

# CIPAM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Monthly Report January 2022

### Performance<sup>1</sup>

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) p.a. <sup>2</sup>
CIPAM Credit Income Fund – Class A	0.19	0.83	1.30	1.77	3.56	-	-	5.14
CIPAM Credit Income Fund - Class I <sup>3</sup>	0.19	0.83	1.30	1.77	3.56	3.73	-	-
Bloomberg Bank Bill Index	0.01	0.01	0.02	0.02	0.03	0.57	-	0.04
Active return	0.18	0.82	1.28	1.76	3.53	3.17	-	5.11

Data Source: Fidante Partners Limited, 31 January 2022.

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

<sup>2</sup>The Inception date for Class A is October 1 2020.

<sup>3</sup>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	\$381.2 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.	3.3
Modified duration (yrs)	0.01
Average Rating	BBB-
Credit Spread Duration (yrs)	2.8
Non-AUD Denominated	20%
Private Credit Allocation	25%

## Monthly Commentary

**Performance Update:** The Fund returned 0.19% for the month of January, outperforming bank bills (0.01% return) and the Bloomberg AusBond Credit FRN index (0.01% return). With interest rates increasing, strategies employing long duration positions to drive excess returns also struggled.

As has been the case in recent months, spread widening weighed modestly on returns with the income generated by the Fund steady at 0.30% for the month.

**Fund Positioning:** In recent months, our messaging around positioning has started to evolve. To remind, our positioning through most of 2021 could best be described as overweight private and keeping spread duration short.

Towards the end of 2021 we increasingly focused on the "flexibility" of the portfolio. In part, this was about slightly increasing our cash position but also about reducing our exposure to moderately liquid bonds in favour of more liquid exposures. With the pick-up in volatility earlier in the year, this flexibility has been put to work. We are still positively disposed towards the spread pickup in private markets but less so today than a month ago.

We also see strong relative value in European and US credit markets which have sold off far more significantly than Australian dollar markets. To illustrate, over the month the Fund switched out of A\$ Computershare bonds maturing in 2027 into Euro Computershare bonds maturing in 2031 for a pickup of close to 100bps.

As spreads have widened the Fund has begun to moderately increase spread duration. At the end of January, the spread duration of the Fund was 2.80 years which is as low as we have ever been. We expect this to increase as pipeline is deployed and we moderately increase our sensitivity to public markets.

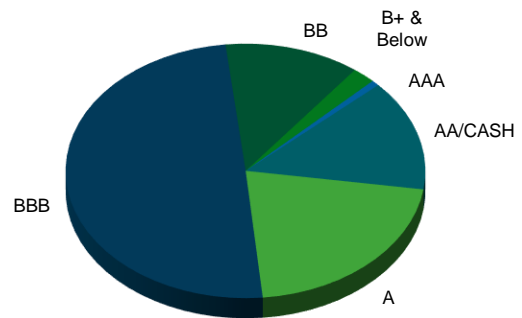
From a cross-sector perspective, we have also started to add to our financials exposure. Long-time readers will recall that relative to peers we have tended to run an underweight position on financials, preferring to harvest the higher yields available in securitisation markets. With securitised credit significantly outperforming financial credit in 2021 we are favouring the better value in financials.

On the private side, our allocation has declined to 25% from 27% but is expected to increase to c. 30% once our pipeline is deployed. Our cash position of c. 12% will also decline as this pipeline is deployed.

