Realm High Income Fund

September 2019

REALM investment house

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	0.32%	0.35%	0.08%
3 Month	1.53%	1.63%	0.25%
6 Months	3.18%	3.39%	0.61%
1 Year	4.52%	4.95%	1.36%
2 Years p.a	3.56%	4.00%	1.43%
3 Years p.a	3.82%	4.26%	1.45%
4 Years p.a	4.24%	4.69%	1.55%
5 Years p.a	4.02%	4.47%	1.69%
Since Inception p.a*	5.01%	4.89%	1.98%

* 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 16.8% resulting from paydown, maturity of securities and a net inflow of funds into the portfolio.

Interest Rate Duration Position: ↑ Increase in IRD positioning to 0.76 from 0.72. Rates round tripped over the month as positive headlines relating to the US/China trade détente drove a strong sell off into mid month before a combination of data and market factors saw a reversal into month end.

Corporate & Subordinated Debt Allocation: ↓ Weighting to corporate and sub debt decreased slightly to 39.35% from 40%. Much of the decrease is attributable to fund inflows, profit taking and optimising for risk adjusted value. Primary issuance from the financials were subdued for the month of September with only Westpac issuing a 1-year senior FRN at 3m BBSW +30bp. Pacific National issued senior debt and Downer Group tapped its existing line to take advantage of favourable market conditions. There was a marginal increase in our subordinated debt allocation over the month of September – much of the increase coming from sub 3-year paper. We continue to hold a positive outlook for the sub-sector over the medium term, owing to the low absolute level of rates and the prospect of further central bank accommodation.

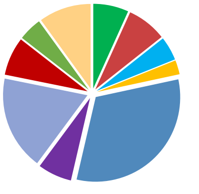
Residential Mortgage Backed Securities (RMBS): →RMBS allocation remained in line over the month. Once again, market pricing strengthened - most notably in the primary market where deals tested tighter across most parts of the RMBS capital structure. Strong coverage ratios were seen in primary in addition to a noticeable pick up in secondary market activity. With respect to market performance, the S&P arrears index (SPIN) for the month showed prime arrears declining 4bps to 1.07% while non-conforming arrears rose to 3.64%. Major bank arrears were in line, decreasing 1bp to 1.23%, regional banks also improved 9bps down to 1.87%. Geographically, NSW saw weakness, with arrears rising 3bps to 1.29%, while VIC arrears declined 4 bps to 1.36%. All other states saw improvements with the exception of SA, which weakened 2bps increase in arrears, the notable improver was WA, with a 14bps decline in arrears. In summary, performance is improving and price is strengthening, what is more investor appetite for the sub sector continues to rise. We hold a positive view on

Fund Statistics

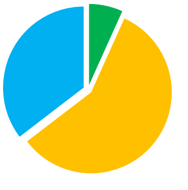
Running Yield	4.61%
Volatility†	0.73%
Interest rate duration	0.76
Credit duration	3.41
Average Credit Rating	BBB+
Number of positions	195
Average position exposure	0.35%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio∂	3.16
Information Ratio∂	3.25

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

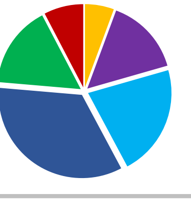
Portfolio Composition



Fixed and Floating Breakdown



Credit Quality



Maturity Profile

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Additional Tier 1 (AT1) Exposures: ↓ AT1 exposures decreased to 7.59% due to fund inflows. Over the month we lightened our domestic hybrid positions and rotated the proceeds to USD T1 assets. The Aussie USD T1 assets still provide a large yield pick up over domestic securities. We also see the potential for supply to increase as AT1 at current prices could provide a cost-effective source of TLAC for our major banks.

Asset Backed Securities (ABS): ↑ Our ABS allocation increased slightly to just over 6.5% on the back of our participation in primary consumer finance issuance.

Targeted risk across the Fund: ↑ Targeted portfolio risk increased to 1.21% from 1.15% over the month. This marginal movement is reflective of net additions in almost every asset class.

Market Outlook

A mixed month, as US/China tensions around trade & Hong Kong moderated just as concerns around the stability of the gulf rose on the back of an attack on Saudi Arabia's oil infrastructure.

Economic data continued to soften, however the ECB decision to increase accommodation came with a healthy amount of dissention. At the same time the Bank Of Japan is looking to steepen the yield curve, all of this created headwinds for the bond market through mid month.

Another topic of conversation revolved around the levels of stress in the US inter-bank market, with liquidity shortages causing the Federal reserve to intervene to maintain an orderly market. While the drivers seemed to be timing related, there are questions around whether these shortfalls also speak to elements that might be a little more enduring (such as treasury dealer balances).

All in all the market is interestingly poised, global economic momentum is softening, central banks are providing accommodation as expected and bond markets are still speaking to interest rates declining further.

Here in Aus its all about the cash rate after the RBA followed through in early October bringing the benchmark interest rate down to 0.75%. The forward curve is still pricing in one and a half cuts from here over the next 12 months, with the one year forward implied interest rate sitting at 0.37%.

At the same time system risk is moderating as arrears and market liquidity for housing improves, this makes Australian system risk in Aussie dollars particularly attractive. We favour RMBS and ABS given the significant pick up these products provide for like ratings versus unsecured financial debt. We expect this to drive outperformance of this market.

Rates cuts have imposed a large impost on savers, with retirees having essentially taken the better part of an 85% cut on returns of at call accounts over the last 7 years. The opportunity cost of being under invested is now significant. The central bank has created a significant cost relating to being too careful (or patient) that is likely to benefit Australian credit product. The concern will be that money ends up in the wrong hands as retirees trawl the internet for a pick up in yield. In this kind of environment advisers and their clients need to be vigilant.

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 $534 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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