



Realm High Income Fund

December 2015

Investment Objective

- Provide a Net Return of 3% over cash.
- Preserving the value of your investment.

Net Performance

Period	Ordinary Units (incl. franking)	RBA Cash Rate	Excess Return (incl. franking)
1 Month	0.14%	0.17%	-0.03%
3 Months	1.19%	0.50%	0.69%
6 Months	1.75%	1.00%	0.75%
1 Year	2.67%	2.11%	0.56%
2 Years p.a	4.49%	2.30%	2.19%
3 Years p.a	5.84%	2.45%	3.39%
Since Inception p.a*	5.96%	2.51%	3.45%

Wholesale Units (incl. Franking)
0.19%
1.32%
1.99%
3.15%
4.97%
NA
5.30%

Past performance is not indicative of future performance.

*Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013

Fund Update

Our **cash weighting** increased from 7% to 15.17% over the month. The increase in cash was a result of an 8% reduction in the funds RMBS holdings as well as a more moderate 3% reduction in the corporate bond allocation. Our allocation to Listed Tier 1 and Tier 2 debt increased over the month by approximately 3%, this was in response to intra month price weakness.

Our **fixed rate** exposure remains near zero. Bonds round tripped over the month with the Australian 10 year rallying from 2.85% to 2.68% before selling off heavily in the last week to settle at 2.88%. US 10 year rates are now beginning to approach a fair level in our estimation, while Aussie rates are still moderately expensive at the long end. On that basis we continue to maintain very low fixed rate exposure.

Our **corporate bond** allocation reduced by approximately 3%, due largely to our divestment of our holdings of IAG and QBE's subordinated debt. A small portion of these proceeds were used to increase our exposure to the subordinated debt of ANZ and Suncorp, we also increased our exposure to BHP's subordinated debt through BHP's 5 year sub debt security at spreads north of 5% over the relevant government bond for a 5 year call. BHP remains our only exposure to the Materials or Energy sector. From a fundamental perspective we have seen consensus forward estimates on commodities plummet, along with best estimates on enterprise value. The market has rightly adjusted its view to this new reality of a more benign outlook and lower operating margins. Indeed a strong case can be made to suggest that a range of plus or minus 20% around month end prices is indeed a fair valuation range for the asset base of BHP as an enterprise. Working on this assumption, and assuming that volatility moderates as the market accepts the new status quo, we are comfortable maintaining this exposure to BHP's debt within our portfolio, despite the higher volatility associated with the holding.

The funds **Hybrid allocation** increased by approximately 2.5% over the month. The sector detracted from fund performance in December delivering a return of approximately .06% over the month. The first three weeks of December saw steady and concerted selling out of one broker across a number of names, which had an upsized impact on prices. We saw a solid reversion into month end as the selling cleared with prices bouncing back strongly although still remaining below levels of the beginning of the month. Through the weakness we increased our exposure to NABPC and took a position within NABPB, added a smaller amount to our exposure of ANZPD and increased our holding to the tier 2 debt of Westpac through the purchase of WBCB. In the case of the Tier 1 positions added, most were executed at spreads close to 5.50% over the bill rate, while our increase in WBCB was executed at close to 3% over the bill rate, a premium of 1% over unlisted like securities. We note that the higher allocation to Hybrids does increase volatility however we maintain our view that this tactical weighting will make a strong contribution towards the fund meeting its objectives over the medium term.

Our **RMBS** allocation reduced by approximately 8% over the month. The divestment took the form of sales based on broker inquiry that saw a number of securities well bid into year end. These sales were all conducted at levels above marked prices.

