# Realm High Income Fund

# April 2019

## Fund Objective

The Realm High Income Fund is a fixed income strategy, that invests in domestic investment grade asset backed securities, bank-issued securities and corporate & government bonds. The objective of the Fund is to deliver investors a consistent return (net of fees and after franking) of 3% over the RBA cash rate through the market cycle.

## Net Performance

| Period | Ordinary Units (incl. franking) | Wholesale Units (incl. franking) | RBA Cash Rate Return |
|---|---|---|---|
| 1 Month | 0.67% | 0.69% | 0.12% |
| 3 Month | 1.73% | 1.83% | 0.36% |
| 6 Months | 1.93% | 2.13% | 0.74% |
| 1 Year | 3.17% | 3.61% | 1.50% |
| 2 Years p.a | 2.96% | 3.40% | 1.50% |
| 3 Years p.a | 3.85% | 4.30% | 1.52% |
| 4 Years p.a | 3.67% | 4.13% | 1.64% |
| 5 Years p.a | 3.91% | 4.36% | 1.80% |
| Since Inception p.a* | 4.94% | 4.77% | 2.03% |

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

## Fund Update

**Cash and Short-Term Liquidity Weighting:** → Remained in line at 27.8% over the month. Approximately 3.5% of the portfolio was turned over during the month, however all sales were re-invested.

**Interest Rate Duration Position:** → Over the month softer inflation data (both in the US and Australia) seemed to justify a more dovish outlook for both the Fed and the RBA, with discussion around potential rate cuts in the US re-emerging. Our Interest rate duration positioning remains at 0.40 of a year. This figure remains at the low end of our targeted range of between 0.40 to 0.80. Our positioning reflects the fact that US long bonds continue to price in pessimistic outcomes, providing modest compensation for term risk.

**Corporate & Subordinated Debt Allocation:** → Remained in line with the prior month, with a 1% reduction in subordinated debt being offset by a 1% increase in corporate debt. This was a function of some profit taking in QBE's USD sub debt which was switched into longer duration senior corporate USD names such as Newcrest and Macquarie. Our view has not changed since last month, we feel that the accommodative approach taken by central banks will underpin near term performance, in addition our portfolio positions continue to present good relative value due to a number of micro themes.

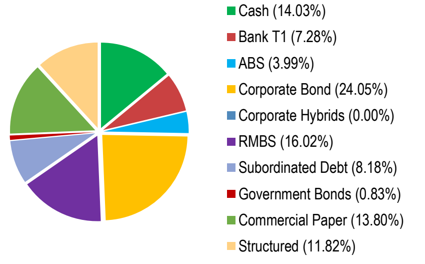
**Residential Backed Securities (RMBS):** ↑RMBS increased by 1% to 28% over the month. Syndicated exposures remained static at 12% while on the run assets increased to 17% from 15% last month. This was driven by our ability to step into primary deals with weakening coverage ratios which pushed spreads wider as described last month. We continued to see strong supply including one New Zealand denominated RMBS and expect this trend to continue, with several further non-bank deals to price in the coming weeks. As mentioned last month, we continue to see these non-banks dominate the supply within the Australian market with a number of new private placements and syndicated exposures currently under review. We maintain our view that the Australian structured credit product delivers the highest yield by rating in any developed country and will continue to roll maturities into new product and maintain the funds current rolldown dynamic into longer and more attractive RMBS spreads.

## Fund Statistics

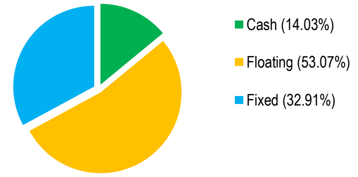
| | |
|---|---|
| Running Yield | 5.05% |
| Volatility† | 0.57% |
| Interest rate duration | 0.40 |
| Credit duration | 3.22 |
| Average Credit Rating | BBB+ |
| Number of positions | 147 |
| Average position exposure | 0.38% |
| Worst Month* | -0.47% |
| Best Month* | 1.22% |
| Sharpe ratio∂ | 2.94 |
| Information Ratio∂ | 3.02 |

Calculated on Ordinary Units unless otherwise stated. *Since Inception 26 September 2012. †Trailing 12 Months Calculated on Daily observations. ∂Since Inception Calculated on Daily observations

