# Realm High Income Fund

December 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 | 0.14% | 0.17% | -0.03% | 0.19% |
| 3 Months | 1.19% | 0.50% | 0.69% | 1.32% |
| 6 Months | 1.75% | 1.00% | 0.75% | 1.99% |
| 1 Year | 2.67% | 2.11% | 0.56% | 3.15% |
| 2 Years p.a | 4.49% | 2.30% | 2.19% | 4.97% |
| 3 Years p.a | 5.84% | 2.45% | 3.39% | NA |
| Since Inception p.a* | 5.96% | 2.51% | 3.45% | 5.30% |

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

## Fund Statistics

| | |
|---|---|
| **Running Yield** | 5.48% |
| **Volatility*** | 1.14% |
| **Interest rate duration** | 0.14 years |
| **Credit duration** | 3.61 years |
| **Average Credit Rating** | BBB+ |
| **Number of positions** | 89 |
| **Average position exposure** | 1.12% |
| **Worst Month*** | -0.47% |
| **Best Month*** | 1.12% |
| **Sharpe ratio*** | 3.04 |
| **Information Ratio*** | 3.06 |

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

## Fund Update

Our **cash** weighting increased from 7% to 15.17% over the month. The increase in cash was a result of an 8% reduction in the funds RMBS holdings as well as a more moderate 3% reduction in the corporate bond allocation. Our allocation to Listed Tier 1 and Tier 2 debt increased over the month by approximately 3%, this was in response to intra month price weakness.

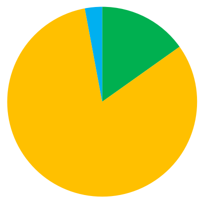
Our **fixed rate** exposure remains near zero. Bonds round tripped over the month with the Australian 10 year rallying from 2.85% to 2.68% before selling off heavily in the last week to settle at 2.88%. US 10 year rates are now beginning to approach a fair level in our estimation, while Aussie rates are still moderately expensive at the long end. On that basis we continue to maintain very low fixed rate exposure.

Our **corporate bond** allocation reduced by approximately 3%, due largely to our divestment of our holdings of IAG and QBE's subordinated debt. A small portion of these proceeds were used to increase our exposure to the subordinated debt of ANZ and Suncorp, we also increased our exposure to BHP's subordinated debt through BHP's 5 year sub debt security at spreads north of 5% over the relevant government bond for a 5 year call. BHP remains our only exposure to the Materials or Energy sector. From a fundamental perspective we have seen consensus forward estimates on commodities plummet, along with best estimates on enterprise value. The market has rightly adjusted its view to this new reality of a more benign outlook and lower operating margins. Indeed a strong case can be made to suggest that a range of plus or minus 20% around month end prices is indeed a fair valuation range for the asset base of BHP as an enterprise. Working on this assumption, and assuming that volatility moderates as the market accepts the new status quo, we are comfortable maintaining this exposure to BHP's debt within our portfolio, despite the higher volatility associated with the holding.

The funds **Hybrid allocation** increased by approximately 2.5% over the month. The sector detracted from fund performance in December delivering a return of approximately .06% over the month. The first three weeks of December saw steady and concerted selling out of one broker across a number of names, which had an upsized impact on prices. We saw a solid reversion into month end as the selling cleared with prices bouncing back strongly although still remaining below levels of the beginning of the month. Through the weakness we increased our exposure to NABPC and took a position within NABPB, added a smaller amount to our exposure of ANZPD and increased our holding to the tier 2 debt of Westpac through the purchase of WBCHB. In the case of the Tier 1 positions added, most were executed at spreads close to 5.50% over the bill rate, while our increase in WBCHB was executed at close to 3% over the bill rate, a premium of 1% over unlisted like securities. We note that the higher allocation to Hybrids does increase volatility however we maintain our view that this tactical weighting will make a strong contribution towards the fund meeting its objectives over the medium term.