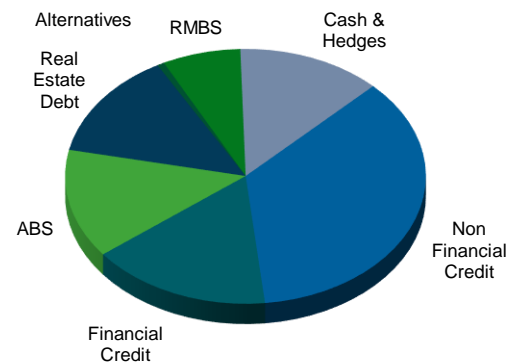
## Performance Statistics

Standard Deviation (ann.)	2.5%
% of Down months	1.9%

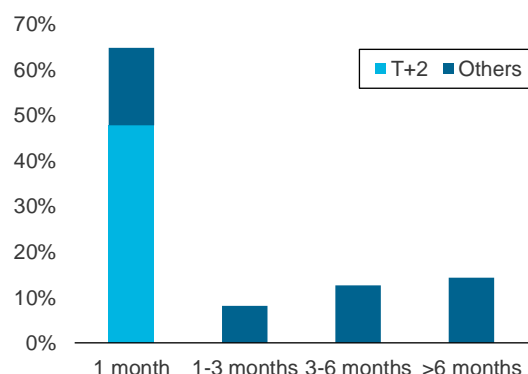
## Fund Credit Quality



## Fund Asset Allocation



## Fund Liquidity Exposure



**Market Conditions:** Credit spreads moved wider over the month reflecting broader moves in risk markets with equities selling off by 5%, the worst start to the year since 2009.

Rates markets also started the year with negative returns leading to the Bloomberg 60/40 index suffering a loss of more than 4%. Rates volatility is elevated with the MOVE index levelling around 90. In recent history, the only times this has been higher have been periods of exceptional market volatility (March 2020, Taper Tantrum, European sovereign crisis, GFC) There were several exceptions to the weaker tone:

- Australian credit markets experienced virtually no change over the month while spreads in other developed investment grade markets widened by c. 10 basis points;
- Leveraged loans actually tightened in January while high yield bond spreads widened in the order of 50 basis points; and
- Securitisation mezzanine markets have continued to perform with primary spreads 10-15 basis tighter than mid last year when broader credit markets were at the tight.

With respect to the former, this is yet another reminder of the relative illiquidity of Australian credit markets versus their offshore peers. Offshore widening was driven in part by ETF/retail outflows from fixed rate products. The lack of retail participation domestically means that flows tend to lag offshore markets and result in stickier spreads (March 2020 was a case in point). If volatility persists, Australian markets will follow as borrowers will inevitably take advantage of the difference in funding costs across regions.

The story in leveraged loans is similar. The floating rate nature of the product has led to stronger retail flows (YTD through early Feb saw inflows of US\$10.5 billion) versus outflows in high yield bond funds (YTD through early Feb saw outflows of US\$12.6 billion). As with investment grade markets, we expect borrowers will adjust issuance to reflect differences in funding costs, reducing the arbitrage.

Securitized markets, particularly domestically, tell their own story. In Australia an auto and equipment backed securitisation just priced a BBB tranche at a margin of 2.15% per annum. This same tranche priced at 2.40% in July 2021. Over this same period, AAA spreads have widened in the order of 0.20%, major bank spreads have widened by 0.30% and US investment grade spreads have widened by 0.40%!

After a busy end to 2021, private lending markets have been relatively quiet in January. However, with IPO markets much trickier to navigate, enormous dry powder in private equity coffers and residual uncertainty around post-COVID earnings outlooks, activity is likely to pick up sharply as is traditionally the case.



**For further information, please contact:**

**Fidante Partners Investor Services** | p: 13 51 53 | e: [info@fidante.com.au](mailto:info@fidante.com.au) | w: [www.fidante.com](http://www.fidante.com)

This material has been prepared by Challenger Investment Partners Limited (ABN 29 092 382 842, AFSL 234 678) CIPAM, the investment manager of the CIPAM Credit Income Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at [www.fidante.com](http://www.fidante.com) should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. CIPAM and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, CIPAM and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.

The rating issued for CIPAM Credit Income Fund – Class A, 09/2021 is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit [lonsec.com.au](http://lonsec.com.au) for ratings information and to access the full report. © 2022 Lonsec. All rights reserved.

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned CIPAM Credit Income Fund – Class A, 10 Jun 2021) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product. Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at [Fund Research Regulatory Guidelines](#).