



Realm High Income Fund

July 2016

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	0.72%	0.14%	0.58%
3 Months	1.54%	0.43%	1.11%
6 Months	3.42%	0.92%	2.50%
1 Year	4.36%	1.94%	2.42%
2 Years p.a	3.87%	2.13%	1.74%
3 Years p.a	5.26%	2.25%	3.01%
Since Inception p.a*	5.89%	2.41%	3.48%

Wholesale Units (incl. Franking)
0.75%
1.66%
3.63%
4.82%
4.34%
N/A
5.44%

Past performance is not indicative of future performance.

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

Fund Update

Our cash weight was the big mover over the month, rising to approximately 16%. The cash increase came through a reduction within the funds Mezzanine RMBS exposure, Tier 2 Insurance exposure and a moderate reduction in the funds AT1 bank hybrid weighting.

Our **fixed rate** exposure remains at zero as at month end. We believe that bonds are very expensive at current levels. We make this statement on the grounds that rates are implying a scenario which is materially weaker than current nominal rate of GDP. On our estimates current long rates are implying long term nominal growth rates here in Australia of close to 2.8%, this is well below the prevailing rate of around 4%. In simple term the bond market is betting big on economic momentum continuing to deteriorate and deflationary forces rising. Long bonds are as expensive on our fundamental measures as they have been in the life of the fund and are an avoid from an asset allocation perspective at current levels.

Our **corporate and subordinated bond** allocation remained broadly in line with last month. With Brexit in the rear view mirror the focus was back on central banks with the ECB continuing on its path of asset purchases. The impact of the ECB program is seeing a good portion of European corporate issuance trading at negative yields with the compression in European indices continuing to drive global indices tighter in sympathy. This rally is occurring with the absence of any real fundamentals, however the fact remains while it continues it will remain supportive for credit indices. The impact of ECB activity over the last month on our own markets was a gentle and constant grind tighter, with bank subordinated debt an outperformer due to an absence of any meaningful issuance. Over the month we took advantage of this strength to reduce our Tier 2 exposure to the likes of Suncorp and sell our exposure in IAG's debt while increasing our exposure to the senior unsecured debt of CBA and Suncorp. This switch maintains our exposure to the prevailing trend in credit while reducing market beta by increasing credit quality. Non-bank corporate exposure remains modest at a portfolio level based on price.

Our **Hybrid allocation** reduced moderately over the month, with a small number of positions reduced on the back of positive price movement. At approximately 19% of fund assets, this exposure remains a key tactical overweight in the portfolio. While the bank AT1 market has rallied strongly off its January lows, the sector continues to score attractively on a relative basis versus the rest of our universe. Over the month the sector absorbed the listing and liquidity associated with the recent NAB (NABPD) and Westpac (WBCPG) issues, both have listed well continuing the recent trend. In the short term the AT1 market will continue to be supported by a shortage of investor alternatives, lower absolute rates, a reduction in new supply versus previous years, new sources of demand (institutional buyers) and the loss of confidence in bank equity to provide stable income over the long term. From a supply standpoint we will see the refinancing of ANZPA, from ANZ before the end of the year, however this will be a smaller deal than what would have been originally expected owing to ANZ taking the option of issuing overseas. Outside of that, no major bank is expected to hit the market before year end, although a review of prevailing capital levels makes us feel that there is a possibility we could see Commonwealth Bank again before quarter 1 2017. Either way the supply/ demand dynamics, relative pricing and a low yield environment provide the context behind our tactical overweight.

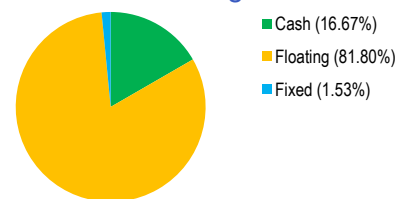
Fund Statistics

Running Yield	4.64%
Volatility*	1.17%
Interest rate duration	0.03
Credit duration	2.95
Average Credit Rating	A-
Number of positions	71
Average position exposure	1.41%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio*	2.97
Information Ratio*	2.98

Calculated on Ordinary Units unless otherwise stated

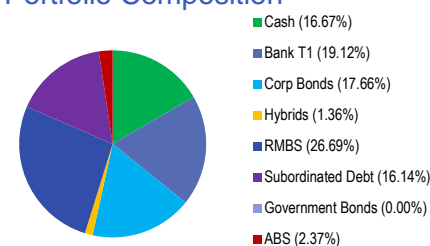
*Since Inception 26 September 2012

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

Our **RMBS allocation** reduced from 31% to approximately 26% over the month. This was largely driven by strong investor demand that saw bids hit our fair offer levels providing healthy portfolio attribution. Thus far 2016, we have seen the lowest issuance of RMBS since 2008, this is even more pronounced for mezzanine RMBS. The largest issuers of mezzanine RMBS in the Australian market are the regional banks. This absence of supply combined with credit markets that continue to rally strongly has seen investors come out of the woodwork and bid the market well above where it is currently priced. The direction of our weighting from here will largely be a function of market price, further strength will see our weighting decline or sectoral composition swing to the most senior tranches, any meaningful weakness will see us as active buyers.

