Realm High Income Fund

March 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)
1 Month	0.35%	0.19%	0.16%
3 Months	0.93%	0.57%	0.36%
6 Months	2.60%	1.20%	1.40%
1 Year	5.63%	2.46%	3.17%
2 Years p.a	6.96%	2.54%	4.42%
Since Inception p.a*	7.08%	2.65%	4.43%

Wholesale Units (incl. Franking)
0.38%
1.04%
2.83%
6.11%
N/A
6.60%

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

Fund Statistics

Running Yield	5.54%
Volatility*	0.95%
Interest rate duration	0.26 years
Credit duration	3.24 years
Average Credit Rating	A-
Number of positions	53
Average position exposure	1.88%
Worst Month*	-0.11%
Best Month*	1.12%
Sharpe ratio*	4.65
Information Ratio*	4.68

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

Fund Update

Our **cash** weighting was maintained at approximately 20% over the month. The weighting to cash, liquids and insurance remains elevated in light of ongoing top down concerns.

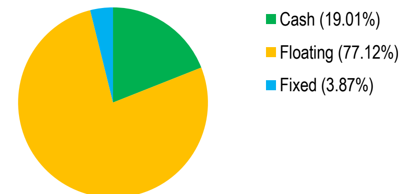
Government Bonds in our previous monthly, we noted that we had increased our fixed rate exposure through options, on the grounds that European and Japanese asset purchases combined with a supportive regulatory environment and weaker US data was likely to be supportive. This thematic played out with weak US data acting as the catalyst that drove 10 year rates in Australia and the US around 15 basis points tighter over the month.

This strength saw us reduce our fixed rate exposure from almost 20% down to approximately 3.8%. In addition, we halved our long call option position within US treasuries. As we have noted in the past, where we want to protect our total exposure to rate movement, we are likely to prefer options where our down side is finite as opposed to taking outright long positions. This means that the fund is largely protected against an event where interest rate markets experience a significant correction.

Our **Corporate Bonds** allocation remained mainly static at approximately 18%. The primary change saw us divest our holding within NAB's 2021 fixed green bond, with funds re-allocated to a couple of subordinated debt issues, with the more prominent being the recent T1 issue of AMP. Over the month, we have seen credit spreads for 5 year debt out of the big 4 Australian banks rally approximately 10 basis points. On a relative value basis, this is now providing flat value versus cash, which is likely to drive a further reduction in our exposure to our senior bank exposure. Outside of that, we passed on a number of deals in the financial services sector due to our value for risk assessment. We also note that over the counter Tier 2 market widened over the month due to new issuance, our exposure to this sub sector sits below 1%. Any weakness from current levels will start to peak our interest.

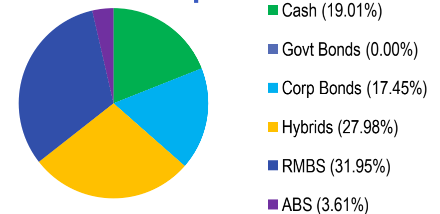
Our **Hybrid** allocation remained static over the month. However, portfolio movement came from a reduction in regional bank tier 1 and a switch into the middle and longer end of the curve in big 4 names. We remained allocated at our tactical limits. The much maligned Hybrid asset class is presenting an interesting proposition at present. We note that there are four primary idiosyncratic factors which will in our opinion be highly supportive. **1.** The strength in the equity market, which does seem to peak interest in alternatives such as hybrids from retail stockbroking clients. **2.** A lower cash rate, which makes the grossed up margin of these securities more attractive to retail investors. **3**. The implementation of bank liquidity rules which will see a gradual decline in term deposit spreads **4.** The glut of foreign issued Australian Bank Tier 1 has now largely been refinanced. This last point is key and helps explain the glut in supply over the last 3 years. In simple terms, as issued overseas paper matures, banks are forced (largely due to pricing) to refinance these transactions in Australia, and led to supply increasing significantly over this period. The peak of this has now passed, if anything, if European QE does lead to a compression of yields globally as many expect, we could see offshore Tier 1 markets become attractive again which could actually lead to a reduction in supply. Needless to say, all of these factors are supportive from a technical perspective. Fundamentally we maintain a view that Tier 1 debt presents on balance the best relative value within the bank capital structure at current prices. As stated, we are not in any way unaware of the additional risks which the documentation and event based risk exposes an investor too. However, there is a fair price for it.

