



# Realm High Income Fund

September 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)
1 Month	0.21%	0.12%	0.09%
3 Month	1.76%	0.40%	1.36%
6 Months	3.84%	0.86%	2.98%
1 Year	5.49%	1.86%	3.63%
2 Years p.a	4.31%	2.05%	2.26%
3 Years p.a	5.05%	2.20%	2.85%
4 Years p.a	5.93%	2.37%	3.56%
Since Inception p.a*	5.91%	2.38%	3.53%

Wholesale Units (incl. Franking)
0.24%
1.87%
4.07%
5.96%
4.78%
N/A
N/A
5.52%

Past performance is not indicative of future performance.

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

Adviser Units Inception 8 September 2016

## Fund Update

Our **cash** weighting increased from 17% to a little under 20% as at the end of September, primarily through a reduction in our Bank AT1 (Bank Hybrid) allocation, RMBS and corporate bonds. At the same time the fund increased its exposure to subordinated debt.

Our **fixed rate** exposure remains at zero as at month end. Rates round tripped over the month having blown out through mid-September before rallying into the last week. Our positioning is largely a comment of where we see current prices. We continue to believe that the market has run ahead of itself in pricing in a deflationary outlook. The two key events over the month were the BOJ's QE efficacy review and the September Fed Fund meeting. The BOJ had the capacity to deliver a negative surprise for rates given the BOJ's head Kuroda had highlighted concerns that a flat yield curve was negatively impacting bank and insurance profitability. Ultimately the BOJ announced intent to target a level in the long end of the curve. Moving to the Fed now, the decision to hold in September was largely expected, however the market nonetheless rallied after this meeting. Our view remains that the US is healthy enough to see it continue on the path to normalization, granted that we expect the rate path to be controlled and gradual. Our view is that long bonds are almost second guessing the probability of rate normalization, rates began to approach a fair level mid-month however the late month rally continues to mean that this market presents little absolute value in real terms versus credit and cash.

Our **corporate and subordinated debt** allocation remained in line with prior month end. However, there were a number of changes as the portfolio was refreshed and re-positioned. We divested a good portion of our regional 5 year senior unsecured exposure and re-allocated these funds to subordinated bank and corporate debt. Most of these positions have a term to maturity of less than 12 months. The changes made increased running yield, reduced credit duration and on balance reduced portfolio risk, with approximately a quarter of the corporate and sub portfolio maturing in less than 12 months. Credit markets have performed well since the 1<sup>st</sup> quarter sell off, in the last quarter or so this has started to trickle through to bank credit, with senior markets having rallied close to 1% for benchmark 5 year paper over the last quarter. This has also bled into bank subordinated debt with five-year benchmark big bank paper heading to a margin of 2% above bills, this market has rallied 4% since February of this year. In terms of the corporate and sub market, as this rally continues to mature we will continue to reposition the portfolio to a shorter duration profile. The tailwinds of central bank purchase programs in Europe and Japan coupled with Fed apprehension continues to place a bid under the credit market, the result being that a good portion of the non-bank credit complex could be considered as moderately dear, with bank subordinated and senior debt approaching a full valuation, as this trend continues we will continue to reduce aggregate portfolio risk in line with our stated strategy.

Our Bank AT1 allocation reduced to approximately 17.9% from closer to 20% at the beginning of the month. The longer end of the Bank AT1 complex trades at between 4% and 4.5% over bills with the shorter end gravitating to close to 3 to 3.5%. Our reduction was driven by the liquidation of lower coupon long duration positions in the ANZ name. As things stand we maintain a slight overweight versus the long term strategic target of 15%.

