CIPAM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report May 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	0.09	0.09	0.67	1.76	2.14	-	-	4.10
CIPAM Credit Income Fund - Class I[3]	0.09	0.09	0.67	1.76	2.14	3.09	-	-
Bloomberg Bank Bill Index	0.03	0.02	0.04	0.05	0.05	0.36	-	0.05
Active return	0.05	0.07	0.63	1.71	2.10	2.73	-	4.05

Data Source: Fidante Partners Limited, 31 May 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	$463 mil
Buy/Sell Spread	+0.25/-0.50%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	108
Running yield (%) p.a.	3.7
Modified duration (yrs)	0.09
Average Rating	BBB-
Credit Spread Duration (yrs)	3.1
Non-AUD Denominated	26%
Private Credit Allocation	21%

Monthly Commentary

Performance Update: The Fund returned 0.13% for the month of May, -0.12% for the quarter and 1.6% for the trailing 12 months. Over the past 12 months, the fund has outperformed the Bank Bill index by 1.5%and the Credit FRN index by 1.80%.

Our focus on credit spread return has shielded the fund from greater capital declines as even low amounts of interest rate duration have been punished by the market. To place in context even the ICE BofA 1-3 Year Australian is down 2.8% year to date.

In terms of attribution the main detractor from returns continues to be spread widening albeit this was more than offset by income generation. Rates and currencies continue to have a negligible impact on returns, as is expected.

Spread widening has been concentrated in the corporate names in the portfolio which we think is largely a function of greater liquidity in that sector. Securitised credit is optically outperforming but we think this is due to lack of trading as well as the very short spread duration of our allocation.

Fund Positioning: With public market spreads continuing to widen, our positioning is slowly adjusting. Our weighting to private credit has continued to trend downwards to around 21%, circa 6% lower than 6 months ago. With public credit spreads continuing their widening path, we expect the private allocation to remain low in a relative sense.

Within the public allocation our weighting for foreign currency denominated bonds has increased. This is due in large part to the fact that US and European denominated markets have responded to the weaker conditions while in Australia, spreads have only widened moderately. The switch from AUD to USD/EUR bonds is accretive to returns but will increase spread volatility.

We continue to favour corporate over securitised for similar reasons. We think our caution here will be rewarded as there is a non-zero risk that recently issued deals start to trade to extension rather than the earliest call date. Our exposure to securitised has declined to 18%, down from 30% at the same time last year.

The last part of the equation is our spread duration. As we've discussed previously, our preference in weaker markets is to extend our spread duration in order to increase our sensitivity to spread tightening. We're in the process of averaging into this trade with the current spread duration at 3.15 years and expected to move into the high 3s if volatility continues.

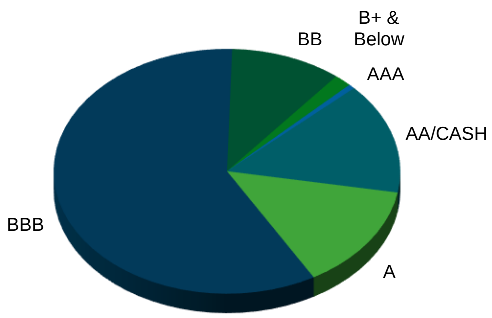
In aggregate all these moves have made the portfolio more liquid and lower credit risk. Our allocation to high yield is now 12%, down from 16% a year ago. 46% of the portfolio is liquid on a T+2 basis with 62% liquid over a 1-month horizon.

Market Conditions: Spreads continued to widen in May though again the story is still being dominated by interest rates and not by credit spreads. The Australian Broad Market index was down 1% in May, the 5th consecutive month of drawdowns.

