Realm High Income Fund

January 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	0.22%	0.21%	0.01%	0.27%
3 Months	1.37%	0.62%	0.74%	1.49%
6 Months	2.07%	1.25%	0.81%	2.31%
1 Year	6.00%	2.50%	3.48%	6.49%
2 Years p.a	7.25%	2.60%	4.62%	-
Since Inception p.a*	7.27%	2.68%	4.58%	6.81%

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

Fund Statistics

Running Yield	5.66%
Volatility*	0.97%
Interest rate duration	0.51 years
Credit duration	1.94 years
Average Credit Rating	A-
Number of positions	43
Average position exposure	2.33%
Worst Month*	-0.11%
Best Month*	1.12%
Sharpe ratio*	4.74
Information Ratio*	4.75

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

Fund Update

Our **cash** weighting increased from 17% to approximately 23% over the month, driven primarily by a moderate reduction to the fund's hybrid exposure. This change is consistent with a further deterioration in our top down macro scores.

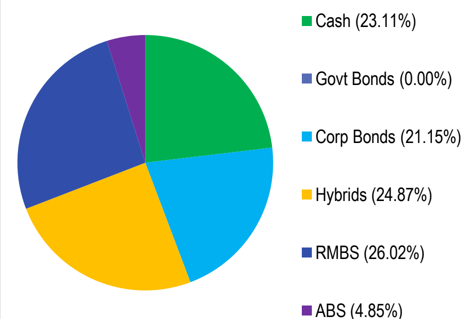
Government Bonds experienced another strong month, with the Aussie 10 year settling around 2.5% at month's end, having started the month above 2.7%. This run occurred in-spite of above average market data here in Australia. We spoke last month of the distortions created by quantitative easing; this was once again plain to see with the ECB announcement to support central bank bond buying driving yields across the Eurozone to record lows. As an example German 5 year bonds are now delivering a negative yield as indeed are Swiss 10 year bonds. A significant purchase program coupled with a general shortage in paper is driving the market to what would have been an in-quantifiable extreme only 1 year ago. Our positioning in this environment has been moderately long; recognising the support provided by European plans around asset purchases, as well as the continuation of Japanese quantitative easing. Equally we note that fundamentally the price reflects the distortions of global quantitative easing and could not be justified as fair on a stand-alone fundamental basis. If we take rates as a measure which implies the future trajectory of GDP and CPI, it could only make sense in the paradigm of a long drawn out deflationary spiral. QE is exerting a significant amount of gravity at present, while this influence remains it is difficult to identify the trigger which could sets the market into a 1994esque rate sell off. That said, current pricing combined with positioning provides ample fuel should a trigger inevitably avail itself at some point.

Corporate Bonds allocation remained static over the last month at approximately 21%. There was no movement in the portfolio. The allocation remains overwhelmingly invested within the senior debt of the big 4, with the biggest position in the portfolio remaining the NAB 2021 Climate Bond.

Hybrid allocation was reduced by approximately 5% over the month. We reduced our exposure to regional tier 1 names and trimmed other securities as they hit price targets. The market has returned to its early 2014 habit of widening to absorb new supply, a sign of greater health and stability within this market and signals a reduction in speculative staging which was rife through the middle of last year. In light of the announcement of a new ANZ deal, with perhaps a couple more to follow we expect that opportunities to increase weightings back towards our high conviction positioning in late November will arise.

RMBS exposure moderated over the month to 26%. We remain constructive on certain parts of the sector. The dynamic created by S&P's downgrade of Genworth's lenders mortgage insurance business has been a key driver of widening in spreads. This drove our increase in exposure last month. As the summer hiatus ends we expect to see a number of issuers to come to market in quarter one. Again, we note that the flexibility of our approach is in its value seeking nature, allowing us to exploit value at any attachment point on a price for risk basis. Recently, we have tended to target the AA- rated attachment point in new issues. On an implied risk basis we believe certain parts of the RMBS capital structure continue to present the best relative value for risk within the broader Australian credit ecosystem. On that basis, if price and risk metrics are maintained we would anticipate a likelihood to increase our weighting to the sub-sector over the coming months.

