Realm High Income Fund

May 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)	Wholesale Units (incl. Franking)
1 Month	0.22%	0.17%	0.05%	0.26%
3 Months	0.80%	0.54%	0.26%	0.91%
6 Months	2.02%	1.14%	0.88%	2.24%
1 Year	4.53%	2.40%	2.13%	4.99%
2 Years p.a	6.28%	2.47%	3.81%	N/A
Since Inception p.a*	6.81%	2.62%	4.19%	6.25%

*Ordinary units Inception 26 September 2012. Wholesale units Inception 9 October 2013

Fund Statistics

Running Yield	5.12%
Volatility*	0.95%
Interest rate duration	0.88 years
Credit duration	3.66 years
Average Credit Rating	A-
Number of positions	61
Average position exposure	1.639%
Worst Month*	-0.11%
Best Month*	1.12%
Sharpe ratio*	4.41
Information Ratio*	4.44

Calculated on Retail Units unless otherwise stated
*Since Inception 26 September 2012

Fund Update

Cash weighting decreased by approximately 8.8% with capital being re-deployed towards increasing interest rate duration with government bond exposure rising by approximately 4% and fixed corporate exposure increasing by 2.5%.

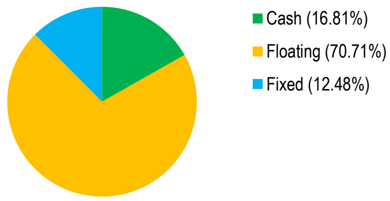
Allocation to **government debt** was increased over the month. Interest rate duration increased from 0.44 of a year to a little over twelve months. We felt that rates presented fair value at April month end, which meant that the sell-off that ensued through the first half of May presented an attractive opportunity to increase interest rate risk. This increase is consistent with our macro environmental score which remains low and is reflective of weaker global economic data as well as persistent risks created by geopolitical circumstances. Our approach to the use of rates is opportunistic, as such a meaningful movement in either direction from current levels will be reflected within portfolio exposures.

Corporate bond exposure increased over the month by approximately 3.5%. This was largely due to our participation within Asciano's 10 year fixed rate issue, being the first such deal to a non-bank senior corporate security that the fund has been exposed to in some time. In addition the security is a fixed rate issue which also acted to increase portfolio interest rate duration. On balance we view the non-bank corporate debt complex as moderately dear to expensive, we view domestic bank tier 2 debt as expensive and feel senior bank debt looks only fair at current levels with limited upside.

After a reduction of approximately 6% through the month of April, which was largely driven by a divestment of our regional bank and insurance exposure, this month saw our **Hybrid allocation** increase back up to 26%. This was driven by a sell off that saw names at the longer end widen by approximately 30 to 40 basis points over the month and saw security price reductions in excess of 3% in some cases. The weakness seemed to be motivated by a sell-off in big 4 bank equity names in the neighborhood of 5% to 10%. The sell-off within these longer dated big 4 issues has led to these assets presenting the best total return proposition in the sub-sector in the life of the fund. Equally, we note that recent regulatory activity targeting an increase in core equity which will in turn actively increase Hybrid Tier 1 subordination, meaning that hybrids now have more money protecting them from an event. We believe that the sub-sector presents excellent value when compared to tier 2 and senior debt as well as presenting a superior risk return proposition to bank equity in our estimation. Names added over the month included CBAPD, WBCPE, ANZPD, ANZPE and ANZPF.

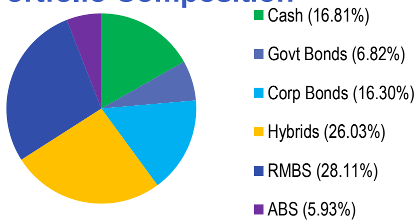
RMBS allocation remained static over the month. While we saw three issuers come to market, deal structure and pool quality were primary drivers in our decision to pass on primary market opportunities. We maintain our own individual overlay in terms of how we assess this risk, which might include us acting to tax certain geographies as well as ownership and loan types. Equally it is our policy to more aggressively tax loans with lower loan to value ratios. Our proprietary approach at times drive a meaningful discrepancy between our own view and the rating agencies and where the rest of the market sees fair value. This effectively means that any decision to increase our weighting from current levels will be driven by our assessed quality of issuance and the spread it is issued at.

