Realm High Income Fund

October 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	0.22%	0.25%	0.06%
3 Month	0.84%	0.94%	0.23%
6 Months	2.72%	2.94%	0.55%
1 Year	4.70%	5.13%	1.29%
2 Years p.a	3.47%	3.91%	1.40%
3 Years p.a	3.66%	4.11%	1.43%
4 Years p.a	4.08%	4.53%	1.53%
5 Years p.a	3.95%	4.41%	1.66%
Since Inception p.a*	4.98%	4.86%	1.97%

* 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: ↑ Increased slightly to 18.1% resulting from paydowns and profit taking in the portfolio.

Interest Rate Duration Position: ↑ Increase in IRD positioning to 0.94 from 0.76. Rate positioning was increased as bond markets sold off on the back of US/China trade news, just as credit rallied. This saw us increase rates to optimise the portfolio owing to our continuing overweight credit position.

Corporate & Subordinated Debt Allocation: ↑ Weighting to corporate and sub debt increased to 41.75% from 39.35%. Dissecting the sector, there was a net reduction in our corporate bond allocation while there was a net increase in our subordinated debt sub sector. Overall, the month of October saw relative strength in credit with senior bonds rallying. This allowed us to bank some profit in our material and energy exposures. In sub debt, we saw opportunities early to add to financial paper, while we reduced some exposure to corporate sub debt towards the latter part of the month. The month saw strong corporate deal flow, with Coles issuing it's first senior bond after being spun out of Wesfarmers while Origin also came to the AUD market. Both deals were heavily oversubscribed indicating the thirst for Australian dollar deals.

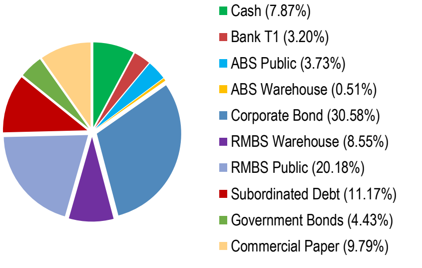
Residential Mortgage Backed Securities (RMBS): ↑ RMBS allocation increased in both public and warehouse securities. Market pricing continued to strengthen in primary markets with a number of new transactions launching and pricing. These deals continued to price tighter over the course of the month as the demand for high quality paper continues to grow. With respect to market performance, the S&P arrears index (SPIN) for the month showed prime arrears improving 7bps to 1.00% while non-conforming also improved 17bps to 3.47%. Major bank arrears improved slightly, while regional banks saw a significant improvement of 30bps to 1.57%. Geographically, all states saw signs of strength with the exception of the ACT which remained in line. NSW and VIC improved 5bps and 8bps to 1.24% and 1.28% respectively. Noticeable improvements were also seen in SA and QLD, with arrears levels falling 13bps and 11 bps to 1.41% and 1.79%. In summary, performance continues to improve while price strengthens, which is coinciding with rising demand for the sector. We maintain our positive and are seeking to move overweight given prevailing conditions.

Fund Statistics

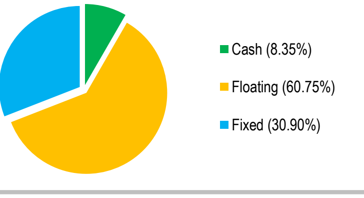
Running Yield	4.33%
Volatility†	0.72%
Interest rate duration	0.94
Credit duration	3.16
Average Credit Rating	BBB+
Number of positions	208
Average position exposure	0.36%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	3.16
Information Ratio∂	3.25

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

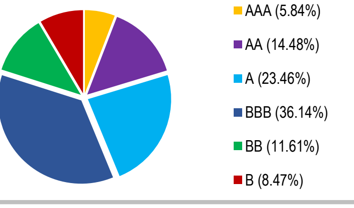
Portfolio Composition



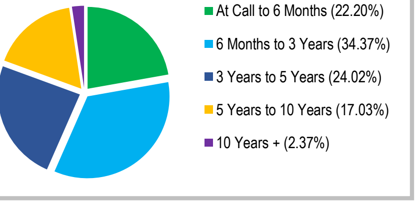
Fixed and Floating Breakdown



Credit Quality



Maturity Profile



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Additional Tier 1 (AT1) Exposures: ↓ AT1 exposure decreased significantly, in relative terms, to 3.2% from 7.6%. The vast majority of the decrease is attributable to our US dollar bank T1 positions. Over the back end of the month, global Tier 1 securities rallied significantly. With subdued global supply and the search for yield causing large cash positions to be put to work. As a consequence, we exited most of our USD tier 1 positions. In listed markets CBA issued a hybrid instrument – CBAPI, which was well received by the market. At current levels, AT1 could be a cost-effective solution for assisting in meeting TLAC targets for the major banks which could increase supply.

Asset Backed Securities (ABS): ↓ Our ABS allocation decreased slightly to approximately 4.2% as one of our warehouse positions was able to successfully launch a public deal.

Targeted risk across the Fund: ↓ Targeted portfolio risk decreased to 1.13% from 1.21% over the month. The decrease in targeted risk is attributable to the reduction of our USD AT1 positions and a lightening of our commodity and energy exposures.

Market Outlook

The story of the month related to the moderation of US / China trade risks. Weakening global data has seemingly provided the impetus for the trade war combatants to seek a rapprochement.

The news was well received by markets generally with VIX, equity and credit markets all rallying. In credit ,materials and energy sectors fared best which is reasonable given the relative weakness these sectors have experienced due to the importance of China for commodity markets.

The rally in risk markedly also coincided with a strong sell off in bonds, with Australian and US long bonds selling off about 30 basis point over the last month or so. Australian bond markets are now implying a no change scenario for the cash rate while US bond markets have also seemingly moderated their expectations of any meaningful cuts from here.

Despite this the yield curve still implies a high level of concern , which is likely to lead to further yield curve steepening in the event that a positive resolution to the US/China trade war materialises. Conversely a no deal scenario has the capacity to push the global economy towards recession.

This creates an interesting conundrum for credit investors. On one hand a trade resolution will be positive for risk markets in the short term as positive statements drive cash prices higher, however at the same time plummeting bond yields have supported risk market valuations globally as investors have increased risk to meet yield targets.

As this dynamic reverses there is a risk that credit premia globally starts looking less attractive relative to risk free rate. In contrast the Australian credit market should continue to be well supported as low cash rates persist and continue to drive the domestic reach for yield. Interestingly Australian corporate bonds issued in foreign currencies tend to trade in line with foreign markets meaning that they are more vulnerable to a US credit sell off.

This dynamic has motivated us to switch our exposure to the Aussie dollar market, where supply/demand dynamics and a record low cash rate will remain supportive. This will continue and will see our corporate exposure give way to RMBS and ABS risk.

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 $550 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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