Realm High Income Fund

October 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	0.66%	0.69%	0.13%
3 Month	1.70%	1.80%	0.38%
6 Months	3.26%	3.49%	0.82%
1 Year	5.33%	5.80%	1.82%
2 Years p.a	4.39%	4.86%	2.01%
3 Years p.a	5.09%	5.57%	2.17%
4 Years p.a	5.95%	#N/A	2.34%
Since Inception p.a*	5.95%	5.60%	2.36%

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	4.38%
Volatility*	1.15%
Interest rate duration	0.30
Credit duration	2.88
Average Credit Rating	A-
Number of positions	89
Average position exposure	1.12%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio*	3.13
Information Ratio*	3.14

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

Fund Update

Our cash weighting reduced to 16.90% as at the end of October with RMBS increasing to 33% from 26%, while we also built a small long in our Australian government bond exposure. Capital was re-allocated out of our Bank AT1 exposure and Bank subordinated debt.

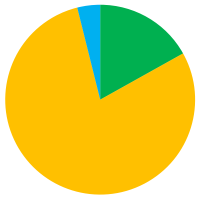
We initiated a small long **Fixed Rate** position at the end of the month as Australian 10 year bond yields surged by 45 basis points. As at month end, we find the long end sitting within our fair range on our current nominal growth expectations. The fund is approximately 0.3 of a year long, in addition we hold a long call option position that will deliver a positive return to the fund if bonds perform well from here while ensuring that the impact of a continued sell off is minimized. In terms of the weakness, while the size of the sell-off was significant what was more noteworthy was its speed. For us this is symptomatic of a market that had been overstretched and had moved too far to pricing in one view. As we have said we are not in the rate normalization or the deflation camp, ultimately our preoccupation is what is priced and whether it presents value. In that regard we feel rates are fair here in reflecting the current environment.

Our **corporate** and **subordinated debt** allocation reduced by approximately 3.5% over the month. The reduction was centered around our bank subordinated T2 allocation. We sold all of our regional and major bank subordinated debt exposure into mid month, while increasing our weighting to a recent subordinated debt issue out of Suncorp. We re-engaged a long into CBA's sub debt at month end on a short term trading view. All in all we would anticipate our allocation to Bank Tier 2 subordinated debt reducing further over the coming month. We hold a view that Bank Tier 2 debt is approximately 2% overvalued for benchmark 5 year paper. The rally in this market has been driven by lower supply and a comfort among investors that regulatory outcomes will not unduly affect this part of the market. On corporate bonds we took small positions in some longer infrastructure paper, initiating a position in the debt of Transurban and APA. The 8 year Transurban Queensland note was purchased opportunistically at a discount to recent issuance, the bond maintains strong covenants and we believe was well bought as trading stock. We are comfortable with the small positions taken in APA and TCL, however this should not be taken as a change in our underweight view on Infrastructure and AREIT's as a sector.

Our Bank Tier 1 allocation was reduced for the third month in a row and sits at a little over 15% as at month end, from 18% at the end of September. This brings us to our strategic long term allocation for the sector. A sale of NABPA and the over the counter tier 1 debt of Bank of Queensland drove the reduction in weighting, meanwhile we took a position in ANZPA (30 days to call), and added to our holding in ANZPG. Our current allocation is focused on longer maturity higher coupon securities which we feel continue to present relative value and provide attractive compensation to retail investors. We think the sector is likely to move into expensive territory as low interest rates, a reduction of supply, institutional participation in primary markets and a shortage of income alternatives will continue to support this market. We have now reduced our allocation from near our tactical limit at the start of the yearand this has been a positive contributor to relative portfolio performance.

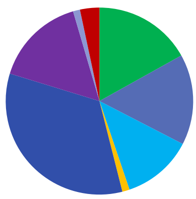
Our RMBS allocation was the big mover over the month increasing from 26 to 33%. We have noted previously that supply in the capital relief market had dropped to five year lows. This drove investors to aggressively bid the few issues that did hit the market. This changed in the month of October as six new issues hit the market.

