Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report September 2022

Performance[1]

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) p.a.[2]
Challenger IM Credit Income Fund – Class A	-0.09	0.87	0.50	0.87	1.17	-	-	3.56
Challenger IM Credit Income Fund - Class I[3]	-0.09	0.87	0.50	0.87	1.17	2.69	-	-
Bloomberg Bank Bill Index	0.15	0.42	0.49	0.42	0.52	0.38	-	0.28
Active return	-0.24	0.45	0.01	0.45	0.66	2.32	-	3.28

Data Source: Fidante Partners Limited, 30 September 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.

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	$498.9 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	112
Running yield (%) p.a.	5.0
Modified duration (yrs)	0.06
Average Rating	BBB-
Credit Spread Duration (yrs)	3.2
Non-AUD Denominated	29%
Private Credit Allocation	22%

Monthly Commentary

Performance Update: The Fund returned -0.1% for the month of September, 0.9% for the quarter and 0.9% for the trailing 12 months. Both the quarterly and trailing 12-month numbers were above the Bank Bill Index benchmark.

Spread widening continues to be the main drag on performance reducing the monthly, quarterly and annual returns by 0.49%, 0.11% and 1.9%, respectively. By keeping our interest rate duration flat to benchmark, the Fund has not incurred significant losses on our interest rate positioning. Income generation was strong with around 3.3% in income generated over the past 12 months.

Relatively speaking the performance has been strong, outperforming the Bloomberg Credit FRN index over the previous quarter and year. Since inception, the Fund has delivered 2.2% per annum more than this index, a pleasing result especially so given that the Fund has done so in both environments of tighter and wider spreads.

Fund Positioning: The word for us entering 2022 was "flexibility". We wanted to keep our spread duration short and carry liquidity to enable us to pivot between public and private markets as opportunities presented.

We had low levels of conviction about the direction of credit spreads and continue to do so. As such we wanted to have the ability to respond to tighter and wider markets.

In the June quarter this flexibility served us well as we were able to deploy into foreign currency denominated corporate and real estate backed bonds at much wider credit spreads than where we started the year. In the September quarter we continued to take advantage of market conditions.

In this case our focus was securitised markets. We had long held a negative view on the sector, highlighting how extraordinarily tight credit spreads were compared to financials, corporates, and virtually every other asset class. This changed in the September quarter with the catalyst being forced selling of Australian public securitised bonds by UK pension funds.

We provided liquidity to these funds, acquiring investment grade rated bonds at credit spreads of more than 5%, over 2% wider than where they were trading 12 months ago. To the extent this selling continues, the Fund will further average into this opportunity. Our current securitised allocation is less than 20%, providing plenty of headroom to increase either in secondary or primary markets.

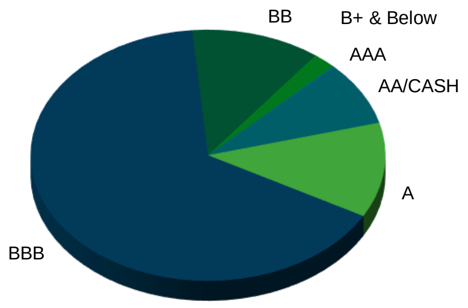
The headroom in Australian dollar securitised is important as we are currently overweight in our foreign currency allocation. This is deliberate, reflecting the far better relative value in corporate bond markets but has it limits. The declines in the Australian dollar (down 7.5% against the US dollar over the quarter and 11.5% over the past 12 months) have grossed up these exposures, further constraining our appetite for foreign currency assets.

To this end, despite wider public markets, we are seeing some value in private credit markets. While the illiquidity premiums on offer are not at the wides, they have important diversification attributes.

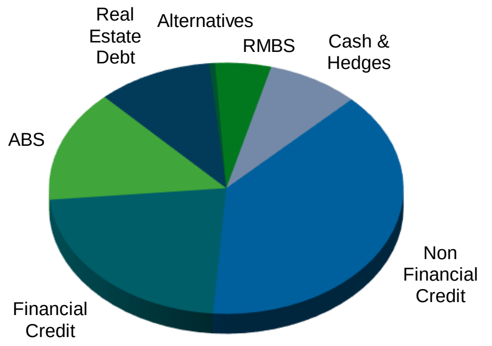
Performance Statistics

Standard Deviation (ann.)	2.4%
% of Down months	10.0%

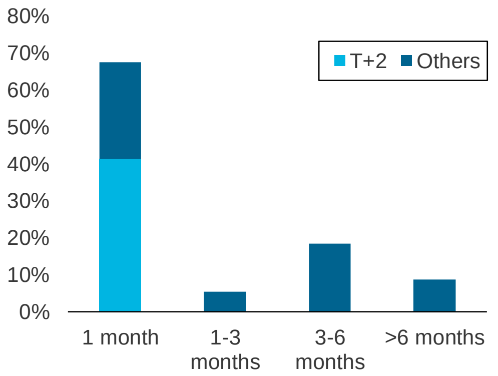
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Our mantra of flexibility remains intact and apart from overweight in foreign currency, we retain significant headroom across the portfolio. However, this flexibility has not come at the expense of the yield of the portfolio. With base rates increasing, the running yield is now 5% with the yield to maturity over 6%. We expect this yield to maturity to increase modestly over time as we reinvest into wider spread markets.

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

For further information, please contact:

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

---