Realm High Income Fund

November 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	0.24%	0.16%	0.08%	0.27%
3 Months	0.91%	0.49%	0.42%	1.03%
6 Months	1.13%	1.00%	0.13%	1.36%
1 Year	3.17%	2.15%	1.02%	3.64%
2 Years p.a	4.90%	2.33%	2.57%	5.39%
3 Years p.a	6.07%	2.48%	3.59%	NA
Since Inception p.a*	6.08%	2.52%	3.56%	5.43%

Past performance is not indicative of future performance.
*Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013

Fund Statistics

Running Yield	5.56%
Volatility*	1.11%
Interest rate duration	0.06 years
Credit duration	4.00 years
Average Credit Rating	BBB+
Number of positions	76
Average position exposure	1.32%
Worst Month*	-0.47%
Best Month*	1.12%
Sharpe ratio*	3.19
Information Ratio*	3.21

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

Fund Update

Our **cash** weighting reduced to 6% as at month end. The portfolio saw an increase in the allocation of ABS and corporate bonds, while our Hybrid and RMBS weightings reduced moderately. The greatest movement within the portfolio related to our increased weighting within tier 2 domestic debt.

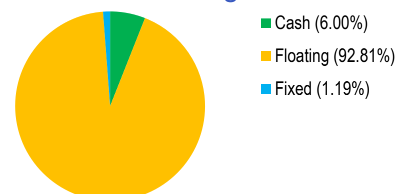
Government Bonds exposure remains zero at month end. We accept the Fed will hike in December and will continue along this tightening bias in 2016, it is hard to take an overly supportive view of the bond market at these levels. Intra month rates approached a fair level, however a late month rally pushed the broader bond market back towards moderately expensive territory in our view.

Our **Corporate Bond** allocation increased by 2% over the month while turning over 10% of the portfolio by switching our senior bank unsecured exposure into the tier 2 market, this was driven by price weakness which resulted from new supply. More specifically, the launch of ANZ's 5 year tier 2 at a spread of 2.70% over bills, set a bomb off under this market that had been trading at approximately 2.3%. Consequently, the market was forced to adjust with widening evident across the board. We have maintained a strong view that tier 2 markets had been trading expensively. Our low weighting to this sub sector positioned us well to participate meaningfully in the new ANZ transaction, in addition to the new Suncorp Tier 2 deal which issued at what we viewed to be a generous 3.3% above bills. Following this we also took advantage of the widening within the general market to add the tier 2 debt of IAG, ME Bank, QBE and ANZ. The movement primarily took the form of a reweighting with proceeds sourced from senior sales as well as our decision to trade out of the Tier 2 paper of Mystate and Heritage. The divestments were executed at a healthy profit, with proceeds well deployed in higher quality names at a time of general price weakness. We anticipate that these holdings will deliver a healthy source of attribution in the coming months.

Hybrid allocation moderated by 1.5% over the month. This was driven by a reduction in a couple of individual names as they approached our fair value range. In terms of activity we participated in the issue of Macquarie Groups new tier 1 which was issued at 5.15% over bills. The deal was well supported, this again validates that the market remains particularly receptive to second tier issuers at or around an attachment point of 500 over. We note new issuance generally drives temporary widening, the growth in market size and supply is not likely to increase substantially from here. In addition we shouldn't forget that the recent forced capital raisings has increased the level of subordination (the buffer) on these securities while being technically cheaper and heading into a period of lower supply. For us that ticks a lot of boxes, as such we are maintaining this allocation despite the higher portfolio volatility that this delivers.

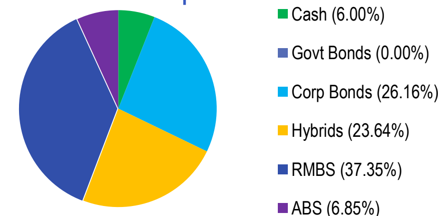
RMBS allocation reduced by 2% over the month. The big news item was the release of a consultation paper and a draft of APRA's policy statement 120. The focus of this paper was to provide the market with greater certainty around the capital treatment of securities, and in turn increase the use of the asset class to help banks meet their capital and funding needs. While the changes made can be broadly expected to be supportive, it will be a while until this plays out. We remain very constructive on RMBS as an asset class. The compensation for risk remains particularly attractive, with AAA risk attainable at rates approaching 2.3% over the bill rate.

