Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report May 2023

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	0.52	1.45	4.34	6.67	6.08	-	-	4.84
Challenger IM Credit Income Fund - Class I[3]	0.52	1.45	4.34	6.67	6.08	5.22	4.07	-
Bloomberg Bank Bill Index	0.29	0.89	1.65	2.58	2.64	0.91	1.14	1.01
Active return	0.22	0.56	2.69	4.09	3.44	4.31	2.93	3.83

Data Source: Fidante Partners Limited, 31 May 2023.

[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	$537.1 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	118
Running yield (%) p.a.	5.6
Modified duration (yrs)	0.05
Average Rating	BBB-
Credit Spread Duration (yrs)	2.8
Non-AUD Denominated	28%
Private Credit Allocation	18%

Quarterly Commentary

Performance Update: The Fund returned 0.52% in May taking the trailing 12 month return to 6.08%, a 3.44% excess return over the Benchmark. Spreads were roughly flat over the month with the bulk of the return coming through income.

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

Fund Positioning: The lack of volatility in markets was reflected in the lower levels of activity in the Fund over the month of May. Our turnover was down 60% on April levels with our only buying replacing portfolio run off. The lack of turnover also reflects our general lack of conviction around where the best relative value sits.

There were no notable transactions during the month. We added a small amount of exposure to short dated subordinated financials and settled a private senior secured loan to a borrower operating in the healthcare sector.

Our (lack of) activity leaves the Fund defensively positioned. Spread duration is 2.8 years, private allocation is 18% and high yield allocation is 15%. Our cash position is slightly elevated at 9%, albeit around half that allocation is backing future pipeline or existing facilities with an undrawn commitment.

Coinciding with our lower levels of private exposure, liquidity in the Fund is elevated. We estimate that over 70% of the portfolio can be liquidated within a month to meet redemption needs, significantly in excess of the 1 month cap of 10%.

Our theme of patience for 2023 has permeated across the portfolio. We are neutral towards private markets; we will add exposure where we see opportunities, but we are not compromising on terms or pricing. It is a similar story in public markets where we have not extended our credit duration, preferring to add shorter dated exposures in secondary markets. Encouragingly, our private pipeline continues to grow in size, suggesting that borrowers are increasingly looking at the non-bank sector for credit.

We remain cautious on securitised credit where pricing has rebounded strongly. The basis between investment grade and high yield rated tranches is now over 300 basis points, suggesting that the more convex tranches are starting to price some fundamental risk in the portfolio. The basis between residential and non-residential collateral has also expanded with non-conforming residential tranches pricing around 50-60 basis points wider than auto and equipment deals.

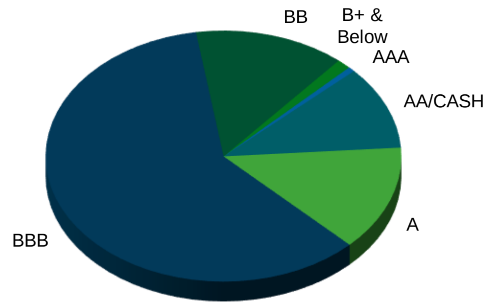
We continue to hold the view that commercial real estate debt will become increasing attractive in the months to come. Over the month the fund committed to a private senior secured real estate loan in New Zealand.

Market Conditions: Interest rate and equity market volatility plunged towards the end of May and is well below recent peaks. Equity volatility is particularly low with the VIX index at 13.5, the lowest level since early 2020.

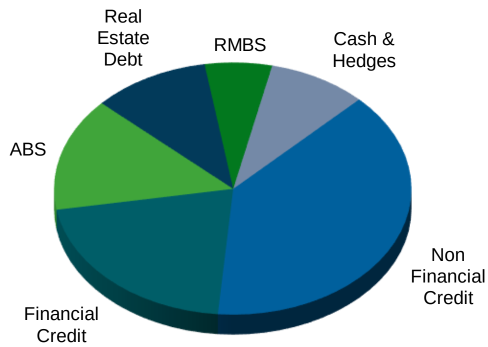
Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	8.7%

