Realm High Income Fund

November 2019

Fund Objective

The Realm High Income Fund is a fixed income strategy, 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	0.44%	0.48%	0.06%
3 Month	0.97%	1.08%	0.21%
6 Months	3.00%	3.22%	0.48%
1 Year	5.39%	5.84%	1.23%
2 Years p.a	3.59%	4.03%	1.37%
3 Years p.a	3.68%	4.13%	1.41%
4 Years p.a	4.13%	4.59%	1.50%
5 Years p.a	3.94%	4.40%	1.63%
Since Inception p.a*	4.99%	4.88%	1.95%

* Past performance is not indicative of future performance. *Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013.

Fund Update

Cash and Short-Term Liquidity Weighting: - Decreased modestly to 16.73%.

Interest Rate Duration Position: - IRD positioning remained around 0.95. Volatility was high over the month, all driven by trade deal headlines. Positive or negative headlines moved the prices in 10 year government bonds more than 1% on any given day. For all of that, rates ended where they started, indicating that we are no closer (or further away) to a resolution from a market perspective.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate and sub debt, collectively, decreased to 39.81% from 41.75%. Looking through, our corporate bond allocation decreased while our subordinated debt allocation increased. The continued strength in the credit market saw us trim some of our USD corporate positions while conditions were favourable. The net increase in sub debt resulted from taking allocations in primary issuance in addition to further opportunistic buying in AUD. Dislocations between major names were evident following Westpac's travails, we took advantage building exposure to the name. Our focus recently has been to rotate out of Australian names in USD back into the AUD market. This is motivated by our belief that low Aussie cash rates will continue to support the supply/demand dynamics of our credit market.

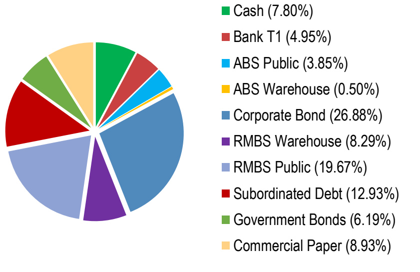
Residential Mortgage Backed Securities (RMBS): ↓ RMBS allocation decreased slightly throughout the month. Market pricing continued to show strength especially in primary markets with a number of new transactions launching and pricing. The market continues to search for high quality RMBS paper with minimal trading on the secondary market as holders prefer to accumulate stock. With respect to market performance, the S&P arrears index (SPIN) for the month showed prime arrears improving 5bps to 0.95% while non-conforming weakened slightly to 3.89%. Major bank arrears weakened 1bp to 1.21%, while regional banks remained in line with last month. Geographically, NSW and VIC improved 2bps and 1bps respectively to 1.21% and 1.26% respectively, while the remaining states were mixed. In summary, demand for RMBS continues to increase resulting in performance to the sector. We continue to maintain our positive outlook on the sector.

Fund Statistics

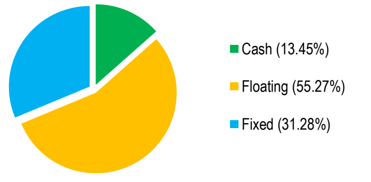
Running Yield	4.31%
Volatility†	0.73%
Interest rate duration	0.95
Credit duration	3.09
Average Credit Rating	BBB+
Number of positions	215
Average position exposure	0.34%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	3.18
Information Ratio∂	3.27

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

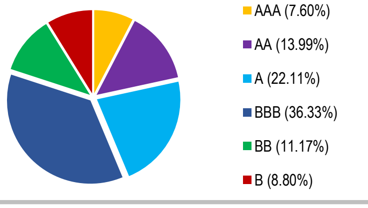
Portfolio Composition



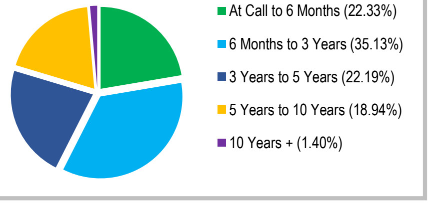
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Additional Tier 1 (AT1) Exposures: ↑ AT1 exposures increased to 4.95% from 3.2%. Much of the increase is attributable to domestic listed securities. The portfolio has been rebalanced over recent months as we have closed positions in USD hybrids issued by Australian banks and insurance companies, with proceeds reallocated into Australian listed markets. This has come on the back of our US positions rallying more than 10% since the volatility of late 2018. At the same time low cash rates are likely to support the Australian listed market, minimising the prospect of any significant volatility in the medium term. We are seeing healthy deal flow which has made this transition seamless.

Asset Backed Securities (ABS): ↑ Our ABS allocation increased slightly to approximately 4.35% as one of our warehouse positions was able to successfully launch a public deal.

Targeted risk across the Fund: ↓ Targeted portfolio risk decreased to 1.08% from 1.13% over the month. The decrease in targeted risk is attributable to the reduction of our corporate senior unsecured securities and USD AT1 positions.

Market Outlook

No real change to the outlook versus the prior month. A great deal hinges on the outcome of a US/China trade deal and global markets know it. This was reflected in the impact of headlines on bond markets, with positive and negative news moving US 10 year bonds around by more than 1% on any given day.

The simple fact of the matter is that the global economy is weak, and seemingly softening further. What is more its hard to see a growth driver. The global economy needs this. The issue is that the US needs it less, meaning that they maintain leverage in their negotiating position. The only real positive is that even though the US is in relative terms more self reliant than other economies, it will still be affected, what is more it is an election year.

Markets are interestingly positioned. The term structure of VIX speaks to a market that feels relatively safe in the short term, but more uncertain over the medium term. At the same time global Credit markets speak to more benign conditions, as indeed do equity markets while at the same time bond market yield curves are pointing to a very high probability of very poor economic outcomes over the longer term.

Bring it all together and you get a market that is highly uncertain. In statistical terms, the tails are fattening, meaning that the outlook becomes more uncertain than it has been for quite some time. This shouldn't be confused with a conviction call that the market is facing an imminent challenge, however it should lead to managers of money becoming focussed on portfolio risk.

Our response to this has been to move our risk positioning around materially. Our largest exposures had been in higher beta sectors in USD markets for most of this year, this was a value call given that these assets had been most impacted by the late 2018 sell off, however as this rally matures we feel that the Australian dollar on-shore markets provide a greater certainty in outcomes, supported by a large pool of forced savings (super), cash rates at 0.75% and likely declining as well as a bank sector that is set to attack the cost of retail term liabilities.

We feel these supply demand factors provide a buffer to our market at a time where domestic risks from housing are as low as they have been in some time. Our market dynamics are very favourable versus global credit. We believe that we are in a position to meet our target at a reasonable level of targeted volatility.

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
mFund Units - $25,000
Inception Date: 26.9.2012
Fund size: AUD $565 million
APIR Codes:
Ordinary Units - OMF0001AU
Wholesale Units - OMF009AU
Adviser Units - OMF0018AU
mFund Units – OMIF1394AU
Management Fees (inc. GST):
Ordinary Units - 1.20%
Wholesale Units - 0.77%
Adviser Units - 0.77%
mFunds 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
- Managed Accounts – IAS
- Netwealth
- Powerwrap
- Praemium
- uXchange
- mFund Settlement Service - mFund code: RLM03

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