Realm High Income Fund

April 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	0.23%	0.18%	0.05%	0.26%
3 Months	0.93%	0.55%	0.38%	1.04%
6 Months	2.31%	1.17%	1.14%	2.54%
1 Year	4.85%	2.44%	2.41%	5.32%
2 Years p.a	6.49%	2.51%	3.98%	N/A
Since Inception p.a*	6.94%	2.64%	4.30%	6.42%

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

Fund Statistics

Running Yield	5.17%
Volatility*	0.94%
Interest rate duration	0.44 years
Credit duration	3.15 years
Average Credit Rating	A-
Number of positions	60
Average position exposure	1.66%
Worst Month*	-0.11%
Best Month*	1.12%
Sharpe ratio*	4.60
Information Ratio*	4.61

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

Fund Update

Our **cash** weighting increased by 9% over the month to approximately 24% as the result of a reduction in the allocation to hybrids (approximately 6%) and corporate bond (approx. 3%). The decision was driven by continued weakness within our top down investment committee score and certain hybrid securities hitting price targets.

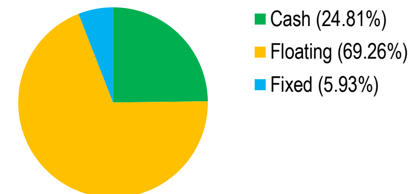
Government Bonds increased to approximately 2% as rates sold off significantly in the second half of April. We noted previously that strength in rates markets saw us reduce our rates exposure significantly. By virtue of our under investment, we are well positioned to scale into government bonds if rate markets continue to sell off. This will in turn reduce the onus on our insurance book to protect the portfolio against a broader market event. Our expectation is that you will see the portfolio move towards our strategic benchmark of 10% if the sell-off continues.

Corporate Bonds allocation reduced by approximately 4.5% over the month as we reduced our overweight position in senior unsecured big 4 bank debt. This was driven by a 10 basis point rally which drove spreads into a moderately expensive range. Our belief is that corporate (non-bank credit) is fundamentally expensive at present for senior unsecured exposure, with implied volatility sitting in the mid-teens. This implies the market is pricing risk presuming a benign outlook over the medium to longer term. We do not concur. In bank debt, we continue to believe that Tier 2 bank and financial services debt remains fundamentally expensive. We would need to see spreads in the aforementioned sub-sectors move on average 40 basis points wider to reflect something closer to fair compensation. This type of movement would require a sell-off in the order of 1 to 2% in your benchmark floating rate credit indices.

Hybrid allocation reduced over the month, driven on a name and security specific basis coming from our regional bank and insurance exposure. That said, Hybrids and more specifically Big 4 Tier 1 remain a conviction position for us. On balance we estimate that securities sitting between 4 to 7 years to call are trading wider than fair value. On a risk/return basis these securities are delivering good compensation for the risk associated with holding this exposure. Our weighting within this sector is based around good compensation for risk, meaning that investors can expect that our allocation will be managed in a disciplined fashion on a name by name basis. Equally, if spreads remain at or around current levels we are comfortable maintaining our prevailing weighting.

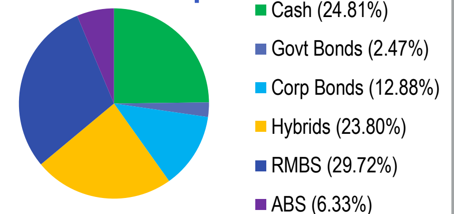
Out total **RMBS** allocation reduced moderately over the month to 29%. A good portion of this is attributable to the sale of some of our sub-investment grade exposure, taking advantage of market tightening. More specifically, single B rated mortgage debt tightened by approximately 40 basis points over the month. This drove our decision to take risk off the table for a profit. We remain constructive on RMBS risk, across the capital structure. Our more recent activity has tended to focus on higher ratings, with recent activity seeing our exposure around the AAA and A+ attachment point's rise. Expect to see our allocation to the sub-sector continue to rise, with rating and attachment point coming at the higher end of the investment grade complex. In recent notes we have spoken of the impact of rating methodology changes and the impact of downgrades to providers of lenders mortgage insurance. This has led to the market presenting good value within a number of sub-sectors on a return for risk basis. For example, we have seen AB notes within prime mortgage pools (AAA rated by S&P) move towards spread levels approximating 2% over bills for approximately 7 years. By way of comparison to corporate unsecured credit, investors would be investing within the BBB to BBB- rating attachment point to receive equivalent compensation.