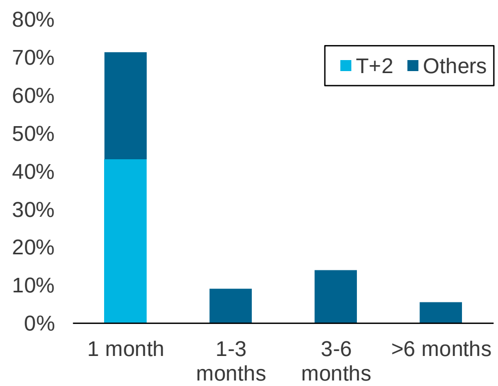
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Domestically, a slight pick-up in primary issuance of non-financial corporate bonds extended into May. Much of the issuance has come from the utilities sector pricing around 200 basis points over swaps for a 10 year maturity. Despite the scarcity of bonds in Australia, the deals have not traded particularly well. An additional sign of the shift in tone came when Ramsay Healthcare was forced to pull a proposed deal due to lack of investor demand. Many invested had highlighted concerns with the terms including the lack of a dual credit rating and weak language around change of control. The fact that the deal was not able to price is a sign that investors are appropriately cautious though we have some concerns that this will push potential issuers into other markets or back to the friendly embrace of the bank loan market.

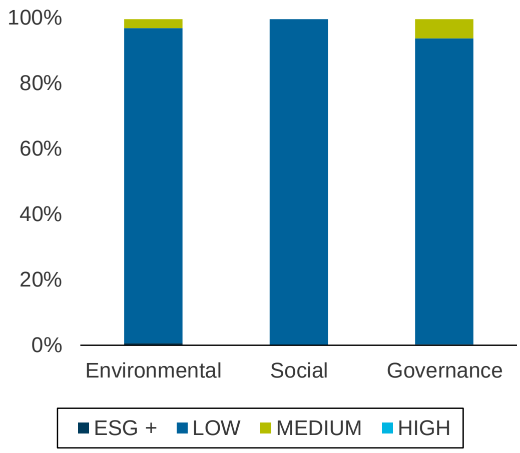
Despite improving issuance conditions, primary market activity in securitised markets was well down on prior corresponding periods. Around $3.3 billion was issued in May 2023, $3 billion less than May of 2022 and 2021. Anecdotal feedback suggests that even with the tightening in spreads, senior funding margins in warehouses are more favourable which is limiting public bond issuance. Add to this the fact that prepayment speeds on mortgages remain elevated. As evidence, NBFI loans and advances declined by 6% over the quarter ended April. Over the same period, bank loans and advances increased by 2%.

Offshore markets have been similarly stable with a strong tightening bias in credit spreads. The one exception is commercial mortgage-backed securities markets which are hovering at post GFC ex-COVID wides. The widening in spreads appears fundamentally driven with BBB CMBS pricing in the mid-800s in spread terms. For context this is actually *wider* than where this index was pricing at the height of COVID. AAA spreads remain inside COVID wides.

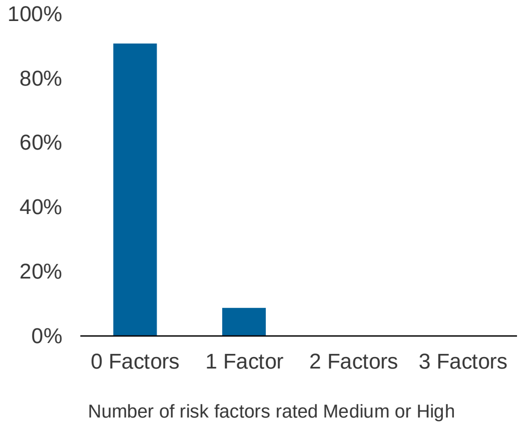
The major banks have also taken advantage of the more favourable conditions issuing $12 billion across covered, senior unsecured and tier 2, double April's levels. Already in June another $12 billion has been issued taking year to date issuance to $66 billion, a pace in line with 2022's issuance of $137 billion. Pricing for senior unsecured paper at the 5 year part of the curve looks set to move inside of 100 basis points with Tier 2 paper pricing in the low 200s.

With markets stabilising, private market activity is steadily increasing. There are currently 26 transactions in various stages of review spread across our key areas of focus (being corporate lending, commercial real estate lending and asset backed finance). Financial conditions within the banks are clearly tightening as we are starting to see deal flow in areas which were previously the preserve of the banks.

ESG Profile



ESG Risk Layering



* Percentage of deals which have multiple risk factors rated Medium or High. For example, 2 might be Environmental and Governance risk rated Medium.

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For further information, please contact:

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