Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report December 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	0.80	2.17	3.06	3.06	2.65	-	-	4.15
Challenger IM Credit Income Fund - Class I[3]	0.80	2.17	3.06	3.06	2.65	3.01	3.73	-
Bloomberg Bank Bill Index	0.25	0.74	1.17	1.17	1.25	0.55	1.01	0.58
Active return	0.55	1.42	1.89	1.89	1.40	2.46	2.72	3.57

Data Source: Fidante Partners Limited, 31 December 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	$508.4 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	119
Running yield (%) p.a.	5.3
Modified duration (yrs)	0.16
Average Rating	BBB-
Credit Spread Duration (yrs)	3.0
Non-AUD Denominated	29%
Private Credit Allocation	19%

Monthly Commentary

Performance Update: The Fund closed out 2022 with a net annual return of 2.65% outperforming the Benchmark by 1.40% and the Bloomberg AusBond Credit FRN index by 1.37%. Whilst below the target return for the year, the Fund performance did what we intended with consistent high levels of income offsetting the widening in credit spreads.
Over the quarter the Fund returned 2.17%, 1.42% over the Benchmark which annualises to a 6% excess return Close to two-thirds of the return for the quarter came from income with the remainder due to tightening of credit spreads. Stripping out market movements, the Fund is generating income at an annual pace of just under Bank Bills plus 3%.
Since inception, the Fund has generated an annualised gross return of more than 3% in excess of the Benchmark, in line with our stated target.

Fund Positioning: We ended 2022 with the Fund in a neutral position. Running yields have increased to 5.3% and will continue to increase as bank bills reset higher and we reinvest at wider spreads. The yield to maturity of the Fund now sits at around 6.5% per annum.

We used the periodic bouts of volatility in public markets to add risk without comprising on return during 2022. This leaves us with plenty of headroom to add in private markets where we see opportunity. With spreads having rallied into year end and no signs of any supply hitting the Australian non-financial corporate bond market, the illiquidity premium in private markets looks attractive.

Adding to our headroom has been several early repayments on private deals which have the effect of both increasing liquidity and driving excess returns as these loans were priced below par prior to repayment.

Asset quality in the portfolio is strong. There are no issuers rated below B, with only 2% of the Fund rated below BB-. To remind, the Fund cannot purchase any investment rated below BB- so the 2% of B-rated issuers were downgraded. All are private deals which have been downgraded during or as a result of the COVID pandemic.

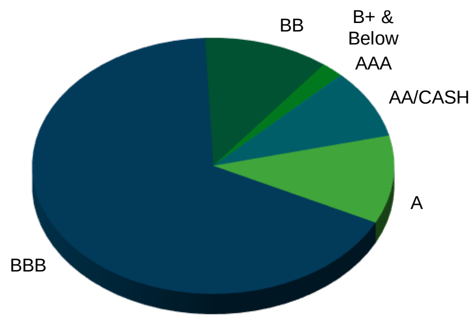
We are also relatively underweight securitised debt at around 21% of the Fund. Having been negative based on the poor relative value of securitised debt throughout 2022 we turned positive in the final quarter of the year and have been adding exposure and seeking to extend our credit duration in the sector by adding residential mortgage-backed securities which tend to be longer than asset backed transactions (current RMBS exposure is only 7%).

Our pivot back towards securitised debt will likely come at the expense of our allocation to financials where we see a risk of greater supply. In addition, we still have concerns around call risk in the sector following APRA's pointed remarks on uneconomic calls.

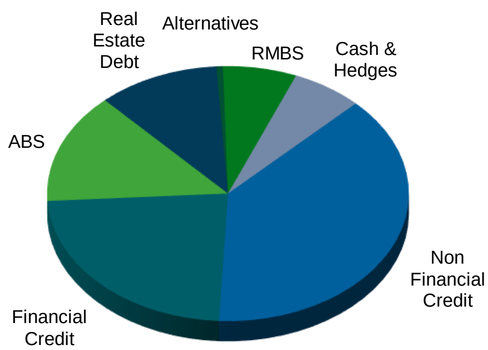
Performance Statistics

Standard Deviation (ann.)	2.4%
% of Down months	9.5%

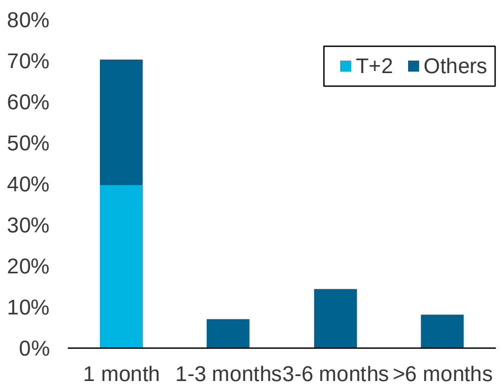
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Having focussed on flexibility during 2022, the word for us in 2023 will be "patience". Our belief is that current public market pricing doesn't reflect the current risk of recession or the risk of further monetary tightening; the two most likely scenarios in 2023. We will be in no rush to deploy capital into marginal transactions and instead deploy patiently, averaging into what we expect will be weaker conditions and better pricing as the year unfolds.

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

For further information, please contact:

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