Realm High Income Fund

July 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	0.61%	0.17%	0.44%	0.65%
3 Months	0.36%	0.50%	-0.14%	0.48%
6 Months	1.29%	1.05%	0.24%	1.52%
1 Year	3.39%	2.32%	1.07%	3.87%
2 Years p.a	5.71%	2.41%	3.30%	NA
Since Inception p.a*	6.44%	2.58%	3.86%	5.79%

*Ordinary units Inception 26 September 2012. Wholesale units Inception 2 October 2013

Fund Statistics

Running Yield	5.29%
Volatility*	1.12%
Interest rate duration	0.08 years
Credit duration	3.69 years
Average Credit Rating	BBB+
Number of positions	57
Average position exposure	1.75%
Worst Month*	-0.47%
Best Month*	1.12%
Sharpe ratio*	3.45
Information Ratio*	3.47

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

Fund Update

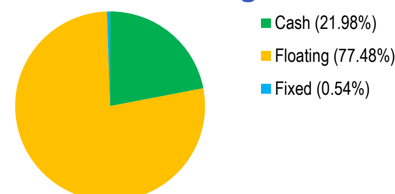
Our **cash** weighting has increased to approximately 22% over the month. Proceeds were raised through the sell down of the government bond allocation and a reduction within our corporate bond allocation. The sell down of our rate exposure followed the de-escalation of near term Grexit risks and the stabilization of Chinese equity markets.

Our **fixed rate and Government debt** allocation has been reduced to zero over the month. In the previous monthly, we stated that the near term risk relating to a Grexit outweighed the concern of a US rate rise. Equally, we noted that while bonds were moderately expensive on a fundamental basis at the end of June they were reasonably priced when one considered the assessable risks at that point in time. One month on and rates have rallied meaningfully into month end. Data has remained patchy over the month. WE also note a raft of downgrades on US and Global GDP by a number of forecasters, bringing expectations in line with a more realistic trend level of nominal. That said we are of the belief that nominal growth is still strong enough to see the Federal Reserve gradually raise rates. The rally into month end see's yields below where we deem fair fundamental value. On this basis we are on the sidelines from an interest rate duration perspective. Recent history tells us that momentum certainly has the ability to drive yields lower, it is not a rally we will seek to participate in absent a deterioration in economic conditions.

Our **corporate bond** exposure reduced to approximately 17.5% as at month end. This was due to a reduction in our holding within major bank senior debt and through the divestment of our holding in Asciano's 2025 issue. This was driven by performance strength within these lines over the month. We noted last month that the weakness within Basel III Tier 2 markets brought a number of issues somewhere closer to a fair market spread. In recognition of this we established a position within NAB's 2025 B3 Tier 2 issue. This market has performed strongly post the temporary Greek resolution, with face values increasing by approximately 1% over the month. This has seen this sub sector move back towards expensive territory. We continue to believe that regulatory developments relating to Bank capital are likely to have the greatest impact around the Tier 2 attachment point. On that basis we remain comfortable holding a small weighting in Big 4 tier 2. In terms of on the run corporate credit, we continue to feel that on balance the market remains dear. While spreads widened moderately during the beginning of the month, there wasn't enough there to have any meaningful impact on our view around non-financial senior investment grade debt. Absent a broader market sell off we are likely to remain underweight the sector.

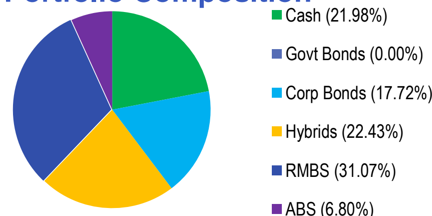
Our **Hybrid** allocation reduced moderately, however continues to remain at the top end of our tactical limits. The sub-sector made a positive contribution to performance over the month, which was not surprising given the strength of the sell-off in June which was due to certain supply side factors. While the performance of the sector softened a little into month end following the announcement of a new Westpac transaction, the market feels stable and looks like it has absorbed this issue relatively well at this stage. We continue to feel that Tier 1 Bank capital presents a very good risk adjusted return versus the rest of the bank capital structure and debt assets. Spreads settled around GFC levels at the beginning of the month, just as APRA have driven changes that will see the quality of risk improve.