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

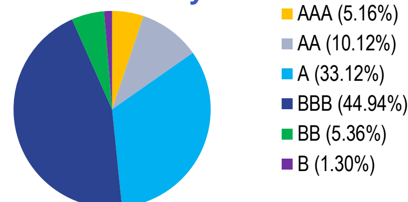
	Asset Allocation Range	SAA Target
Cash	0% - 100%	10%
Government Bonds	0% - 100%	10%
Corporate Bonds	0% - 60%	10%
Corporate Hybrids	0% - 10%	5%
Bank Tier 1 Hybrids	0% - 25%	15%
Sub Debt Hybrids	0% - 25%	15%
RMBS	0% - 60%	30%
ABS	0% - 20%	5%

Fund Update Continued

ABS allocation increased to 6%. This increase came in the form of our participation within Flexi Groups most recent ABS securitization. ABS continues to present an attractive proposition, where issues are originated in large diversified pools, through experienced issuers. The support provided in terms of excess spread and hard subordination is ample given the short amortizing nature of the debt. We would expect that our allocation will settle at or around these levels.

Portfolio insurance remained high over the month due to negative top down investment committee score as a result of a deterioration in global economic data, concerns relating to Greece and a number of geo-political conflicts. However, total insurance has been reduced as at month end due to an increase in cash weighting and government bond exposure. We re-iterate, our primary concern at times where we feel the environment presents heightened risk will be to protect the value of the portfolio.

Credit Quality



Fund Outlook

Over the month, our environmental risk score improved very moderately. Relative strength in European data coupled with signs of consensus between Greece and Eurozone negotiators was reflected within our total risk score for that region.

Australian data also surprised to the upside over the month and saw an increase in our Australian macro score. We noted previously that the challenge will be whether lower rates can offset the expected decline in Private Capex and investment as commodity demand cools. While the last month seemed to indicate that many pundits may have under-estimated the effectiveness of monetary policy in an economy that benefits off high home ownership, there is still plenty of water to go under the bridge.

Chinese data continued to disappoint versus lower expectations over the month, which drove the announcement of a number of confidence building measures targeted at driving a recovery (or stemming the bleeding) within a number of markets (in particular Private investment and property). As things deteriorate it seems that the market is increasing its level of conviction that China will progressively be dragged into doing more and more to aid in driving greater economic strength, with markets the likely beneficiary. The market has been well conditioned to anticipate and in turn benefit off the activity of central banks, and Chinese risk markets have been no exception. Chinese Economic Surprise indices sit at an extremely low level, indicating that Chinese data has disappointed meaningfully versus expectations (the second worst period of performance in relative economic data in 5 years). We have seen a number of risk markets, in particular commodities and related emerging markets benefit off this Chinese risk market resurgence. While this has provided temporary relief for miners and oil companies, we still maintain a great deal of trepidation around the likely direction of demand, which will of-course ultimately drive prices.

Last month we also noted that Geopolitical instability was becoming an emerging risk. While our negative Geopolitical score has moderated to reflect the relative calm in Ukraine, the reducing gulf in the Greek/EU negotiated position and the march of the Houthis in Yemen stalling, we do maintain a level of concern. This is due to the fact that each of these events have the ability to be highly disruptive in isolation, which in turn give them the ability to act as a trigger to a broader market sell-off.

Turning to the US, our negative US score moderated over the month. We note the significant deterioration through March as a key driver to the general decline in our top down risk monitor. This was largely a function of the US economy missing lofty expectations. This over exuberance moderated over the month. US economy will need to navigate through a number of headwinds with a strengthening US dollar and rising rates the biggest likely detractor from economic performance.

In terms of positioning, our increased weighting to cash; government bond and portfolio insurance in the form of risk market protection puts us in a position where we would be in a position to withstand an increase in volatility or a widening in credit spreads. This is entirely consistent with our stated approach of seeking to reflect our top down view within our asset allocation

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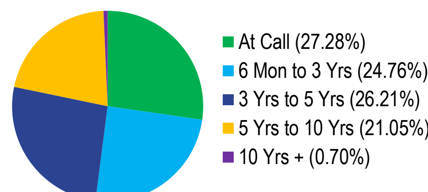
Maturity Profile



Fund details

- Distribution Frequency: Monthly
- Liquidity: Daily
- Ordinary Units Management fee: 1.20% (incl. GST)
- Wholesale Units Management fee: 0.77% (incl. 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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