Realm High Income Fund

March 2016

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	0.51%	0.17%	0.34%	0.55%
3 Months	0.39%	0.49%	-0.10%	0.50%
6 Months	1.59%	1.00%	0.59%	1.82%
1 Year	2.12%	2.03%	0.09%	2.59%
2 Years p.a	3.86%	2.25%	1.61%	4.33%
3 Years p.a	5.33%	2.37%	2.96%	N/A
Since Inception p.a*	5.64%	2.47%	3.17%	4.97%

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

Fund Statistics

Running Yield	4.56%
Volatility*	1.19%
Interest rate duration	0.16 years
Credit duration	3.30 years
Average Credit Rating	BBB+
Number of positions	70
Average position exposure	1.43%
Worst Month*	-0.47%
Best Month*	1.12%
Sharpe ratio*	2.66
Information Ratio*	2.68

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

Fund Update

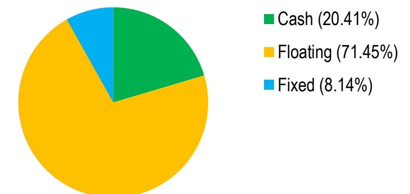
Our cash weighting sits at 20.41% as at the end of March. This is broadly in line with our cash weighting at the end of February. All allocations remained broadly in line with where they sat at the end of last month, however there was some activity within the funds corporate allocation.

Our **fixed rate** exposure ended the month near zero. Rates round tripped once again this month, with the long end widening by as much as 0.2%, before ending the month relatively flat. The month was marked by meaningful action out of the ECB as well as a myriad of conflicting voices out of the US, the month ending with Janet Yellen stamping her dovish imprimatur on the rhetoric. Fundamentally speaking we note a general deterioration in economic conditions globally, with a wholesale downward adjustment of our US and Aussie fair rate assumptions. Here in Australia we believe that nominal growth is likely to settle around 4%, which is well short of forward consensus estimates, our US nominal assumption sits at approximately 3.3%, which once again is below consensus. We believe Australian rates maintain the ability to outperform versus US rates, with current economic conditions perhaps pointing to the likelihood of further rate cuts here in Australia. At prevailing rates as at month end, our concerns seem to be more than priced in, showing a disconnect between the market and economic pundits. We are open to the use of rates at these levels from a risk management perspective however are not compelled on the basis of their fundamental value.

Our **corporate bond allocation** remained in line with last month on a headline level, however underlying that there was a reasonable amount of activity. Fears relating to rating action and lingering concerns around the resources and energy complex presented the opportunity for the fund to take an active position within the senior debt of Woolworths, Woodside and Aurizon in the first weeks of the month. The defining moment in March for credit came through the action of the ECB which announced its intention to enter into a purchase program for non-bank investment grade European corporate debt. This put a solid bid under the market, which was particularly evident within CDS markets. Cash bonds have lagged this rally however the price action was nonetheless solid. This strength presented the opportunity for the fund to move back in line with its end of February weighting, with a sale in the funds Woodside and Rio Tinto senior exposure and a reduction in the Aurizon and BHP exposure. In other parts of the corporate complex the fund increased its exposure to the Bank Tier 2 market, across all major names. This was funded in part by a reduction in our non-bank corporate exposure and switching out of our subordinated insurance holdings. As at month end the differential between synthetic and cash markets will likely provide a reasonable buffer and some support. As the market rallies and sectoral concerns subside, it is likely that our exposure to the broader corporate sector will reduce. Equally if the opposite is true we maintain the flexibility to increase our allocation.

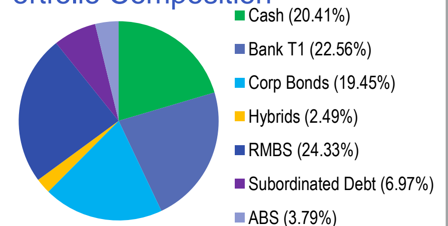
There were no changes to our **Hybrid allocation** at a headline level, although we did engage in some turnover. All in all we turned approximately 1% of the fund over through the initiation of a corporate position within the Hybrid capital of Tabcorp as well as engaging in a switch between two big 4 names. The market more or less traded sideways over the month. With the majority of the big 4 bank issues trading comfortably north of 5% over the bill rate, we are more than comfortable in maintaining our view and positioning

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: OMF0018AUAU- Adviser

Fund Update Continued

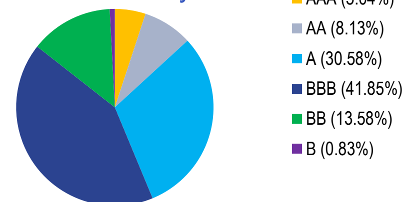
Our conviction is based on our own fundamental modelling, our proprietary approach is used in assessing the risk for return in all of our investable markets, among them Tier 1 debt continues to rank particularly favorably.