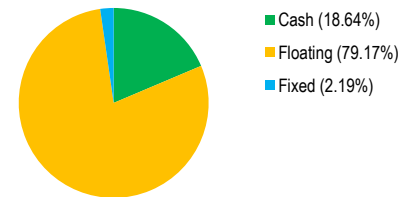
## Fund Statistics

Running Yield	4.52%
Volatility*	1.16%
Interest rate duration	0.08
Credit duration	2.77
Average Credit Rating	BBB+
Number of positions	82
Average position exposure	1.22%
Worst Month*	-0.47%
Best Month*	1.22%
Sharpe ratio*	3.05
Information Ratio*	3.07

Calculated on Ordinary Units unless otherwise stated

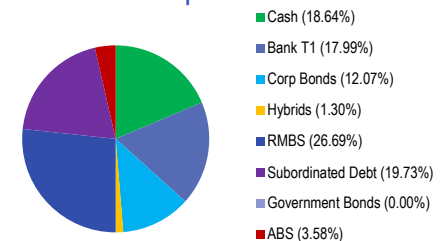
\*Since Inception 26 September 2012

## 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%

## Fund Update Continued

As we have stated previously we believe supply /demand dynamics remain supportive, as a reach for yield coupled with a lack of higher yield retail options are likely to see this market continue to press in.

From a fundamental standpoint we continue to feel risks to the AT1 market are muted. While economic growth is tepid, risks have moderated as APRA's macro-prudential activities have weakened speculative lending growth, meanwhile low absolute lending rates continue to keep arrears in check. In addition bank profitability remains solid if uninspiring providing a cushion for the rest of the bank capital structure. We feel the AT1 market is moderately cheap, we have a clear preference for big 4 longer duration higher coupon instruments, there are parts of the AT1 complex that we would consider fair to moderately dear, however on the whole we feel the market continues to compare favorably versus other forms of corporate and bank credit.

Our RMBS allocation reduced moderately over the month. Over the month we saw AMP and Firstmac issue prime deals, while Pepper issued a non-conforming deal. We shouldered arms to these deals as pool quality and pricing didn't meet our requirements. We did however participate in the BBB and BB rated tranches of Liberty's SME deal, a well subordinated pool made up of lower LVR commercial and residential property assets. More than a third of our RMBS allocation is invested within short dated AAA senior RMBS tranches that are actively paying down. The market has tightened over the year, as this trend continues we are likely to continue to reduce our aggregate exposure.

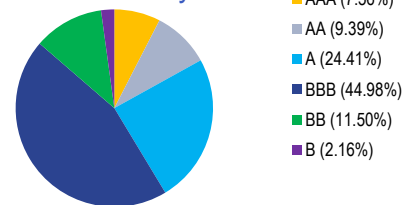
Our allocation to ABS increased by approximately 1.75% as we made our first investment into the New Zealand market through an auto deal originated by MTF, we have been conducting due diligence on the name for over 12 months. The structure of this transaction has a number of unique features that add to what is already a generous level of subordination. We invested in 4 individual tranches with the majority invested within the A and AA rated lines.

## Fund Outlook

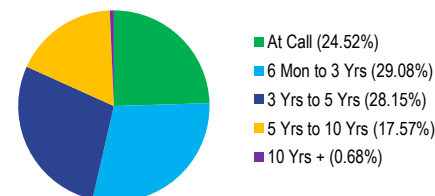
On current market risks, the key concern going into month end revolves around the travails of Deutsche Bank. The market is saying that DB's earnings power is not likely sufficient to allow them to outrun asset quality questions or other emerging liabilities. This in itself is not enough to actually knock the bank over, as ultimately as long as the bank or its regulator is not engaging in an act of self-immolation, the financial reports will say what they have to say. Can the market bring this to a head? Ultimately European interbank architecture will see to it that DB does not run out of liquidity, as such while funding markets may point to extreme credit spreads, the bank can ultimately hold out for longer than those arrayed against it can handle if they maintain the support of the European system by being deemed "solvent" and the impact being described as "temporary". While this situation may lead to a heightened level of volatility in the short term, the risk is unlikely to metastasize into something more severe.

From a top down perspective, our observation is that Global economic momentum continues to stabilize, with macro factors presenting less risk than has been the case over the last year, a bottoming out of emerging markets and China coupled with stable if uninspiring developed world growth means that macro driven threats to risk assets seem to have moderated somewhat. Asset quality in China and Europe remain the most obvious concerns, however it's difficult to see how these issues will come to a head in the short to medium term.

### 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)
- 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](http://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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