CIPAM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report June 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	-0.56	-0.36	-0.39	1.19	1.19	-	-	3.57
CIPAM Credit Income Fund - Class I[3]	-0.56	-0.36	-0.39	1.19	1.19	2.76	-	-
Bloomberg Bank Bill Index	0.05	0.07	0.08	0.10	0.10	0.33	-	0.07
Active return	-0.61	-0.43	-0.48	1.09	1.09	2.43	-	3.49

Data Source: Fidante Partners Limited, 30 June 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	$498.3 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	117
Running yield (%) p.a.	4.1
Modified duration (yrs)	0.08
Average Rating	BBB-
Credit Spread Duration (yrs)	3.5
Non-AUD Denominated	29%
Private Credit Allocation	20%

Monthly Commentary

Performance Update: The Fund returned -0.56% for the month of June, -0.36% for the quarter and positive 1.19% for the trailing 12 months. The 12-month return was around 2% below our target return with the main detractor from returns being the significant widening in credit spreads over the first half of 2022.

Whilst flat in an absolute sense relative performance was strong with the Fund outperforming both the investment grade Bloomberg Credit FRN index (down 0.3% for the year) and the high yield Credit Suisse Leveraged Loan index which (down 2.9% for the year).

Fund Positioning: The strong relative performance can be attributed to the short spread duration and conservative positioning in the early part of 2022.

The Fund started the calendar year with a spread duration of 2.9 years which actually declined to 2.6 years in the first quarter as a result of inflows and our patient deployment. During the June quarter we began averaging into wider markets and extending spread duration to take advantage of the wider spreads. To this end, the year ended with spread duration at 3.5 years, a significant increase over the quarter. Our foreign currency allocation also started the year at relatively low levels of 18% but ended the financial year at 29%. The move in foreign currency allocation has been driven by the improved relative value on foreign currency bonds versus domestic. This is typically the case during periods of illiquidity; foreign markets trade and reprice wider while domestic markets stop trading. Furthermore, mandates that are constrained to Australian dollars only have continued to show bids in Australian dollars are still bidding which has provided us with highly attractive switch opportunities.

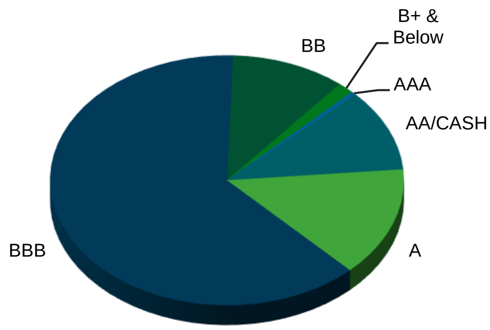
Of course, the downside of such asset allocation decisions is that they impute more variability into the returns of the Fund as the more volatile USD and EUR-denominated markets comprise a greater share of fund assets. But we are comfortable trading off the short-term variability in returns for greater returns per unit of credit risk over the medium to long term.

On a similar theme of building defensiveness both our private and securitised exposures declined meaningfully over the year. Securitised exposure was down over 10% for the year, ending at less than 20% of the Fund. Private was down 7%, also ending the year at less than 20%. Both decisions reflect our pivot from less liquid markets where we think about "hold to maturity" returns to public markets where we think about "hold to normalisation" returns. Put another way, buying a 10-year corporate bond 100 basis point higher than its 2014-2019 average spread should offer attractive returns over a 2 to 5-year time horizon. Spreads should normalise from current levels and even if they are down, as the time to maturity shortens, investors will benefit from steeper credit curves. In 2020, the normalisation in spreads occurred too quickly to fully take advantage of the opportunity but in 2022 the volatility appears likely to persist for much longer, increasing the breadth of the opportunity set.

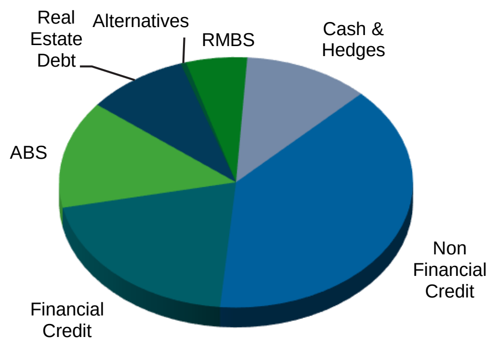
Performance Statistics

Standard Deviation (ann.)	2.4%
% of Down months	8.8%

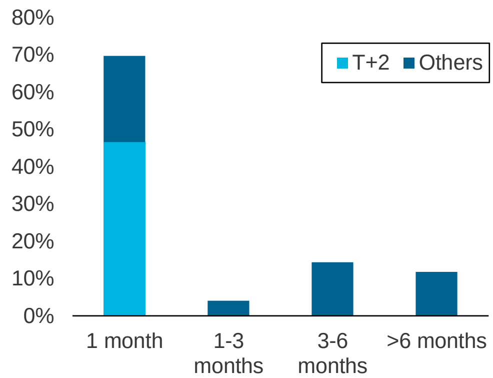
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Looking forward to the rest of the calendar year we do expect to increase our allocation to securitised credit which has only recently started reprice to attractive entry points of circa Cash + 4% returns for investment grade risk. We remain neutral on private markets where we are seeing signs of relative value emerging, particularly in secondary markets. As at 30 June, the prospective yield to maturity of the Fund was projected to be 6.5%, driven in part by the higher interest rate environment but also the more attractive credit spreads available.

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

5 Highly Recommended Lonsec Research

Zenith RECOMMENDED

For further information, please contact:

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