



Realm High Income Fund

May 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	0.54%	0.15%	0.39%
3 Months	2.29%	0.48%	1.81%
6 Months	2.31%	0.98%	1.33%
1 Year	3.47%	1.99%	1.48%
2 Years p.a	4.00%	2.19%	1.81%
3 Years p.a	5.34%	2.31%	3.03%
Since Inception p.a*	5.88%	2.45%	3.43%

Wholesale Units (incl. Franking)
0.57%
2.40%
2.54%
3.94%
4.46%
N/A
5.37%

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 declined to 11.4% over the month as we increased our allocation to RMBS and corporate credit, with remaining sectors remaining in line.

Our **fixed rate** exposure sits at approximately 3% as at month end, with interest rate duration remaining short at 0.3 of a year. The allocation added approximately 0.07% over the month. Big news in April was the decision of the RBA to cut the cash rate to 1.75% which drove strong outperformance in Aussie bonds. Over the same period the Aussie dollar declined by a little over 5%, which the RBA would see as a reasonable return for the action taken. Over the second half of the month the long end of the Aussie curve exhibited strong outperformance versus the US. This is in line with our fundamental assessment which sees the long end of the US curve 0.24% below our fair yield level. In terms of our Australian fair market level we saw our fair 10 year rate decline to 2.43% reflecting continued domestic economic headwinds, as at month end the long end of the Aussie curve is moderately dear at approximately 2.3% on our estimation. Add to this a change in Fed rhetoric and the market is now beginning to digest the prospect of an additional hike in the next couple of months. This drove a strong sell off in US rates over the second half of May and could continue to deliver headwinds for long government bonds in the absence of market volatility or a deterioration in economic data. In this kind of environment the fund is likely to remain below our long term strategic asset allocation.

Our **corporate bond** allocation increased from 15.21% to approximately 27% as at month end. The major portfolio change was an increase in the senior unsecured bank and financial exposure within the portfolio. Over the month, we added the senior debt of Bank of Queensland, Westpac, National Australia Bank and AMP. At the same time, we sold our lower rated subordinated debt exposure in Bank of Queensland, Westpac and ANZ and reduced our exposure to the subordinated debt of Suncorp's insurance business. Our decision to sell the remainder of our exposure in the Tier 2 debt of the big four was the result of a strong price movement which saw spreads move in by another 0.25% (roughly equating to a 1% price movement), after what had been a strong April for the sub-sector this move drove our decision to divest. This decision was validated into month end as CBA issued a tier 2 instrument at 2.65% over bills, on a dollar basis this equates to a price approximately 2% lower than the prevailing market price of other like tier 2's.

Our **Hybrid allocation** remained broadly in line with the previous month while our bank AT1 exposure reduced modestly from 19.3% to approximately 16% into month end. We reduced our exposure within a number of Westpac and NAB T1 names as the hybrid market continued to rally into the first half of the month. With Westpac and NAB having telegraphed new transactions the decision to reduce existing holdings at spreads well under where these deals have been subsequently announced was based around a view that this allocation could be replenished at more attractive levels. The fund has participated within the primary offering of Westpac's WBCPG security and has expressed an intention to participate within the new NAB T1 issue. The big news for the month however came in the form of an announcement by ANZ Bank on the 27th of the month that they intend to issue a new USD AT1 security after receiving a private ruling from the ATO.

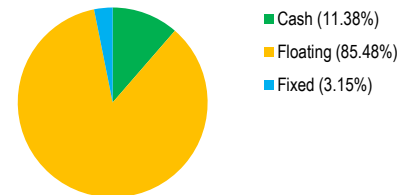
Fund Statistics

Running Yield	4.57%
Volatility*	1.19%
Interest rate duration	0.32 years
Credit duration	3.17 years
Average Credit Rating	A-
Number of positions	78
Average position exposure	1.28%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio*	2.88
Information Ratio*	2.90

Calculated on Ordinary Units unless otherwise stated

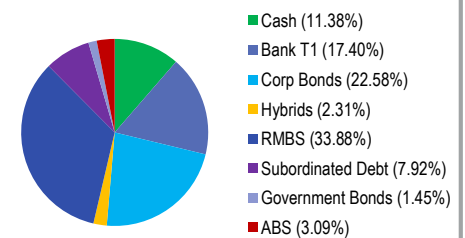
*Since Inception 26 September 2012

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 have written on numerous occasions that the supply side disruption has been the primary driver of price weakness within this sub-sector over the last 18 months. With the ANZ now opening the door for more banks to issue these securities offshore and with increased Australian institutional investor appetite emerging, it seems that available supply to Australian retail investors is likely to moderate just as the sector starts to show signs of a turnaround. In our opinion the AT1 market is now set to benefit off a supply and demand tailwind which is likely to provide strong support for the sector over the medium term. The sector remains a tactical overweight as at the time of writing.