Our **RMBS allocation** reduced by around 1% over the month, sitting at approximately 24%. This was largely driven by existing holdings paying down. Over the month the market finally loosened up with two issuers launching non-conforming deals. We chose not to participate basis our view around where a fair market level sits. This is more a question of price than asset quality. We are constructive on the asset class however we maintain a firm view around where price needs to be to justify a movement back to our targeted long term holding level of 30%. For our part we feel that current spreads are cheap fundamentally, but fair when the liquidity considerations and the regulatory environment is considered. Liquidity and regulation remain unsupportive, which means the spreads have the potential to get a little cheaper still based on primary activity and performance. From our part we are happy enough with the sector at current spreads and are likely to now maintain if not increase our exposure from here, depending on new issuance, risk and price.

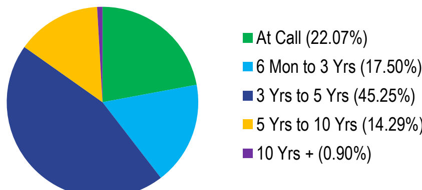
Our **ABS** allocation reduced from 4.11% to 3.85% over the month. The reduction is a function of existing holding paying down. Subject to availability, transaction structure and pricing we are open to increasing this allocation back to a benchmark position.

Portfolio insurance over the month was provided through the use of Australian Index Equity put positions. With cash above 20% we have maintained a moderate level of hedging which equates to approximately 6% of our at risk market exposure

Credit Quality



Maturity Profile



Fund Outlook

Australia's benchmark CDS index tightened by another 30 basis points over the month (allowing for re-weighting), as the ECB corporate Bond purchase plan provided the impetus for a strong bout of selling of synthetic credit insurance. Indeed the constructive tone for credit was most evident within the CDS complex with cash bonds lagging as issuers took the opportunity of a semi-benign environment to push a large amount of issuance through.

While markets have recovered somewhat from their February lows, there remains a general lack of confidence. While credit has caught a bid off direct and unambiguous intervention, which seeks to drive prices well above any fundamental reasoning the transmission to other markets has certainly been weaker than what we have experienced previously. It is fair to suggest that the half-life of intervention continues to shrink.

Closer to home we saw a number of weaker data points confirm a broader deterioration in the Australian economy. Our fair estimate for nominal growth over the current year, sits a little under 4% which is approximately 1% below consensus. Our momentum indicators paint a picture of the economy weakening further, which makes a strong argument for the central bank to act, we are of the belief that cash rates have not yet bottomed, funding pressures in the banking sector could drive out of cycle increases which could almost certainly force the RBA's hand in engaging in a t least one cut through to the end of the year if not two.

In terms of markets, here in Australia we note the volatility experienced by Australian bank names as concern relating to rising bad debts have seemingly driven many to take a view that the Australian banking system is facing danger. Apart from concerns in certain sectors, such as New Zealand Dairy exposure, materials, energy and affected geographies, we can't see how the numbers even begin to paint a picture around a banking sector in stress. Indeed we believe that the oligopolistic nature of the Australian banking system sees the market enjoy an earnings buffer that would be the envy of banks everywhere. We are not passing comment on bank valuations, however we do believe that market structure and asset quality does support the argument for accepting Australian system risk.

While markets have settled, we continue to expect volatility will remain a constant. In this kind of environment our focus will remain on accumulating good assets at good prices and managing market risk with rates and insurance along the way. Value within bank capital and asset backed markets here in Australia remain particularly attractive, and justifies investors accepting risk, in areas such as corporate credit, our sense is that the ECB's actions and the outperformance of CDS will support the outperformance of this sub-sector in the near term. The portfolio is well composed with a yield to maturity a little under 5% and a cash balance in excess of 20% that will allow us to exploit opportunities as they arise.

Fund details

- Distribution Frequency: Monthly
- Liquidity: Daily
- Ordinary Units Management Fee: 1.20% (inc. GST)
- Wholesale Units Management Fee: 0.77% (inc. GST)
- Adviser Units Management Fee: 0.77% (inc. GST)
- RE: One Managed Investment Funds Ltd
- Custodian: JP Morgan
- Unit Pricing and 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)
- Praemium

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