics. The majority of the listed market sits moderately wide of the recent March lows and now sits broadly in our fair range. In terms of USD Perpetual securities, these lines are off more than 10% since the start of the year, which has finally put these securities on our radar. Ultimately we are constructive in this market and after having maintained an underweight allocation for an extended period feel that compensation levels are finally approaching a fair relative level.

Asset Backed Securities (ABS): ↑ Allocation has increased to 5.4% as a couple of transactions have been approved for investment purposes. Exposure increase to a large revolving facility at an investment grade attachment point delivering attractive relative yields.

Targeted risk across the Fund: ↑ A solid increase to 0.94%, close to the 1% benchmark on the back of an increase in exposure to USD subordinated debt in Australian names, USD Aussie bank AT1 and an increase in USD Australian corporate debt. Portfolio back to a more balanced position after being bunkered down for an extended period.

Market Outlook

Main Credit indices wider over the month as Italian concerns gave rise to volatility. European senior and sub debt felt it most, however the event did reverberate more broadly, with our own senior bank curves wider by 5 to 10 basis points over the day of the event.

The main event over the month related to the Italian political stand off, as the President of the republic rejected the governments suggestion for finance minister. The name nominated was one of a noted Eurosceptic who would have likely impacted market confidence. Needless to say the market sent the respective leaders of the Northern League and the Five Star Movement an un-mistakeable message with Italian equities, spreads and bond yields surging on the day. Within a day the main actors were sending messages around their commitment to the European project and promptly sat down again to form a more palatable cabinet.

In our time zone however credit has remained soft for all of the 2018 calendar year up until now. Increased issuance from a range of Chinese SOE's and lower rated property developers has seen a crowding out effect of sorts that has in turn bled into the bid for a range of fixed Aussie name product. As stated above this has been particularly evident in USD T1 and sub-debt. These market have also been impacted by duration weakness which has lead to an increase in calculated call risk. That said the feeling is that for Asian investors the dynamics of call probability are less an issue than the turn in momentum and more attractively priced home product at like rating attachment points.

This dynamic has created an opportunity and sees certain shallow parts of the market present value that is far superior to the smaller floating Aussie market where markets remain obliviously stable, while broader global tectonic plates start to shift.

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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