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

Volatility has remained a constant over recent months, which has allowed the naysayers to make a case based on correlation to equity rather than the fundamental risk of loss. In reality weakness has been driven by issuer over supply rather than any fundamental deterioration in underlying risk. Over the month we reduced our exposure within WBCPC and WBCPD and will participate in the new Westpac transaction, which is being issued at a spread which we deem to be generous given prevailing credit conditions.

Our **RMBS** allocation reduced moderately over the month as assets amortized and FUM increased. We stated in previous months that stress test and break evens in our RMBS models have been increased in recognition of collateral price strength and credit growth which we feel has increased relative system risk. This may lead us further up the credit structure within this sub-sector or may see us pass more often than not. Trends relating to reducing the reliance on Lenders Mortgage Insurance in Prime Mortgage pools and the increase in interest only and investor composition are some of the recent trends which we view negatively on balance. Issuers have looked to reduce average Loan to Value ratios to compensate, however recent price strength in property reduces the effectiveness of this as a risk mitigant.

Our **ABS** allocation remained static over the month. As we have stated previously the structure of these securities deliver meaningful subordination further supported by large levels of excess trust income. The value proposition can vary meaningfully from deal to deal, meaning the assessment of risk especially for subordinated securities can be particularly complex. Our competence in assessing the sub sector equips us well to review risk and price accordingly. We will continue to move towards our strategic benchmark of 10% depending on issuance quality and margin.

Fund Outlook

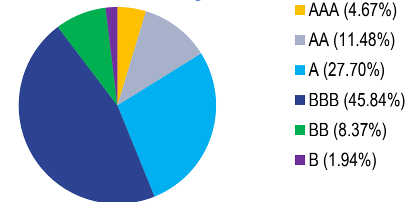
Our environmental top down score remains in negative territory, largely due to weaker global economic data. In terms of event based risk, the Eurogroup decision to acquiesce to a further bailout has obviously dealt with Greece in the near term, while the Chinese adaptation of the equity market has seemingly stemmed the bleeding within Chinese equities. All in all our risk score over the last 6 months has been clearly indicating that global growth is weak. In certain markets such as the US the slower than expected recovery has led to large negative surprises and revisions.

Despite the fact that the macro environmental score remains entrenched in negative territory, there are some early signs of a stabilization in data out of economies such as China. In addition we have seen a rise in volatility in a number of markets , including commodity prices, currencies and bank stocks globall. Our view remains that this volatility is the status quo, indeed we view these releases in pent up energy as positive, as they are driving progressive deleveraging in dangerous positional concentration and leverage.

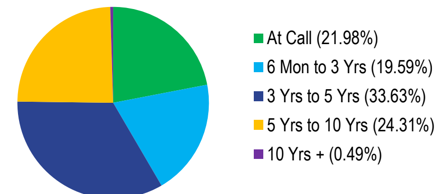
In **Australian**, credit and fixed income the primary concerns of recent times have been regulatory. More specifically changes to bank capital rules, Risk weighted assets and pressure relating to capping investor loan growth have been the major developments which are overwhelming positive for Australian credit investors. While the push to increase Core Equity and risk weights will deliver a noticeable headwind to equity holders, it will result in increased subordination for the rest of the bank capital structure. This activity acts as a perfect counter lever to lower rates which have driven an increase in systemic leverage. While the rise in household debt and collateral prices sits at manageable levels, the recent rate of growth can be clearly assessed as being un-sustainable. This is due largely to the fact that household income has stalled, meaning that rate cuts have been instrumental in stabilizing household cash flow statements. In this kind of environment APRA and the RBA will be focused on restraining the growth in household debt. Expect APRA and the RBA to stay in front of this and to be as proactive as they need to be to maintain market stability.

The regulators focus on risk coupled with a correction in Australian bank capital prices driven by global and supply side factors sees us very comfortable with existing positioning. We believe that the **current portfolio** maintains the capacity to deliver a return over and above the projected yield to maturity in the near term. In terms of our exposure to rates, we need to see yields well above current levels to re-engage our interest. With the dissipation of the Greek crisis the motivation to hold expensive rate exposure is not there. Instead we are likely to increase cash or use other forms of protection to reduce portfolio beta over the next period subject to risks and asset performance.

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)

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