Realm High Income Fund

December 2016

Investment Objective

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

Net Performance

Period	Ordinary Units (incl. franking)	Wholesale Units (incl. franking)	RBA Cash Rate
1 Month	0.54%	0.56%	0.13%
3 Month	1.59%	1.68%	0.38%
6 Months	3.38%	3.59%	0.78%
1 Year	5.91%	6.35%	1.74%
2 Years p.a	4.27%	4.73%	1.92%
3 Years p.a	4.95%	5.43%	2.11%
4 Years p.a	5.86%	N/A	2.27%
Since Inception p.a*	5.94%	5.62%	2.32%

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 Statistics

Running Yield	3.86%
Volatility†	1.04%
Interest rate duration	0.55
Credit duration	2.46
Average Credit Rating	A-
Number of positions	115
Average position exposure	0.87%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio†	4.43
Information Ratio†	4.44

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

Fund Update

Our **cash** weighting increased moderately, by approximately 2.7% to 20% as at month end, the largest change came in the funds bank AT1 exposure which we reduced by approximately 6% over the month. The fund also maintains exposure to corporate debt maturing within 12 months and AAA rated RMBS with a weighted life of 12 months or less accounting for a further 11%. The fund also increased its government exposure moderately to 5.75%. The fund has now transitioned to a more defensive posture and has substantially reduced exposure to market risk.

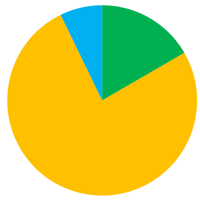
The fund is sitting between 0.5 and 0.7 of a year, long in its **fixed rate** exposure. Global long bonds sold off again this month, although losses were paired into month end as traders squared positions into the break. Our Australian rate monitor continues to indicate that Australian bonds present good value given current economic strength, however our trepidation is a function of our monitors indicating that the US long end is still only fair meaning that there is a risk that rates could steepen from here. The fund increased its exposure as the Australian 10 year approached 3%, we would need to see rates wider again to increase our exposure from existing levels.

Our corporate and subordinated bond allocation increased by a little over 5% over the month, driven by our participation in Bendigo Banks new subordinated debt issue, we also added a large number of very short dated corporate bonds (maturing in 12 months or less). We also opportunistically picked away at listed subordinated debt names such as ANZHA, NABHB and WBCHA. A good portion of our subordinated debt exposure is also within 12 months of call (approximately 5%). All told 11% out of a total allocation of 27% is particularly short. The next greatest concentration of risk is in 4 and 5 year Australian big 4 senior debt. All in all the allocation would be characterized as low beta high grade exposure. We feel the allocation could be repositioned more aggressively as market opportunities avail themselves or as issuance picks up in coming quarters.

Our **AT1** exposure reduced to just below 10% into year end. A reduction of more than 6% over the month. This was by far the largest reduction to any sector in December. We have openly stated that we would sell into further strength, which is what we did as longer maturity bank Tier 1 names rallied by approximately 40 to 50 basis points and select names rallied between 2 to 3%. The long end of the Australian Tier 1 curve is now fair at best. Our belief remains that supply demand dynamics will remain supportive and likely continue to drive the market higher in the short to medium term. This was certainly validated by the performance of IAGPD on listing which opened at a hefty 3% premium. We will continue to reduce our net exposure to this sector into strength. In the meantime we believe robust market performance might encourage an increase in issuance out of other parts of the hybrid market to take advantage of moderating tier 1 issuance and strong latent demand.

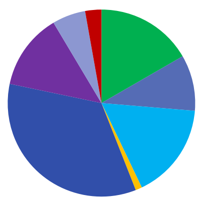
Our **RMBS** allocation increased by approximately 1% over the month, as shorter dated AAA rated debt matured it was replaced by new issuance. Value remains reasonable within the RMBS market, we would go so far as to say that the RMBS mezzanine market presents much better value than other forms of bank capital. Proposed changes that will see certain parts of the RMBS capital market treated much more favorably from a capital perspective can be expected to exert a positive influence as they come into effect in 2018. All in all the market presents very good value here and now and is likely to find a tail wind as regulatory changes become imminent in the back half of the year, on these grounds we are likely to increase our allocation to this sector. We believe primary issuance will provide us ample opportunity.