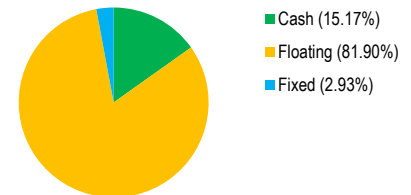
Fund Statistics

Running Yield	5.48%
Volatility*	1.14%
Interest rate duration	0.14 years
Credit duration	3.61 years
Average Credit Rating	BBB+
Number of positions	89
Average position exposure	1.12%
Worst Month*	-0.47%
Best Month*	1.12%
Sharpe ratio*	3.04
Information Ratio*	3.06

Calculated on Ordinary Units unless otherwise stated

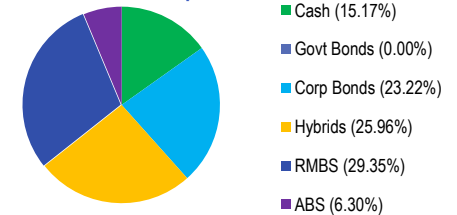
*Since Inception 26 September 2012

Fixed and Floating Breakdown



The fixed rate exposure is calculated based on the portfolios interest duration expressed as a percentage of the Bloomberg 0+yr Composite Bond Index.

Portfolio Composition



Sector limits

	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 Update Continued

We feel this market is pretty well balanced at present. On that basis we have brought our allocation to just below our long term strategic target of 30%. In terms of issue quality and the broader market, we feel that the moderation of certain risk metrics will allow rates to remain historically low and will continue to see loan arrears remain at record low levels over the current year.

Our **ABS** allocation remained moderately above our long term strategic benchmark of 5% at just below 7% of fund assets. There were no changes since last month.

Portfolio insurance decreased to 15% of risk exposure through the month on a delta adjusted basis. The insurance portfolio is made up of equity single name put positions. This was reduced as the month ran on, as more immediate risks relating to a sell-off in credit markets moderated and our cash allocation increased. The protection overlay is actively managed and is a function of portfolio cash levels, portfolio risk as well as our broader outbound risk assessment.

Fund Outlook

"When sorrows come, they come not as single spies but in battalions" Shakespeare's words would not be out of place in describing the myriad of affliction seemingly besetting markets at present. Be your concern structural, geopolitical or technical, there is seemingly more than enough fodder for most fair minded people to build a negative narrative around markets over the year to come.

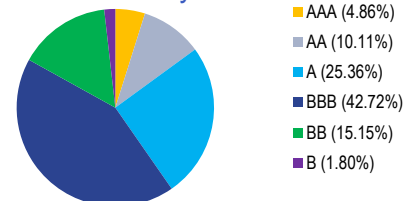
Indeed we have seen these concerns strongly reflected within the prices of a number of markets. In commodities and energy we are seeing the most profitable operators staring at single digit to negative operating margins and in emerging debt and US high yield we are looking at nations that were market darlings only 18 months ago facing painful fiscal austerity and in some cases the realistic prospect of default. Meanwhile, the world's largest economy is embarking on a normalization of interest rates reflecting the improved yet unremarkable performance of the American market, and as if all of that is not enough there is also the all too familiar recent concern relating to war and conflict.

In actively pricing for risk, markets are acting rationally and to a large degree seeking to account for the prevailing concerns. As an example, the global deflation/China Hard Landing / US rate rise thesis is certainly being priced in for metals and energy as well as the sectors equity and debt. Equally we have also seen a surge in credit protection costs for emerging markets such as Brazil, Turkey, Russia and Saudi Arabia, once again reflecting the risks posed by lower commodity prices and unhealthy budgetary deficits.

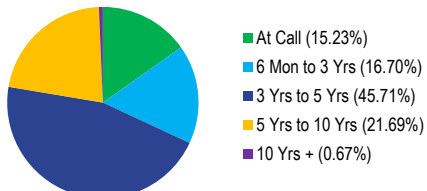
This is the prism we see the market through in early 2016. Risks abound everywhere however 2015 was a year where the market transitioned towards adjusting to a status quo of lower upside and expectations, in doing so a number of markets seemingly moved into good value territory based on our fundamental view. In essence while a lot of bad stuff is happening, it is being actively priced, which in turn leads us to seek to allocate capital opportunistically, with a focus on avoiding fissures that are more sectoral or issuer specific.