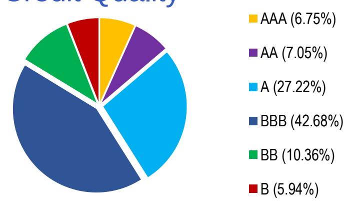
## Portfolio Composition



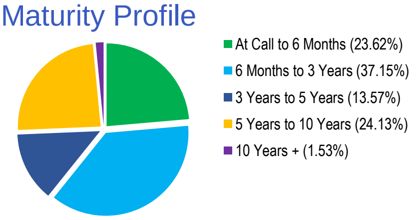

## Fixed and Floating Breakdown




## Credit Quality




## Maturity Profile

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Prime mortgage arrears as reported by S&P's SPIN data saw an increase of 2.7bps, just under the 4 year seasonal average February increase of 3 bps. Non-conforming arrears also increased slightly by 4.2bps, but this was also well under the seasonal average increase of 38.2bps over the last 4 years for the month of February. Delinquencies in Western Australia reduced slightly although remain elevated while arrears in the Northern Territory increased slightly by 1.6bps. Our exposure to these areas remains relatively low at around 7.6% and 0.4% of the RMBS book respectively. While we continue to monitor exposures, we view arrears as well within the bounds of normal at this stage in the cycle.

**Additional Tier 1 (AT1) Exposures:** ↓ Reduced further from 8.13% to 7.28%, on the back of profit taking on Macquarie's recent listed AT1 transaction and a small reduction in our USD holdings. Our positioning is entirely focussed on the over the counter market, we have no holdings in listed AT1 instruments. We believe that the market continues to underestimate the potential impact of Labours Franking policy. On our estimates the percentage of market impacted is large and could lead to a meaningful liquidity squeeze. So far investor complacency relating to this theme is quite surprising. Our view is that the potential changes are not priced in current spreads.

**Asset Backed Securities (ABS):** → Our ABS allocation remained more or less in line with prior month with no new deals printing out of primary this month. We remain active in targeting deals whose risk return profiles match our own.

**Targeted risk across the Fund:** ↑ Portfolio risk increased to a tracking error of 1.05% from 0.92%. Our view is that markets will remain bid and while there will be increased turnover at a portfolio level our inclination will be to roll into new themes and to stay invested.

## Market Outlook

Once again the major activity in markets surrounded interest rate expectations. At the time of writing the Fed has seemingly signalled that the markets view around the potential for rate cuts is over baked, indeed it is clear that employment data in the US is pointing to an increase in wage inflation. Meanwhile the probability of a positive US/China trade agreement continues to inch higher, while concerns seem muted, the reality is that this was one of the prominent visible market risks, as such a positive result here will have an impact on market performance. All in all the environment remains supportive for risk assets, albeit that benchmark credit is now perhaps at best fair to moderately expensive.

Here in Australia we saw inflation data continue to weaken. From a compositional standpoint a lot of items that would generally be impacted by housing turnover and household formation were weakest. Weak housing and the decline in the wealth effect is bleeding into core economic data. On the other hand we are starting to see an indication that the weakness in property is moderating. The RBA have given a clear indication that they will not be looking to finesse their positioning, if they cut it will be meaningful and they clearly aren't there yet. While our view is that monetary policy is already accommodative, the fact is that domestic debt loads are too large for central bankers to get too cute by flirting with a recession.

No real change in outlook from our perspective. While the economy is weak, the potential for rate cuts provides the central bank with the necessary dry powder to protect employment and household financial health further. On that basis we are comfortable maintaining exposure to Australian system risk, in the form of USD AT1 and RMBS.

## Sector Allocation

| Sector | 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 details

**Distribution Frequency:** Monthly
**Liquidity:** Daily
**Buy/Sell:** 0.05% / 0.05%
**Direct Minimum Investment:**
Ordinary Units - $25,000
Wholesale Units - $1,000,000
Adviser Units - $25,000
mFund Units - $25,000
**Inception Date:** 26.9.2012
**Fund size**: AUD $446 million
**APIR Codes:**
Ordinary Units - OMF0001AU
Wholesale Units - OMF009AU
Adviser Units - OMF0018AU
mFund Units – OMIF1394AU
**Management Fees (inc. GST):**
Ordinary Units - 1.20%
Wholesale Units - 0.77%
Adviser Units - 0.77%
mFunds Units – 0.77%
**Responsible Entity:** One Managed Investment Funds Ltd
**Custodian:** JP Morgan
**Unit Pricing and Unit Price History:**
www.realminvestments.com.au/media/4

## Platform Availability

- BT Wrap
- BT Panorama
- Credit Suisse
- Crestone
- First Wrap
- Hub24
- Macquarie Wrap IDPS
- Managed Accounts – IAS
- Netwealth
- Powerwrap
- Praemium
- uXchange
- mFund Settlement Service - mFund code: RLM03

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