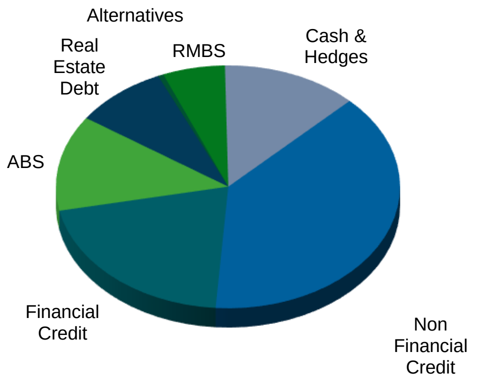
Performance Statistics

Standard Deviation (ann.)	2.4%
% of Down months	7.1%

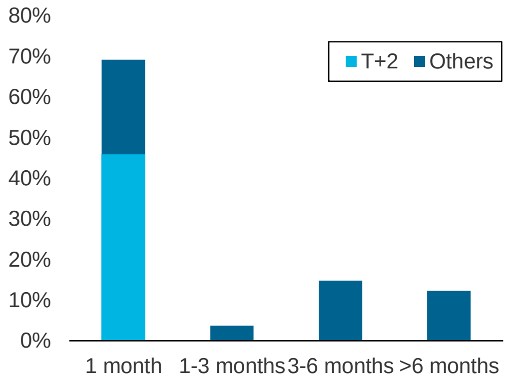
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



The most recent round of interest rate increases appears to have accompanied somewhat of a capitulation by central bankers. Whom have resulted to hike faster so that they can cut faster in the event where they will be required to somewhere down the line. In May the RBA increased interest rates by 25 basis points and opened the door for more significant hikes in the coming months. Following the June long weekend rates, markets are pricing an implied cash rate of 3.8% in December, which is an unfathomable rate at the start of the year.

While many participants (including ourselves) struggle to see how the housing market and wider economy can sustain a cash rate of 3.8% (and by implication mortgage rates of >6%), the reality is that Australian rates are a spread product and there is a risk premium between Australia and the United States. In this market where defensive and risk assets are moving in the same direction, the basis between 10-year US rates and Australian rates has increased from 5 basis points at the start of the year to 80 basis points in mid-June.

Speaking of the relationship between defensive and risk assets, the positive correlation has led to risk parity funds delivering a similar negative return to March of 2020. Recall, back then interest rates declined which provided a buffer against negative revaluations in equity markets. Not so this time around.

Credit spreads were wider on the month though in investment grade markets they remain tighter than the March wides. High yield bonds have started to cheapen and ended May close to the wides for the year. Excluding 2020, both investment grade and high yield markets are now close to the widest levels since the energy crisis of early 2016.

The levels stand in stark contrast to where the domestic securitised mezzanine markets are trading. To illustrate, in mid-May Resimac priced a non-conforming RMBS with the BBB-rated tranche at a margin of 300 basis. While this is 30 basis points wider than where the same tranche priced in October 2021, it is 90 basis points tighter than where the same tranche priced in late 2019. Senior tranches are trading more in line with broader credit with AAAs pricing at the wides for the last 5 years.

This highlights to us the key risk in RMBS markets which is that as spreads widen the risk of a non-call event increases in a non-linear fashion. Senior spreads are around 60 basis points wider on the year and look likely to widen further. If we see this combined with increasing arrears, we expect that many investors will start to assume that date-based calls will not be met. Prime RMBS deals which priced in the last 6-9 months look the most exposed here.

Private market activity continues to surprise on the upside. Volatility in equity markets has led to increased refinancing/dividend recapitalisation activity as the IPO window appears to have closed. Activity seems most focussed in middle market transactions with fewer broadly syndicated transactions in the works (with the exception of the Ramsay healthcare transaction).

Fundamentals across public and private markets appear broadly sound though we'd highlight that the very benign environment of 2021 appears unlikely to persist into 2022 as volatile weather conditions, labour shortages and inflationary pressures begin to weigh on specific corners of the market. We'd highlight that only 1,076 companies nationally entered administration back during the March quarter, 741 less than the same period in 2019. Looking in the rear-view mirror, conditions are benign but higher interest rates alone are sure to see insolvencies rise from these extraordinarily low levels.

For further information, please contact:

Fidante Partners Investor Services | **p:** 13 51 53 | **e:** info@fidante.com.au | **w:** www.fidante.com

---