

# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Monthly Report April 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	0.70	1.72	4.63	6.13	5.63	-	-	4.80
Challenger IM Credit Income Fund - Class I <sup>3</sup>	0.70	1.72	4.63	6.13	5.63	5.40	4.05	-
Bloomberg Bank Bill Index	0.30	0.83	1.60	2.28	2.37	0.81	1.11	0.93
Active return	0.40	0.89	3.02	3.85	3.26	4.58	2.94	3.87

Data Source: Fidante Partners Limited, 30 April 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	\$533.0 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

### Key Statistics

Number of Issuers	120
Running yield (%) p.a.	5.7
Modified duration (yrs)	0.07
Average Rating	BBB-
Credit Spread Duration (yrs)	2.9
Non-AUD Denominated	28%
Private Credit Allocation	18%

## Quarterly Commentary

**Performance Update:** The Fund returned 0.72% in April taking the trailing 12 month return to 5.54%, a 3.17% excess return over the Benchmark. The strong returns continue to be driven by income generation and spread tightening with credit spreads rebounding following the widening in March.

The running yield of the fund is approaching 6% p.a. and the yield to maturity is around 6.5% p.a. with minimal interest rate duration.

**Fund Positioning:** The Fund was active in public markets during April. We added positions across corporate and securitised markets in both primary and secondary with notable trades in short dated European bank paper which have sold off in sympathy with wider financials markets. We also picked up some investment grade rated securitised exposure to Zip Money. This is a name that is particularly unloved by the market which is concerned about the issues at the head stock. In our view this fails to appreciate the solid performance in the underlying collateral where payment arrears are only up slightly and remain within expected ranges. As a reminder we are not lending to Zip but rather lending to a diversified pool of consumers who use the ZipPay and ZipMoney products.

Of note we have seen some domestic primary bond issuance and there are encouraging signs of more to come. Primary issuance creates opportunities for us both on an outright buy-to-hold basis but also to trade different positions across the term structure. Non-financial corporate paper is our largest allocation in the fund at just under 40% and subject to market conditions we could see it increase further from here.

Our private allocation remains under 20%. A key reason for this is the repricing of risk in public markets which are presenting more compelling alternatives to private markets than has historically been the case. In a higher interest rate environment, we are also seeing a smaller share of our private pipeline represented by issuers rated BB- or higher which is the minimum rating requirement of the Fund. Activity levels are broadly flat over the year, but we do expect this to pick up as the year progresses and bank cost of capital normalises.

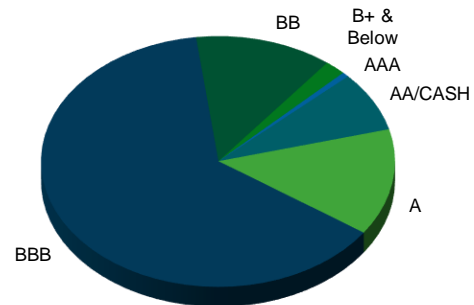
The Fund is underweighted in commercial real estate with only an 11% allocation of which all but 1% represents public investment grade issuers. With a significant refinancing task, we are expecting more challenging conditions to face CRE lending markets in the quarters to come and will add to this sector opportunistically and only at conservative LVRs based on refreshed valuations.

**Market Conditions:** Conditions stabilised in April with markets digesting the SVB and Credit Suisse bank failures. Credit was moderately tighter; interest rates were moderately higher and equities were moderately stronger over the month with little conviction in either direction.

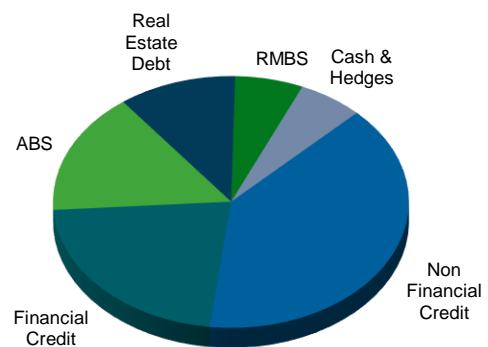
## Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	9.0%

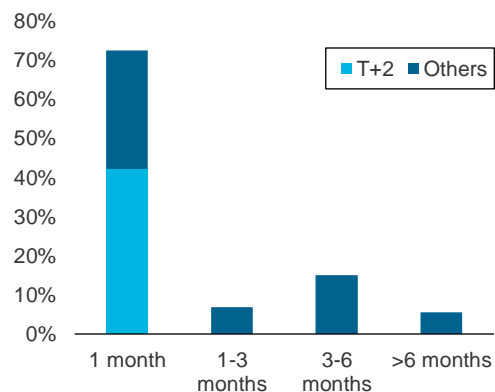
## Fund Credit Quality



## Fund Asset Allocation



## Fund Liquidity Exposure



**Market conditions:** Despite the small moves in the aggregate, we did see US bank credit spreads rally strongly. After peaking at close to 200 basis points in March, circa 70 basis points wider on the month, credit spreads tightened by 30 basis points during April.

Another part of the market coming under increased scrutiny is commercial real estate. The ICE/BofA US Fixed Rate CMBS index is now pricing well into the 200s in credit spread terms, which if you exclude March 2020, is the widest levels of the last decade. Concerns around commercial real estate made their way into domestic bond markets with Stockland pricing a 7yr single A rated benchmark issuance at a swap spread of 170 basis points. Despite this being one of only a handful of corporate bond issuances denominated in Australian dollars in 2023, the deal struggled and remains slightly wide of reoffer. European real estate linked corporate issuers also remain wide, with spreads over 50 basis points wider than where they started in March.

At a macro level the lack of conviction in markets revolves around the debate as to whether there will be a US recession in the second half of 2023.

Markets are currently pricing 2.7 25 basis point cuts by year end which hangs on the presumptions that stress in the regional banking system will lead to significantly tighter financial conditions and wage inflation will fall back to the 2-3% range. Domestically markets are pricing flat rates through to year end albeit with a cash rate that is 140 basis points lower than the United States. Recent financial data has surprised to the upside with employment data for April coming in exceptionally strong both in terms of wages (average hourly earnings up 4.4% YoY, 0.5% MoM) and employment (unemployment rate of 3.4%, underemployment 6.6%).

The Federal Reserve Senior Loan Officer Survey for April did show a continuation of tightening financial conditions, albeit not the pace of tightening perhaps expected by the market. Net 46% of respondents reported tightening standards for C&I loans with 62% reporting increasing spreads of loans. The share of respondents reporting wider spreads was the highest since the Global Financial Crisis. It was a similar story for Commercial Real Estate loans where two-thirds of respondents noted a tightening in standards for nonfarm non-residential CRE loans, the highest share since March of 2020.



**For further information, please contact:**

**Fidante Partners Investor Services** | p: 13 51 53 | e: [info@fidante.com.au](mailto:info@fidante.com.au) | w: [www.fidante.com](http://www.fidante.com)

This material has been prepared by Challenger Investment Partners Limited (Challenger Investment Management or Challenger) (ABN 29 092 382 842, AFSL 234678), the investment manager of the Challenger IM Credit Income Fund ARSN 620 882 055 (Fund). Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at [www.fidante.com](http://www.fidante.com) should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Challenger Investment Management and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Challenger IM and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.

The rating issued for Challenger IM Credit Income Fund – Class A, 09/2022 is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit [lonsec.com.au](http://lonsec.com.au) for ratings information and to access the full report. © 2023 Lonsec. All rights reserved.

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned Challenger IM Credit Income Fund – Class A, 10 Jun 2021) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product. Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at [Fund Research Regulatory Guidelines](#).