CIPAM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report February 2022

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	-0.11	0.58	1.09	1.66	2.91	-	-	4.78
CIPAM Credit Income Fund - Class I[3]	-0.11	0.58	1.09	1.66	2.91	3.52	-	-
Bloomberg Bank Bill Index	0.01	0.01	0.02	0.02	0.03	0.51	-	0.04
Active return	-0.11	0.56	1.07	1.64	2.87	3.01	-	4.74

Data Source: Fidante Partners Limited, 28 February 2022.

[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	$383.8 mil
Buy/Sell Spread	+0.25/-0.50%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	103
Running yield (%) p.a.	3.3
Modified duration (yrs)	0.03
Average Rating	BBB-
Credit Spread Duration (yrs)	2.8
Non-AUD Denominated	24%
Private Credit Allocation	26%

Monthly Commentary

Performance Update: The Fund delivered a -0.11% return in February. The move reflected broader markets with the AusBond Credit FRN index also down 0.08%, the AusBond Credit Composite index down 1.07% and the Credit Suisse Leveraged Loan index (hedged to A$) down 0.49%.

The negative return was driven by broad based widening in credit spreads, which reduced monthly returns by 0.30%. Yield curves had an immaterial impact, consistent with our approach of not speculating on interest rates or currencies.

Fund Positioning: Last month we wrote about the value of "flexibility", highlighting increased volatility and a reduced bias for private markets. We also discussed the better relative value in foreign currency markets versus domestic.

As we sit here in early March, all of these themes remain intact and our positioning has already started to adjust. Most notably, we have increased our allocation to foreign currency denominated bonds, which is now up to 24% from 20% a month ago. Our private allocation has remained flat and spread duration remains at the lows but we expect to adjust these (i.e. reduce private, increase spread duration) if the volatility persists.

Much of the activity over the month was focussed on offshore financials which had cheapened considerably over the year to date. The fund also made a small allocation to the auto manufacturing sector, our only exposure to a sector whose credit profile has emerged better than expected from the COVID pandemic.

Our increased allocation to financials has come at the expense of the allocation to securitised credit. The combined ABS and RMBS exposure is now 20%, down 1% over the month and 10% over the previous 12 months. We are cautious on securitised credit at this point in the cycle, especially RMBS deals with poor call protection.

The Fund's cash position remains elevated albeit the headline number of 10% overstates the actual position due to committed pipeline transactions on the private side. Our actual cash position is still a healthy 5% with a number of positions due to be repaid over the coming month, adding to our liquidity. The strong Australian dollar has helped our liquidity as foreign currency hedges have not required additional cash collateral.

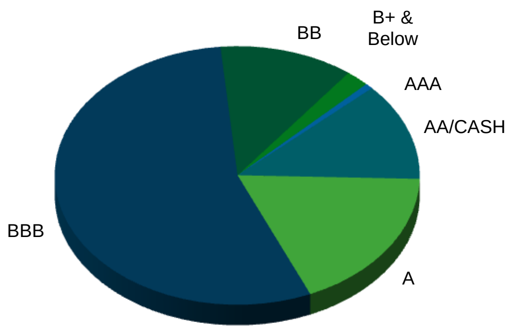
Market Conditions: Public market conditions deteriorated further over the month of February. Russia's invasion of Ukraine on the 24th of February added to an already nervous market which up to this point had been focussed on inflation and the central bank response.

The invasion of Ukraine has already and will continue to have a multitude of implications for markets. Predictably, oil futures have spiked, increasing close to 50% in 2022 and fast approaching levels last seen in 2008. It goes without saying that sharp increases in energy prices flow directly into the real economy both via household spending on non-discretionary items like fuel and electricity but also indirectly via higher costs for items like holidays and goods.