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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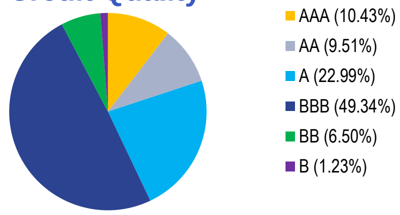
APIR Code: OMF0001AU- Retail
APIR Code: OMF0009AU-Wholesale

Fund Update Continued

Our **ABS** allocation remains at 6% which is in line with last month. As we have stated previously the structure of these securities deliver meaningful subordination further supported by large levels of excess trust income. The value proposition can vary meaningfully from deal to deal, meaning the assessment of risk especially for subordinated securities can be particularly complex. We will continue to move towards our strategic benchmark of 10% depending on issuance quality and margin.

Portfolio insurance was tailed back closer to zero over the month as we chose to increase our interest rate exposure as the bond sell off intensified through the middle of the month. We note that Government bonds tend to negatively correlate to weakness in credit and risk markets generally. We will only tend to use rates to protect the portfolio where we believe that rates do not present a meaningful risk to the portfolios total value in their own right.

Credit Quality



Fund Outlook

As at months end our investment committee score remained range bound in the high negative teens. This view has been reflected through our decision to maintain cash at above average levels, in addition to increasing the funds interest rate exposure. The persistent weakness in our score though the last four months is indicative of weaker US and Chinese data, a European recovery which has lost momentum, a market environment that on balance remains relatively exuberant which influences the potential size and strength of a market sell-off and geopolitical risks which continue to linger, be it the Greek conundrum or a myriad of armed conflicts stretching from Yemen to Ukraine.

In Europe we have seen the strength that drove talk of a recovery through March and April dissipate as data weakened again through May. Needless to say the constant specter of a Greek default continues to loom large. It isn't often that such a potent and potentially destructive market trigger sits in such plain sight and yet continues to be generally disregarded by the market as a whole. Greek 2 year debt trades close to 28% at present, reflecting a significant default probability. This is bad news for the European banking sector which is still reeling post the disaster of the US housing and European debt crisis. The likelihood of a Greek default having severe consequences if it occurs is high in our opinion.

Moving along to China, there is plenty happening with the central bank seemingly opening the spigot through a Chinese form of Europe's LTRO, which is designed to sterilize local government debt and drive an increase in market liquidity. This is a reaction to the deterioration in conditions within the Chinese property market and the Chinese industrial complex. We note that the expectations for manufacturing and the industrial complex remain largely muted which does not necessarily auger well for our terms of trade or commodity markets more generally.

Turning to the US, the market has remained pre-occupied with the likely timing of the first fed rate rise. This has been the primary motivator in driving bond yields higher despite another month of below trend economic performance out of the US. While durable goods and May ISM provide some signs of a turn-around in recent momentum, on balance the data remains unconvincing and certainly doesn't seem to support a thesis of the US economy attaining the kind of strength that could drive a death spiral in bond prices. If anything over exuberance in the process of normalizing rates by the fed is just as likely to stomp on any evident green shoots.

Domestically data pointed to an Australian economy that is weakening across multiple fronts. Over the month retail sales, employment and importantly private capex all missed. The exception is of course credit growth and residential property which benefits off the tailwind delivered by a low and benign interest rate environment.

In terms of positioning, we continue to maintain a healthy weighting to cash and government bonds, reflecting our cautious posture. That said the sell-off in rates and the long end of the tier 1 hybrid market allowed us to add portfolio risk at what we deemed good levels. We believe that portfolio activity over the month positions the fund to deliver on its objective in the near term, while also maintaining adequate portfolio cover in the event of a broader market sell-off.

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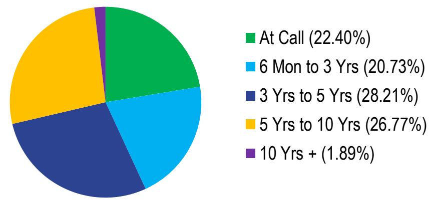
Maturity Profile



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)

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