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

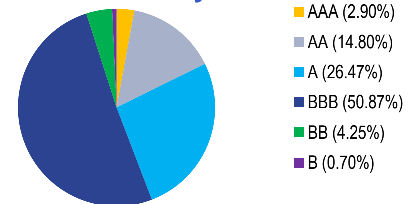
Fund Update Continued

RMBS We continued to increase our allocation to the sector over the month. We have noted previously that rating methodology changes coupled with downgrades to the Lenders Mortgage Insurance sector has driven a re-pricing. We had maintained no exposure to rated subordinated conforming mortgage debt which was most heavily impacted by the change. The impact was idiosyncratic, with such an event not changing the nature of the risk, just its price. The effect being that certain sub sectors within the sub-set of RMBS now look particularly attractive on a fundamental basis. Over the month, we took an allocation to the AB note (rated AAA) and the B note (rated AA) out of a BOQ originated mortgage pool, as well as taking an A rated and BBB rated note out of a securitization made up of Resimac originated mortgages. We feel this midpoint of the capital structure (between the lower AAA piece and the BBB rated security) presents excellent relative value, especially when compared against corporate unsecured debt, where equivalent risk trades at least 1% tighter. The value in this sector is perhaps best reflected in the price of RMBS B3 conforming securities which have gone from paying close to 2.8% over bills at the end of 2013 to over 5% over bills currently. This is a good example of how sector specific drivers can create risk and opportunity within this sector. While value persists, we are likely to continue to increase our allocation to the sub sector, a mitigating factor might be a broader sell off in credit which elevates other opportunities above the sector.

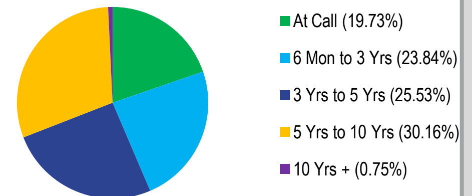
ABS No new holdings over the month, allocation has declined in line with the growth in the funds balance.

Portfolio insurance remains well elevated. The insurance book currently consists of growth currency put options, S&P 500 Put options and long US 10 year bond options. The total dollar exposure of this portfolio is less than 0.10% of fund assets, however on a notional basis the exposure would equate to over 10% of the fund total value. This weighting is substantial and would act to protect the portfolio against a broader sell off in risk markets. This positioning is entirely consistent with our current assessment of global risk factors and market valuations which we believe are elevated on both counts as at the end of the month.

Credit Quality



Maturity Profile



Fund Outlook

Over the month, our environmental risk score deteriorated further due to a combination of factors, events and valuations. In terms of the global economy, we noted the continued deterioration in US data combined with contraction in Chinese PMI's and the continued failure to lift off in Japan. Here in Australia, the data was largely positive over the month. However, the challenge remains how we fill the hole left by the commodity sector and Private Capex. The view remains that rates will need to respond to plug the hole over the medium term. Short term rates continue to price in a high likelihood of further rate cuts. The one exception has been Europe where data has begun to moderately exceed low expectations despite the constant specter of a Greek exit and the Ukrainian conflict.

Moving now to markets, we note the continued weakness in commodities. This is broad based and while part of the reason can be put down to strength in the USD, it is highly likely that it is also the result of a deterioration in market demand, which drives an un-virtuous circle as suppliers must sell more to maintain cash flow. This is a real cause for concern for the weak players in the materials and energy sector, as what might have been initially viewed as an episodic market event turns into a sustained period of price weakness.

Outside of that, we note the gravitational impact of European QE which continues to underpin the global risk trade at present. In some cases, prices in risk markets are showing clear signs of exuberance, which increase the risk and potential severity of loss if there is an event or market trigger.

Geopolitics remain a noteworthy item with hostilities in Yemen increasing the potential for a broader based sectarian conflict at or around the most valuable oil real estate on Earth, not to mention its proximity to a number of supply choke points which could drive a meaningful disruption. Parallels could be made to early 1970's where a regional war pushed oil over $100 and inflation in the USA over 12%. While this remains an unlikely result, there is a possibility that deterioration in conditions could drive a market sell off of some significance. In the meantime, we will continue to respect our process and top down measures which tell us it is a time for weariness and vigilance, this is reflected in our large cross asset hedge position and 20%+ cash allocation.

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
- IAS
- UBS
- Credit Suisse (HSBC)
- CFS FirstWrap (Private Label)

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