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



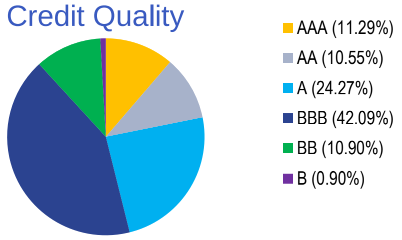
Sector limits

	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%

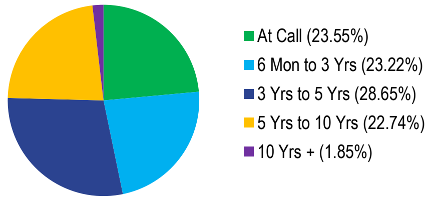
Fund Update Continued

We have recently increased our volatility and loss assumptions on mortgage pools and have also increased the penalization of certain characteristics and cohorts over the last 12 months, such as higher density dwellings and certain geographies. The sum invested over the month was focused around the AA- and BBB ratings range, and was engaged at levels that we view to be attractive. The recovery in the RMBS market, which had led to spreads tightening materially and large oversubscriptions was always going to coax issuers back into the market, this has almost caused a glut of sorts with issuance spreads moving wider. Regional Bank AA- rated mezzanine notes were being issued at spreads of 2.75% over the BBSW for 5 years in October, almost 0.5% higher (or 2.5% cheaper) than levels achieved three months earlier, meanwhile BBB rated risk was being issued at 4.3% over bills for bank prime mortgages. This compares very favorably with all other forms of bank capital and credit more broadly. At current levels we are buyers of higher rated mezzanine notes out of quality issuers. We expect this will see us maintain and even increase our weighting into year end.

Credit Quality



Maturity Profile



Fund Outlook

While Fixed income credit and trading income has provided respite for this Bank reporting season the impact will dissipate as soon as European quantitative easing is tapered. This also reflects the magnitude and impact of the ECB action which as we have mentioned repeatedly has been the primary driver of credit market outperformance over the last six months. What has become abundantly clear is that the banking system needs some steepness in the yield curve to incentivize economic intermediation, this is something which is surely impacting on central bank deliberations.

In the short term the bigger question is what a Trump presidency, or even a very close result means? In our opinion it is symptomatic of an increasingly frustrated and impatient electorate. The reality is that business investment and structural factors continue to squeeze the western worlds middle class, this has led to an increasingly anger and anxiety filled Western world, this disaffection is increasingly driving polarization and an increase in political extremism, be it the anarchistic left or the fascist right. Conspiracy theory quickly becomes conspiracy fact in such cases as faith is lost in the systems ability to provide financial security and protection, this in turn drives an unvirtuous response from an electorate which then knocks into an increase in authoritarianism as the system struggles to soothe its citizens. This wont be the end of it either, next year promises to be a busy year on the political front with the European Union once again likely to take center stage, with the French, Germans and Dutch going to the poll's. If the current trend persists, and there is absolutely no reason to assume that it wont , we are likely in for a very eventful year.

To China now, where the government has pushed ahead with attempting to address its enormous non-performing loan issue. The Chinese are taking a multi-pronged approach to dealing with the issue, which includes securitizing non-performing loans and selling to investors, and engaging in debt for equity swaps in companies that could be considered going concerns. What has been done so far wouldn't even qualify as a drop in the bucket, but it does show intent. Chinese data continues to improve as housing retail sales and PMI's seem now to have bottomed in quarter one of this calendar year. New Yuan Loans continue to surge and it is clear that the state has primed this market to bring it off its lows, which troubles many given the already large existing non-performing loan problem. While there is a lot to be concerned about it doesn't seem a problem for right now, unless Trump is elected and makes good on his protectionist threat.

Here in Australia APRA released draft's relating to Residential Mortgage Lending Practices and reporting of risk. The two releases focus on the residential mortgage market and more specifically on two primary areas being, One the nature of risk written by ADI's (Approved Depository Institutions) and how that risk is assessed and monitored and 2, the reporting of said risks to the regulator. APRA's focus on asset quality and risk is not only sensible but we would argue necessary in mitigating the environmental concerns created by record low interest rates and strong property prices. What these releases also do is further strengthen the view that banking and economic intermediation is transitioning to a form of social infrastructure.

In terms of the fund outlook, there is certainly some near term event risk that needs to be navigated, however on the whole we remain confident that we are well positioned to continue to meet the funds objective of returning 3% above the RBA cash rate through the cycle. The fund continues to be repositioned to reflect recent market movements, the objective being to lock in returns driven by the outperformance out of the AT1 and Tier 2 sector, while also positioning the fund for growth by taking advantage of the sell off in rates and widening in RMBS mezzanine spreads.

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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