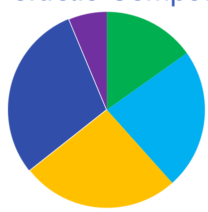
Our **RMBS** allocation reduced by approximately 8% over the month. The divestment took the form of sales based on broker inquiry that saw a number of securities well bid into year end. These sales were all conducted at levels above marked prices.

## 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% |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APIR Code: OMF0001AU- Retail
APIR Code: OMF0009AU-Wholesale

## Fund Update Continued

We feel this market is pretty well balanced at present. On that basis we have brought our allocation to just below our long term strategic target of 30%. In terms of issue quality and the broader market, we feel that the moderation of certain risk metrics will allow rates to remain historically low and will continue to see loan arrears remain at record low levels over the current year.

Our **ABS** allocation remained moderately above our long term strategic benchmark of 5% at just below 7% of fund assets. There were no changes since last month.

**Portfolio insurance** decreased to 15% of risk exposure through the month on a delta adjusted basis. The insurance portfolio is made up of equity single name put positions. This was reduced as the month ran on, as more immediate risks relating to a sell-off in credit markets moderated and our cash allocation increased. The protection overlay is actively managed and is a function of portfolio cash levels, portfolio risk as well as our broader outbound risk assessment.

## Fund Outlook

*"When sorrows come, they come not as single spies but in battalions"* Shakespeare's words would not be out of place in describing the myriad of affliction seemingly besetting markets at present. Be your concern structural, geopolitical or technical, there is seemingly more than enough fodder for most fair minded people to build a negative narrative around markets over the year to come.

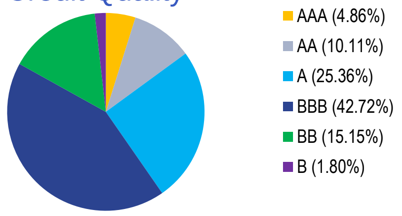
Indeed we have seen these concerns strongly reflected within the prices of a number of markets. In commodities and energy we are seeing the most profitable operators staring at single digit to negative operating margins and in emerging debt and US high yield we are looking at nations that were market darlings only 18 months ago facing painful fiscal austerity and in some cases the realistic prospect of default. Meanwhile, the world's largest economy is embarking on a normalization of interest rates reflecting the improved yet unremarkable performance of the American market, and as if all of that is not enough there is also the all too familiar recent concern relating to war and conflict.

In actively pricing for risk, markets are acting rationally and to a large degree seeking to account for the prevailing concerns. As an example, the global deflation/China Hard Landing / US rate rise thesis is certainly being priced in for metals and energy as well as the sectors equity and debt. Equally we have also seen a surge in credit protection costs for emerging markets such as Brazil, Turkey, Russia and Saudi Arabia, once again reflecting the risks posed by lower commodity prices and unhealthy budgetary deficits.

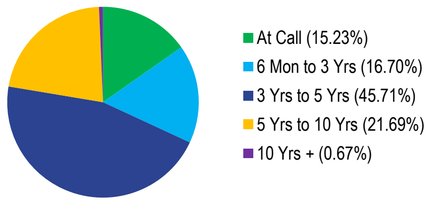
This is the prism we see the market through in early 2016. Risks abound everywhere however 2015 was a year where the market transitioned towards adjusting to a status quo of lower upside and expectations, in doing so a number of markets seemingly moved into good value territory based on our fundamental view. In essence while a lot of bad stuff is happening, it is being actively priced, which in turn leads us to seek to allocate capital opportunistically, with a focus on avoiding fissures that are more sectoral or issuer specific.

Our cash allocation sits moderately above our strategic long term target as at year end, our portfolio remains underweight rates and fully exposed to risk markets with the key overweight remaining bank Tier 1. We believe that a number of domestic markets present excellent fundamental value, the key drivers being the imposition of the Basel continuum and its indirect impact on bank balance sheets and market making activity. This saw large parts of our market drift meaningfully wider over 2015, with supply and market volatility presenting opportunities that we last saw during the taper tantrum of 2013. Under these circumstances the fund delivered a reasonable rate of return and is positioned well to meet the funds objective over the coming quarters.

### 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)
- 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)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