Our **RMBS** allocation increased for the second month straight rising from 28% to 34% over the last month. The increase was driven through secondary market purchases of AAA rated securities at attractive levels at 2% over bills with less than 2 years to run. One of the key drivers of the weakness in higher rated AAA RMBS debt is that the main buyers of this paper (bank balance sheets) have filled their limits in this kind of risk, this has meant that the market has had to increasingly rely on the buy side to clear deals. This has led to the highest rated AAA rated RMBS trading out from 80 over bills to almost 145 over as at the start of this year. This part of the market continues to trade soft which has led to us increasing the quality of our RMBS allocation substantially with over a third of our sector exposure maintaining a AAA allocation and over half of the allocation rated A or higher. With demand having driven a dislocation in pricing in the highest quality portion of the RMBS market, the current portfolio maintains the spread to deliver a positive re-pricing for the portfolio in the coming months while also delivering a healthy income accrual.

Our **ABS** allocation reduced to 3.09% from 3.43% over the month. The reduction is a function of existing holding paying down. Subject to availability, transaction structure and pricing we are open to increasing this allocation back to a benchmark position.

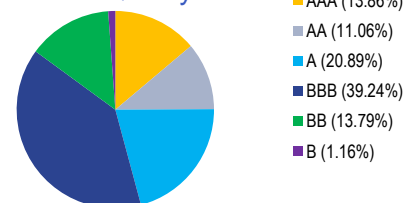
Portfolio Insurance over the month was provided by a moderate rate position. An increase in average credit quality in the corporate debt and RMBS portfolio reduced the need for additional cover at the portfolio level.

Fund Outlook

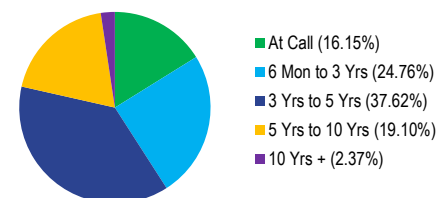
Credit markets continued to rally through the month as issuance increased to take advantage of the constructive tone set by the pending ECB corporate bond purchasing program. Australian ITRAXX broadly traded tighter with global indices over the month as resources and energy names rallied as commodity prices continued their recovery. Issuance also increased into this market with corporates looking to take advantage of the significant thaw in conditions. Our own relative return monitor indicates that the strength over the last three months has been as strong a period of performance as we have seen in global credit indices since early 2012 post the bailout of the Spanish banking system. Credit is still slightly wider than the one year spread lows, however momentum remains strong and with the ECB bond buying program formally commencing soon, the environment continues to feel broadly supportive for the asset class within the shorter to medium term.

Domestically, the market continues to feel well supported with the bid continuing to push domestic credit tighter in sympathy with global markets. The big development in the AT1 market was ANZ's decision to issue offshore, as well as the general increase in institutional interest in domestic deals which has the ability to be transformational to the supply demand dynamic of this sector which supports our decision to maintain our weighting near our tactical overweight limit. While the credit markets performance has been stellar over the last quarter the market has only rallied to a level that we would consider to be fair as a consequence, in addition subsectors such as the RMBS and AT1 market continue to look cheap on our metrics and certainly present excellent value versus the rest of the credit complex. We are likely to increase our allocation to AT1 at the portfolio level through new primary issuance over the month of June, while our increase to our RMBS allocation has seen a rise in portfolio quality at excellent prices. With running yield sitting near enough 4% and a book made up of securities that we view to be largely undervalued we continue to feel that the portfolio is well positioned to meet or exceed the portfolio objective of 3% over the RBA cash rate after fees in the more immediate term.

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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