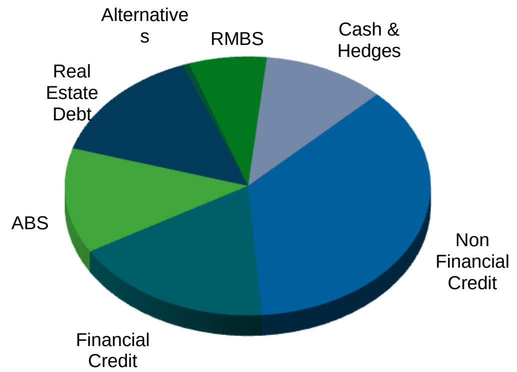
Performance Statistics

Standard Deviation (ann.)	2.5%
% of Down months	3.8%

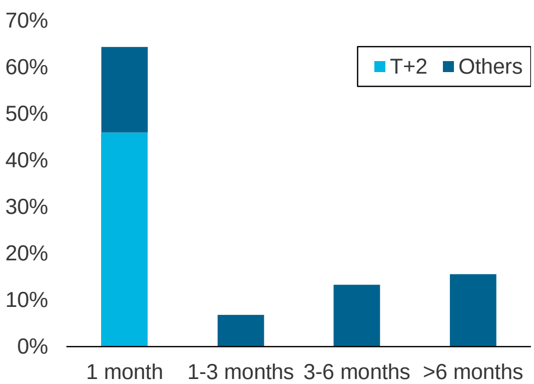
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



A flow on impact from higher energy prices is that the Australian dollar, traditionally linked to risk sentiment, has been resilient through this volatility.

A less predictable outcome of the invasion of Ukraine is the impact widespread sanctions on Russia (and Belarus) could have on the financial system. Locking Russia out of the global financial system could lead to Russian sovereign and corporate borrowers defaulting on dollar denominated debts, resulting in losses for banks and investment managers. It will necessitate a whole range of corporates to write down investments in Russia and lastly, may lead to issues in the money markets given the uncertainty as to where risk lies; who owes Russia and who is owed by Russia.

As time passes, Russian primary and secondary exposures are being quantified. Banks have been quick to state their loan exposure to Russia which has mostly been manageable due to their strong starting capital positions. However, spreads have still moved materially wider for any bank with exposures in Eastern Europe; excluding March 2020, European financials widened the most since the European sovereign debt crisis.

As we noted last month, Australian dollar credit has been remarkably resilient. Lack of issuance, and a strong fundamental story (limited exposure to Eastern Europe plus the tailwind of higher energy prices) kept spreads in check though as is usually the case, credit markets have become increasingly illiquid.

In illiquid markets like Australia, it is primary market activity that reprices secondary markets and as we type this in early March, we have only now started to see some widening in financial paper with both senior and tier 2 paper moving meaningfully wider off the back of a CBA US dollar issuance and a Westpac 3 year Australian dollar issuance. The 10 year bullet Tier 2 bonds issued by CBA priced 195 basis points over treasuries before widening around 25 basis points to be bid at approximately 240 basis points over Australian dollar bank bills. At the time the CBA deal was announced, Australian dollar denominated 10 non call 5 paper was trading in the high 150 basis points but following the deal has widened by around 20 basis points with poor liquidity in secondary markets.

In private markets, we have observed a delayed response to public market volatility, compressing illiquidity premiums. In early March, the AFR reported that Iron Mountain was able to issue an Australian dollar denominated term loan with pricing inside the guidance and broadly flat to where public widely syndicated US loan markets trade.

With sustained volatility for most of the year to date we have started to see some movement in fund flows. Credit has been in consistent outflow for 2022 across investment grade and high yield markets. In the early part of the year this was very much about rising interest rates, but in February and March this has been about credit. Even bank loan ETFs which do not have interest rate risk and were in inflow until late January, are now in outflow with BKLN at -US$1.2 billion, the most cumulative outflows for a year since 2018. If outflows continue, the pace of repricing of risk could increase as funds are forced to raise liquidity, especially the ETF's which carry very low levels of cash.

For further information, please contact:

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