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%

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Fund Outlook

Australian bank CDS tightened by 7 points, while the Aus CDX index also approached 100. These are tight market levels and are indicative of a general lack of market concern. This illustrates that investors are happy to sell cover at particularly low rates at present. This could be considered a sign of building complacency. Indeed for the first time in the last twelve months the market is starting to show a lower estimation of future market risk.

This rising complacency is reasonable when one considers that the market has ultimately shaken off all forms of concerns over the last 12 months, from Chinese hard landings, to Brexit , to Trump and most recently an Italian change of government. The analogies of the thanksgiving turkey or the boiling frog are apt in some way as they speak to how complacency builds gradually and eventually leads to a general underestimation of the probability of things going wrong. While investors have seen many concerning market events materialize the absence of any real market consequence has emboldened capital allocators towards greater risk taking.

To markets now, there is a growing expectation that 2017 will be the year that the baton passes from central banks to governments, as the growing acceptance that monetary policy has done as much as it can do gives way to direct fiscal expenditure.

In the United States this will likely see a combination of tax cuts as well as the well telegraphed increase in infrastructure spending, question marks remain on how this will be funded, as the debt ceiling means that without the approval of congress Trump has little wiggle room, unless of course the announcement comes with a market linked funding platform. This comes at a good time for the US economy as the removal of monetary accommodation and rising rates pressures the tepid US recovery. While US data has been reasonable over the last year, there is a vulnerability in the US economy to higher rates and the stronger USD and higher mortgage rates that result. The question is to what extent is all of this already priced in to bond and equity markets.

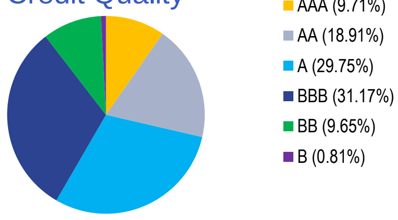
Meanwhile in China the data has continued to recover from its January 2016 lows. While growth remains below trend, the concerns relating to any form of hard landing have largely dissipated. All of that said the Chinese conundrum of significant non-performing loans and rising debt at a time where economic growth is well below the historical trend remains an issue for the Chinese party leadership to deal with, once again there is a view that 2017 will see an increase in Chinese fiscal and infrastructure expenditure in an attempt to provide a much needed boost to China's economy.

For Europe 2017 may well be a defining year, French, Dutch and German elections combined with the growing disaffection among the Mediterranean nations present nothing less than an existential threat for the union. Europe seemingly presents the greatest source of risk for 2017. That said it also presents an opportunity for the block to assert itself and find its purpose at a time that its neighborhood is burning and its people have never felt further apart. The market is likely to get its first taste as the reality of Brexit comes home to roost and the continental Europeans start tugging at the British carcass.

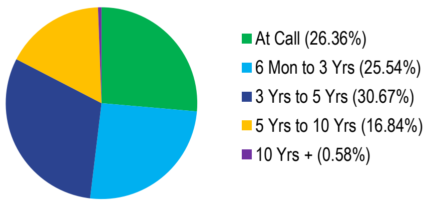
Here in Australia as usual, our lot will be defined by others. Certainly any kind of explosion in global infrastructure expenditure will be a net positive for our economy (bulk commodities) as will US rate normalisation which would likely drive AUD weakness and deliver the Australian economy with a desperately needed productivity benefit. Indeed our Aus economy index is as weak as it has been since the GFC, as housing starts weaken and join wage growth and private investment as net detractors. In many ways US rate normalisation is the Australian economies greatest hope, as this will reduce the need for any further rate cuts and provide a balanced benefit to the Australian economy.

From a positioning standpoint the fund has taken a more defensive posture over the last month, the outperformance of existing risk assets has been sufficient in assisting us in exceeding the funds stated objective of recent times, however as the rally continues to mature the risks are increasingly becoming asymmetric. This will continue as the current trend is maintained. Meanwhile any meaningful sell off in rates from current levels will see us increase our fixed rate exposure. The portfolio holds enough risk to assist in meeting fund performance objective, however equally it is important to note that the nature of the strategy seeks to increase risk when it is undervalued and reduce it as the market starts to underestimate risk. As markets move to extreme positions the fund will knowingly and intentionally increase re-investment risk (e.g. move to an under invested position). Our priority is always the protection of capital which drives our safety first approach.

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)
- Adviser Units Management Fee: 0.77% (inc. GST)
- RE: One Managed Investment Funds Ltd
- Custodian: JP Morgan
- Unit Pricing and 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)
- Praemium

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