Our cash allocation sits moderately above our strategic long term target as at year end, our portfolio remains underweight rates and fully exposed to risk markets with the key overweight remaining bank Tier 1. We believe that a number of domestic markets present excellent fundamental value, the key drivers being the imposition of the Basel continuum and its indirect impact on bank balance sheets and market making activity. This saw large parts of our market drift meaningfully wider over 2015, with supply and market volatility presenting opportunities that we last saw during the taper tantrum of 2013. Under these circumstances the fund delivered a reasonable rate of return and is positioned well to meet the funds objective over the coming quarters.

Credit Quality



Maturity Profile



Fund details

- Distribution Frequency: Monthly
- Liquidity: Daily
- Ordinary Units Management Fee: 1.20% (inc. GST)
- Wholesale Units Management Fee: 0.77% (inc. GST)
- RE: One Managed Investment Funds Ltd
- Custodian: JP Morgan
- Unit Pricing: www.oneinvestments.com.au/Realm
- Unit Price History: www.realminvestments.com.au/media/4

Platform Availability

- BT Wrap
- Macquarie Wrap IDPS
- Powerwrap
- Hub24
- IAS
- UBS
- Credit Suisse (HSBC)
- CFS FirstWrap (Private Label)
- Netwealth (Private Label)

Distribution Contacts: Ellerston Capital

Andrew Seddon

aseddon@ellerstoncapital.com

0417 249 577

Simon Glazier

sglazier@ellerstoncapital.com

0410 452 949

Realm Portfolio Managers

Andrew Papageorgiou

andrew.p@realminvestments.com.au

(03) 9008-7292

Rob Camilleri

rob.c@realminvestments.com.au

(03) 9008-7291

DISCLAIMER

Realm Pty Ltd ACN 155 984 955 AFSL 421336 (Realm) is the investment manager of the Realm High Income Fund (ARSN 159 673 533) (Fund). One Managed Investment Funds Limited (ABN 47 117 400 987) (AFSL 297042) is the responsibility entity of the Fund (OMIFL). The information contained in this document was not prepared by OMIFL but was prepared by other parties. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information contained therein cannot be warranted or guaranteed. Anyone reading this report must obtain and rely upon their own independent advice and inquiries. Investors should consider the product disclosure statement (PDS) issued by OMIFL before making any decision regarding the Fund. The PDS contains important information about investing in the Fund and it is important investors obtain and read a copy of the PDS before making a decision about whether to acquire, continue to hold or dispose of units in the Fund. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. A copy of the PDS & Additional PDS (Dated 1 April 2015) and continuous disclosures may be obtained from <http://oneinvestment.com.au/realminvestments.com.au>. Realm believes that the information contained in this document is accurate when issued. Realm does not warrant that such information or advice is accurate, reliable, complete or up-to-date, and to the fullest extent permitted by law, disclaims all liability of Realm and its associates. This document should be regarded as general information only rather than advice. In preparing this document, Realm did not take into account the investment objectives, financial situation and particular needs of any individual person. The information contained in this document must not be copied or disclosed in whole or in part without the prior written consent of Realm, and Realm accept no liability whatsoever for the actions of third parties in this respect. It is presented for informational purposes only and is not to be construed as a solicitation or an offer or recommendation to buy or sell any securities. Any opinions expressed in this document may be subject to change. Realm is not obliged to update the information. The information must not be used by recipients as a substitute for their own judgment and investigation. Neither Realm nor any of their directors, employees or agents accept any liability for any loss or damage arising out of the use of all or part of, or any omission, inadequacy or inaccuracy in, this document. OMIFL and Realm do not guarantee the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither OMIFL nor Realm, including their directors, senior executives, employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Realm only provides services to wholesale clients, as defined in section 761G of the Corporations Act. Past performance is not indicative of future performance. Information in this document is current as at 31 December 2015.