Portfolio insurance was not utilized over the month, instead cash allocation was increased and beta exposure reduced within the corporate credit and RMBS allocations of the portfolio.

Fund Outlook

Credit markets globally grinded tighter as the ECB's bond buying program continued to exert a gravitational pull on credit markets. This occurred despite some genuine concerns around the state of European bank balance sheets, and a reporting season that illustrated the very real challenges faced by global banking in the current market environment owing largely to non-performing loans and negative interest rates. The banking sector was also in the news on the back of a patchy reporting season, with European Banks impacted heavily by plummeting rates and non-interest revenues

While there was no movement on the rate front, language does now point to the Fed raising once by calendar year end. Despite this long bonds dropped in yield just as shorter dated bonds sold off. Our view remains that bonds are particularly dear at current levels, as the market seems to be implying a collapse in nominal rates of growth. Meanwhile US data was ok over the month, indeed US economic momentum and surprise indices are both growing above the longer term trend and support the FOMC statement that risks have largely dissipated. While we are not anticipating a rapid ascent in the Fed fund rate, we do believe that the trend in the Fed fund rate is higher from here.

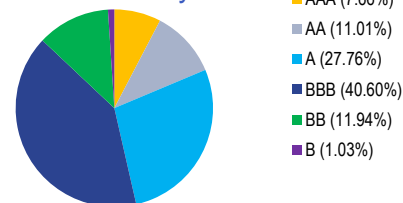
In Asia the BOJ took center stage as the Japanese quantitative easing program was maintained just as the target for ETF equity purchases was increased, this underwhelmed many who expected the BOJ to do more. In China, data seems to have moderated, with investment and manufacturing numbers showing signs of stabilization. Chinese risk and its impact on the global supply chain was the story of the first quarter, while the imbalances that made this a concern remain, the market seems to be taking the issue and its resolution in its stride.

Domestically, data remains soft. Capex and wages are still weak and are now being joined by a softening in construction, especially as concerns pertaining to high density dwellings start to play out. It would seem a good number of units under construction are subject to a high level of settlement risk that could put a real hole in development expectations. The good news is that the building risks within housing and household balance sheets have moderated. Make no mistake the absolute numbers remain very high and make our household sector vulnerable to shock, however there are signs that APRA has been effective in taking the heat out so to speak, which will allow the RBA the flexibility to act. Whether the RBA needs to act will be largely driven by what happens across the Pacific. If we see the Fed gently send rates higher our dollar will respond accordingly which will in turn reduce the need for the RBA to act, if they disappoint however the Aussie dollar will remain stubbornly resilient.

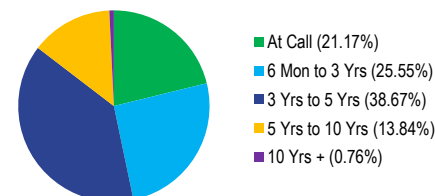
The market remains driven almost entirely by central bank intervention at present, whether it is the BOJ buying shares, the ECB buying credit or regulators allowing banks to extend and pretend rather than facing balance sheet concerns, central banks remain the main show. Investing in this kind of market is a surreal exercise, indeed despite all of this the drivers in the shorter to medium term for market risk look positive.

We expect that these foreign drivers will continue to deliver a tailwind to on the run corporate credit here in Australia, while sectors such as RMBS and AT1 will continue to be supported by favorable supply demand dynamics. As this movement tighter and higher continues you can expect to see our allocation to cash continue to inch higher. As at the time of writing portfolio cash sits at 18% which is only moderately higher than our long term average, however portfolio composition has also been directed into lower beta sectors, this will continue as the outperformance of credit continues. Risks are becoming more balanced at this stage of the cycle, our focus now equally balanced between de-risking and harvesting positions for growth. In a dynamic environment the flexibility of our mandate allows us to take the necessary steps to protect the portfolio, while portfolio size allows us to access the full breadth of the market.

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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