CIPAM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report December 2021

Performance[1]

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) p.a.[2]
CIPAM Credit Income Fund – Class A	0.50	0.69	1.59	1.59	3.89	-	-	5.35
CIPAM Credit Income Fund - Class I[3]	0.50	0.69	1.59	1.59	3.89	3.82	-	-
Bloomberg Bank Bill Index	0.00	0.01	0.01	0.01	0.03	0.63	-	0.04
Active return	0.49	0.69	1.57	1.57	3.86	3.20	-	5.31

Data Source: Fidante Partners Limited, 31 December 2021.

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

[2] The Inception date for Class A is October 1 2020.

[3] As at the date of this report two classes of units are offered: Class I which has been offered since the inception of the Fund on 3 October 2017 and Class A which has been offered since 1 October 2020. For information purposes, and to give a longer term view of the Fund's performance, the returns for the Class I are also provided in the Performance table and shows Class I's performance. The returns quoted for Class I have been adjusted to reflect the fees applicable to the Class A units.

Past Performance is not a reliable indicator of future performance.

Fund Features

Experienced team - Boasting one of the longest track records In institutional private lending strategies, the team is uniquely positioned to exploit opportunities across both public and private lending markets. The team's breadth of experience allows the Fixed Income team to exploit market inefficiencies across all sectors in the global credit market.

Risk management - The Fund aims to reduce market risk by considering low cross-sectoral correlations and maintaining a relatively short spread duration. The team identifies complexity risks to provide income and what they consider to be attractively priced but hard to access liquidity, allowing the Fund to minimise more volatile currency and interest rate risks.

Diversification - The Fund invests across both public and private credit markets providing the opportunity to allocate to the most attractive sectors over time. The Fund targets a weighted average investment grade rating and the diversified set of asset classes in which the Fund can invest includes secured loans, securitised credit, corporate bonds and real estate debt.

Strong governance - The Fixed Income team's clients benefit from a robust governance framework including an independent credit risk management team within the Challenger Group.

Fund Objective:

The Fund aims to achieve superior absolute returns over the medium to long term whilst offering capital stability and a steady income stream.

Fund Details

Management Fee	0.60% p.a.
Strategy FUM	$65.6 mil
Buy/Sell Spread	+0.25/-0.50%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	101
Running yield (%) p.a.	3.4
Modified duration (yrs)	0.06
Average Rating	BBB-
Credit Spread Duration (yrs)	2.9
Non-AUD Denominated	18%
Private Credit Allocation	27%

Monthly Commentary

Performance Update: The Fund returned 0.50% for the month of December and 0.69% for the quarter, slightly below the return target for the strategy, reflecting the first real period of widening in credit spreads since the initial moves of the pandemic. Notably the Fund strongly outperformed the Bloomberg AusBond Credit FRN index which was down 0.08% for the quarter.

In a low interest rate environment, many traditional funds have struggled to generate sufficient income to offset even a moderate amount of spread widening or interest rate increases (especially when management fees are overlaid). We suspect this will continue to be a challenge for many in the months to come.

As highlighted above, spread widening was a drag on returns over the quarter contributing -0.28%. Strong income generation (annualising at over 3%) continues to be a key driver of performance, insulating the fund from sustained drawdown risk.

Fund Positioning: The Fund ended the year in a very defensive posture, characterised by a less than 3 year spread duration, a cash position of just under 10% (albeit more like 5% when pipeline and distributions were accounted for) and a weighted average rating factor of less than 500 approaching around a BBB flat average rating.

The defensive posture is partly deliberate and partly a function of our investment style of running short dated portfolios which constantly repay and replenish. Over the quarter circa 8% of investments were repaid at par, equivalent to an annualised rate of over 30%. We consider the constant churning of our portfolios a good thing for several reasons:

1. It means the assets are performing. Poor performing assets don't prepay.
2. It means we are keeping our lending short which protects us from market volatility by ensuring we have flexibility to deploy capital even during periods of illiquidity; and
3. It will often give our performance a bump as early repayments of private loans result in the faster amortisation of the upfront fee which we pass on to unitholders.

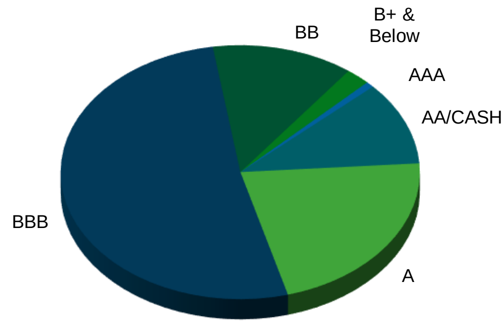
Our approach of favouring shorter dated loans can be a drag on performance when markets are rallying, as each time we reinvest we are doing so at a higher price. In recent times, this has certainly been the case. Despite this, we prefer to take reinvestment risk over investing in longer dated securities and having greater exposure to market gyrations. Further, we think our ability to source attractive investments through market cycles (especially in private markets) significantly mitigates the reinvestment risk.

Despite the prepayments, the Fund has a solid pipeline of opportunities and is already committed to 2 new securitisation warehouses and a new real estate lending opportunity.

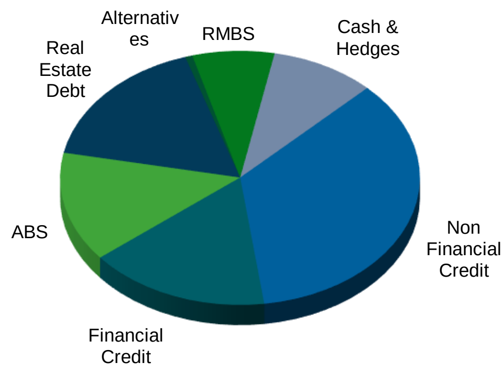
Performance Statistics

Standard Deviation (ann.)	2.5%
% of Down months	2.0%

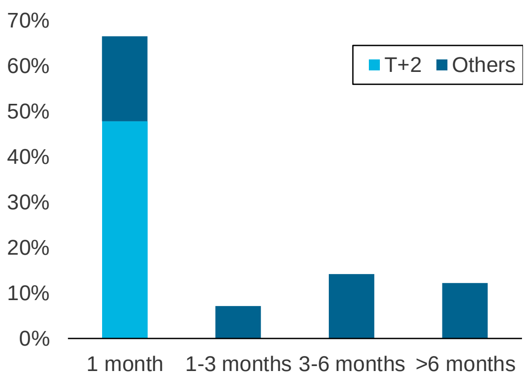
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Profile



Excess cash is being invested in primary markets in order to harvest new issue premiums where available.

In public markets we are starting to see the first sign of value in the financials sector for some time as markets adjust to the new reality of consistent and abundant supply. We're also seeing better value in offshore markets with cross currency basis at post pandemic wides and US credit spreads approaching more investable levels. Public Securitisations and corporates remain well bid given the more favourable technical conditions in those markets though we wonder how long this can be sustained in the face of wider financials.

Market Conditions: See the quarterly round the grounds report for a detailed discussion on our views across sectors

For further information, please contact:

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