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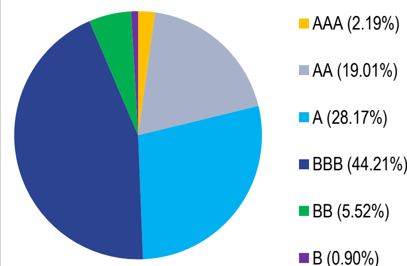
APIR Code: OMF0001AU - Retail
APIR Code: OMF0009AU -Wholesale

Fund Update Continued

ABS exposure sits at our strategic asset allocation level of 5%, with no change over the last month. We heavily favour diversity (bigger pools are better as it reduces idiosyncratic risk), track record (the ability to illustrate product and issuer performance), and margin (the issuer has the brand and presence to charge an amount which supports the product thesis, not discounting for cheap dollars and mispricing risk). This is an area which is highly specialised and is generally best left to professional and institutional investors.

Portfolio insurance remains at an above average level, even though portfolio cash has been increased we note our concern relating to the Greek election, the recent heightening in hostilities within the Ukraine and the continued instability driven by lower oil prices as reasons to remain vigilant.

Credit Quality



Fund Outlook

The month was for the most part driven by the march into the inevitable ECB QE announcement. After some 5 years of crisis, Mario Draghi's implicit safety net found real form with the Eurozone entering into a commitment to support central banks in buying their sovereign bonds. In finance as in most pursuits, timing and sequencing is everything. In this regard, the QE milestone drove discourse and decision making as the month drew on. First we saw the Swiss give us the second multi standard deviation event (following oil), within a quarter, by stepping away from their commitment to cap the value of the Swiss Franc. The result was a 20% movement in their currency , a double digit hit to their equity market and a Swiss 10 year bond yield that now has a minus in-front of it. One can only marvel at all of this, however equally (as we mentioned last month when noting the movement in oil), the price action is foreboding.

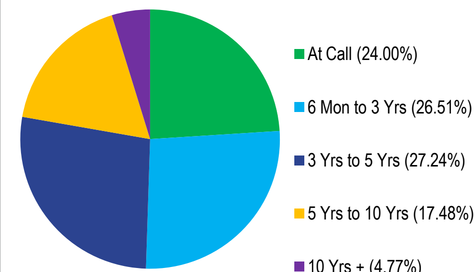
The experience in Francs and Oil were indicative of how pent up financial energy can be released, driving prices to levels that would be absolutely nonsensical only 5 years ago. In simpler terms, this is the carnage when a one way bet unwinds. These distortions are in our view a natural byproduct of an attempt to curtail market cycles and natural market forces. This approach of QE will likely remain effective in the shorter to medium term, after all being all in has a finality about it which lends confidence. However, the greater question in the shorter term is how we navigate an increase in side-effects and financial fissures that result as a consequence of this absolutism.

To that end, we are wary of any concentration of positioning and conditioning of thought which maintains the potential energy to drive a significant distortion in markets. Oil remains a concern, however equally we have a Greek election which is delivering a gravity defying effect. That being that the object of smaller mass and consequence (Greece) is seemingly imposing a greater amount of influence on that of greater mass (Europe). This is essentially tearing at the veneer which seeks to encase the members of the Eurozone.

Meanwhile, the increases in hostilities within the Ukraine are a timely reminder that this event is a long way off its ultimate resolution. Our sense is that it might need to get worse before it gets better.

In terms of markets and positioning, our allocation to insurance remains elevated in recognition of the prevailing risks in the top down environment. Decisions to increase holdings and decrease cash will largely be a function of price and compensation for risk. We note the increase in risks and volatility is not necessarily reflected within broader credit indices, which is largely a function of the ECB's QE decision. However, we do note that idiosyncratic circumstances can and do present opportunities from time to time. For example, new Tier 1 issuance should maintain pricing at fair to attractive levels in the shorter term, while recent spread widening within parts of the RMBS market deliver value for risk at current prices. We view current bank over the counter Tier 2 pricing and sub-investment grade non-conforming debt as particularly demanding at current levels.

Maturity Profile



Fund details

- Distribution Frequency: Quarterly
- Liquidity: Weekly
- 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

- Macquarie Wrap (IDPS)
- Powerwrap
- IAS
- UBS
- Credit Suisse (HSBC)
- CFS FirstWrap (Private Label)

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