

# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Quarterly Report March 2023

### Performance<sup>1</sup>

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) p.a. <sup>2</sup>
Challenger IM Credit Income Fund - Class A	0.22	2.26	4.47	5.38	5.00	-	-	4.66
Challenger IM Credit Income Fund - Class I <sup>3</sup>	0.22	2.26	4.47	5.38	5.00	5.28	3.98	-
Bloomberg Bank Bill Index	0.28	0.79	1.54	1.97	2.04	0.73	1.08	0.84
Active return	-0.06	1.47	2.93	3.41	2.96	4.55	2.90	3.82

Data Source: Fidante Partners Limited, 31 March 2023.

<sup>1</sup>Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

<sup>2</sup>The Inception date for Class A is October 1 2020.

<sup>3</sup>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	\$529.5 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.	5.5
Modified duration (yrs)	0.07
Average Rating	BBB-
Credit Spread Duration (yrs)	2.7
Non-AUD Denominated	28%
Private Credit Allocation	19%

## Quarterly Commentary

**Performance Update:** The Fund ended the first quarter with a 2.26% net return, comfortably above the benchmark which returned 0.79%. This translates to a strong excess return of 1.47%. On a trailing 12 month basis the Fund has delivered an excess return of 2.96% over the benchmark, under the since inception excess return of 3.82%.

Over all periods the Fund has comfortably outperformed the Bloomberg AusBond Credit FRN index providing annualised returns of more than 2% per annum above the active credit index.

Return attribution for the quarter was largely about interest income which was responsible for two-thirds of overall returns. The remaining performance was largely spread tightening with a smaller contribution from yield curve reshape.

The Fund is currently generating a running yield of 5.5% and has a yield to maturity of over 6% per annum.

**Fund Positioning:** Patience, patience, patience! We are continuing to deploy capital patiently into increasingly attractive markets. Even as spreads have tightened over the quarter, the increased dispersion in markets is providing us with plenty of opportunities to add value.

The Fund is running cash levels of in the high single digits which drops to around 3% once we factor in our committed pipeline of private transactions. Even with this pipeline we are highly liquid with over 70% of the Fund liquid over a 1 month horizon and a private credit allocation which sits below 20%.

Our spread duration is also short at around 2.80 years. This is an important lever which we will use during periods of volatility when credit curves steepen.

As mentioned above, increased dispersion provided us opportunities to trade the portfolio. Approximately 10% of the portfolio turned over during the quarter with notable trades in financial sub debt where we were able to sell down some exposure in January and February and add in April.

The Fund was reasonably active in primary markets over the quarter participating in primary issuances in securitised and corporate markets. We remain cautious on securitised markets with around a 22% holding, well down on historical averages. Our financials exposure has ticked up to 20% though we would highlight this is highly diversified across more than 20 distinct issuers.

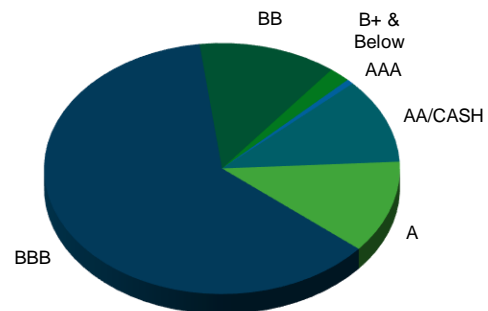
Our weighting to commercial real estate is low in public and private markets with only 10% of the Fund invested there. Despite weak underlying fundamentals we anticipate well priced opportunities in both public and private markets and anticipate increasing exposure here in the coming months.

We remain pleased with the strong performance of the portfolio. Less than 2% of the Fund is 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.

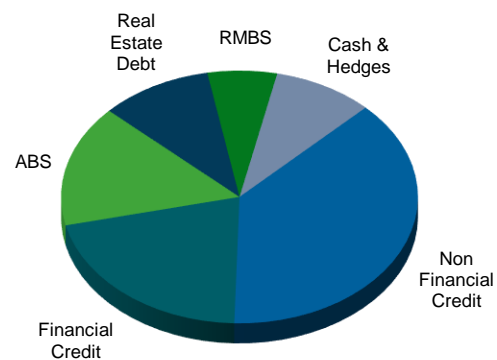
## Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	9.1%

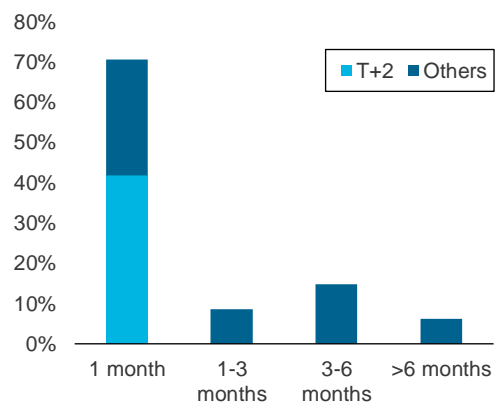
## Fund Credit Quality



## Fund Asset Allocation



## Fund Liquidity Exposure



**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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