Illiquid APL Inclusion – Off SMA Alternatives

Reservoir Event Driven Credit Fund
APIR: NCC2110AU

Summary

The **Reservoir Event Driven Credit Fund** ('the Fund'), sub-advised by BlueBay Asset Management, is a specialised strategy focused on capturing attractive, risk-adjusted returns through opportunistic investments in global credit markets. The fund targets mispriced securities and capital structure inefficiencies, driven by corporate events such as restructurings, mergers, and distressed situations, while maintaining a strong focus on risk management and downside protection. With its ability to generate uncorrelated returns, the strategy provides valuable diversification within the alternatives sleeve of the APL, broadening the risk-return profile.

APL Fit

The Reservoir Event Driven Credit Strategy serves as a valuable addition to the APL within the alternatives sleeve, offering diversification and an attractive risk-return profile. Its low correlation with traditional equity and fixed income strategies enhances the overall resilience of the portfolio. By focusing on idiosyncratic credit opportunities, the strategy provides a differentiated source of alpha and potential downside protection during periods of market volatility.

Atchison views the inclusion of the Reservoir Event Driven Credit Strategy as an opportunity to broaden the risk-return profile of the APL. The strategy's ability to capitalise on credit market dislocations and corporate events aligns well with the objective of delivering uncorrelated returns. Additionally, the team's disciplined investment process and strong track record of managing event-driven credit opportunities bolster Atchison's confidence in the strategy's capacity to add value over the long term.

The Fund is best suited as an off-APL holding due to the illiquid nature of the underlying securities. With quarterly redemption windows, the Fund is most appropriate for clients who do not require daily liquidity and can accommodate a longer investment horizon.

Fund Overview

- **Manager:** Reservoir Investment Management Pty Ltd – Sub advised by BlueBay Asset Management
- **Fund Inception Date:** 9 January 2024
- **Firmwide Assets Under Management:** $133bn
    - **Event Driven Credit Fund:** $491mn
- **Investment Strategy:** The Fund targets absolute returns through a diversified portfolio of global credit investments, leveraging event-driven opportunities and market dislocations.
- **Benchmark:** iBoxx Euro Corporates Index

BUSINESS

Reservoir Capital Group, founded in 1998, is a private investment firm with a strong track record in managing opportunistic and event-driven strategies across various asset classes. The Reservoir Event Driven Credit Strategy is sub-advised by BlueBay Asset Management, a leading global credit specialist, based in London, UK, with extensive expertise in credit markets, including distressed debt and special situations. This partnership leverages Reservoir's deep investment experience and BlueBay's specialised credit market insights, enabling the strategy to identify and capitalise on mispriced securities and capital structure inefficiencies.

Team

The BlueBay Special Situations investment team, led by Adam Phillips, comprises six seasoned professionals based in London, with deep expertise in distressed and special situations investing. Supported by BlueBay's broader Leveraged Finance team and infrastructure, the team employs a collaborative approach, leveraging top-down and bottom-up analysis to identify opportunities from a watchlist of approximately 300 names. With each investment committee member bringing over 30 years of experience, Atchison regards the team as highly capable, executing a disciplined and research-driven approach to portfolio construction and effectively capitalising on complex credit opportunities.

Process

The Fund follows a highly disciplined and research-intensive investment process, focusing on identifying fundamentally misvalued credit securities within developed markets. The strategy employs a bottom-up, fundamental analysis approach, leveraging BlueBay's extensive fixed-income research platform. Investments are typically short-to-medium term, spanning 6 to 18 months, and are often single-name corporate issuers where a specific event provides a clear path to exit. The team prioritises identifying opportunities through proprietary research and external sources such as investment banks, trade publications, and restructuring advisors.

The investment process begins with idea generation and preliminary screening, where potential investments are assessed for suitability based on jurisdiction, industry exposure, capital structure, and return potential. Following this, comprehensive due diligence is conducted, including cash flow analysis, covenant reviews, and ESG assessments. Active engagement with company management and external advisors is a key element, ensuring a deep understanding of the credit opportunity and alignment with equity owners. Exit scenarios are rigorously analysed to maximize returns while mitigating risks.

Portfolio construction is guided by a bottom-up security selection framework, with allocations across five strategy categories: Core Income, Stressed Situations, Event-Driven/Opportunistic, Restructuring, and Credit Shorts. The portfolio typically comprises 30-50 securities, with allocations dynamically adjusted based on the opportunity set. Risk management is integral, incorporating strict internal limits, stop-loss protocols, and ongoing oversight from BlueBay's Market Risk Committee to ensure alignment with the strategy's mandate and client expectations. This process ensures a well-diversified portfolio capable of delivering attractive risk-adjusted returns across market cycles.

Atchison emphasises that the Fund frequently invests in stressed or distressed debt, which entails elevated risk and limited liquidity. Furthermore, the portfolio includes CCC-rated, unrated, and unspecified loans, all of which are classified as high-risk investments. Consequently, Atchison considers this investment appropriate solely for investors who possess a high-risk tolerance and the ability to take on substantial risk.

Fees and operational considerations

- **Management Fee:** 1.2% p.a.
- **Performance Fee:** 20% of any positive return to unit holders above the high watermark
- **Liquidity:** Daily applications and **Quarterly redemptions**.
- **Capacity:** The Fund invests
- **Minimum Investment:** $100,000
- **Responsible Entity:** The Fund is wholesale only, as such there is no responsible entity

Performance

Performance analysis (net of fees)

1 month return	0.08%
YTD return	7.97%
1yr ann.	9.78%
5yr ann.	13.32%
10yr ann.	9.14%
Ann. return (SI)	8.93%
Ann. volatility	6.23%
Sharpe ratio 3YR	1.45
Positive months	76.27%
Worst drawdown (%)	-13.08
Recovery time (mths)	7

Correlation [1]

S&P 500	0.08
ICE BofA Global High Yield	0.08
Bloomberg Global Aggregate	-0.16

Atchison highlights that the Reservoir Event Driven Credit Fund has a relatively limited track record as a unit trust offering. However, the underlying strategy has been in operation for an extended period. Over the past decade, the strategy has delivered impressive net annualised returns of 9.14% p.a.

Atchison views the strategy as providing a pseudo-private equity exposure, with the investment team adopting a hands-on approach to restructuring by taking positions in distressed debt. While this approach presents attractive opportunities, investors should be mindful of the associated risks and ensure they are comfortable with a long-term investment horizon.