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%

Realm Investment House
ABN 34 155 984 955
AFSL 421 336

Level 17
500 Collins St
Melbourne VIC 3000

admin@realminvestments.com.au
www.realminvestments.com.au
Tel: 03 9008 7290

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

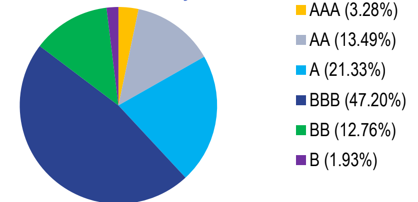
Fund Update Continued

This premium is reflective of the compensation provided for the relative liquidity which is constrained by the fact that these securities are capital heavy on bank balance sheets and require a level of specialization, which limits the universe of buyers. With these risks well priced, we feel comfortable retaining a benchmark weighting and will continue to evaluate opportunities on a deal by deal basis.

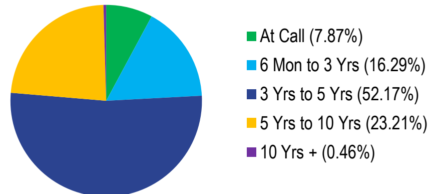
ABS weighting increased to 7% over the month in the form of an investment within a private placement of auto liabilities out of a prominent non-bank. This risk was particularly well structured and priced attractively. As we have stated in the past, we see a great number of opportunities from small immature issuers who frankly are not investable by virtue of the size or structure of the programs. Conversely mature seasoned issuers do maintain the ability to originate very attractive asset pools, by virtue of their amortizing nature, their short maturity profile and healthy excess spread, all of which provides significant protection to the end debt investor.

Portfolio insurance was maintained at approximately 25 to 30% of risk exposure through the month on a delta adjusted basis. The insurance portfolio is made up of equity index put options as well as single name put positions. There was a spike in insurance during the month as the Turkish Russian detent threatened to spill over into something more meaningful, however as the situation normalized over the days that followed this protection was tailed back. As stated in previous monthlies, we will maintain higher insurance where the portfolio remains fully invested, equally we note that where circumstances present which increase our concern we have the ability to meaningfully increase the level of total portfolio cover.

Credit Quality



Maturity Profile



Fund Outlook

The global economy continues to grow below trend. The headwinds continue to be driven by Chinese economic weakness which has in turn delivered an undercurrent of deflation which has impacted a cross section of markets. At the same time, developed world growth continues to inch forward off a lower base. In the US data quality improved, notably personal savings and household income joined jobs growth and housing as a source of strength. Bonds remained relatively resilient, with Global economic concerns offsetting the risk of US rate normalization. This gives us the impression that the commencement of US interest rate increases is not priced as at month end, which is a key driver behind our decision to remain short in our interest rate exposure.

Domestically, the economy stabilized with jobs data remaining solid and wage growth stronger. This has resulted in the outperformance of the Australian dollar and watered down expectations around the need for further interest rate cuts. At the same time, the recent activity of APRA has cooled the momentum in house prices which has acted to allay concerns relating to the formation of a finance fueled housing bubble. No doubt challenges remain, however the last month delivered evidence that interest rate cuts are starting to feed through more broadly and are providing a counter balance to the weakness driven by plummeting commodity prices. The higher dollar will remain a concern for the RBA, we believe that they are poised to cut if it is required which is positive for the prospect of risk assets and by extension credit.

In other news we saw the release of the Basel committee's position on Global systemically important banks. The proposed new rules will see a need to increase the amount of bail in able capital for large banks. This has delivered a headwind for all bank capital markets, including equity and in the last month tier 2 debt. Regulation will remain important over the year to come, in that it assigns a cost of capital to banks, who continue to hold the majority of assets within the global economy. As such rules that increase the cost of writing loans, or trading credit and equities will in turn feed into the pricing of all risk assets and their liquidity. On these grounds regulation is particularly important and remains a key focus in our internal deliberations. That said we do feel that weakness within a number of sectors actively price the impact of these regulatory changes.

Over the month, we meaningfully increased our bank tier 2 exposure to add to our overweight within bank tier 1. We remain at market weight in RMBS and ABS and are underweight cash and government bonds. We feel that existing portfolio assets will deliver the fund the ability to meet its benchmark within the more immediate term. While the portfolio remains aggressively positioned we will continue to maintain a healthy exposure to hedging instruments. In instances where we feel risks increase we reserve the right to meaningfully increase this level.

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

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