

# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Quarterly Report June 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	0.77	2.01	4.31	7.50	7.50	-	-	4.98
Challenger IM Credit Income Fund - Class I <sup>3</sup>	0.77	2.01	4.31	7.50	7.50	5.18	4.16	-
Bloomberg Bank Bill Index	0.30	0.90	1.70	2.89	2.89	1.01	1.17	1.09
Active return	0.47	1.10	2.61	4.61	4.61	4.17	2.99	3.89

Data Source: Fidante Partners Limited, 30 June 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	\$544.7 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.	5.8
Modified duration (yrs)	0.07
Average Rating	BBB-
Credit Spread Duration (yrs)	2.7
Non-AUD Denominated	27%
Private Credit Allocation	18%

## Quarterly Commentary

**Performance Commentary:** The Fund ended the financial year strongly, delivering a 7.50% net return, exceeding the benchmark by 4.61% for the past 12 months. This takes the since inception returns to 4.98% per annum, an active return of 3.89% per annum.

Since launching the Credit Income Fund almost six years ago, the Fund has performed in line with expectations, delivering consistent income with capital preservation. Over 90% of returns have come through interest income with minimal contributions from credit spreads, currency and interest rate effects.

In doing so, the Fund has comfortably outperformed more traditional fixed income strategies. Over the last 12 months the Bloomberg AusBond Credit FRN Index returned 4.03% and the Bloomberg AusBond Credit 0+ Yr index returned 3.32%, both well below the 7.50% return on the Fund.

**Fund Positioning:** Despite a higher interest rate environment, credit spreads have rallied strongly into the final quarter of FY23. This has led to a widening in illiquidity premiums increasing the relative attractiveness of private markets.

Over the year our private allocation declined from 20% to 18%. Our credit spread duration has declined sharply, down to 2.7 years from 3.5 years a year ago. Given the change in relative value, we expect to increase our private allocation but don't expect to increase credit duration materially as our view is that spreads remain tight.

We have talked at length about our real estate allocation in previous months. This increased from 9% to 11% but within that our allocation to private deals was flat at 1%. We expect private real estate lending opportunities to increase from here and have capacity to remix our real estate allocation away from public into private transactions.

Relative valuations between domestic and offshore public credit markets are fairly neutral. We see some value in parts of the European securitised markets relative to the Australian market which has rallied strongly this year.

Financials are priced very tight as well, especially considering recent events. Our allocation increased over the year but with the basis between corporates and financials tightening considerably, we expect this allocation will reduce in the coming months.

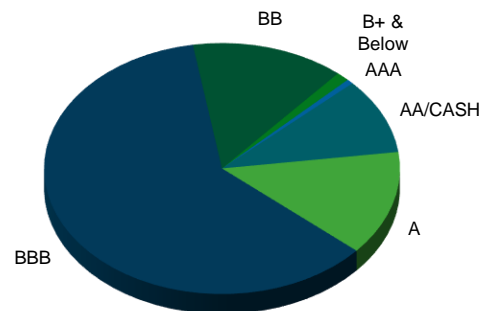
Asset quality within the Fund is strong. Only 1% of the Fund is rated below BB- and both positions were COVID downgrades which have since rebounded. Our high yield allocation increased slightly over the year but remains relatively low at 15%. With a slight bias towards private markets at the moment we could see our high yield allocation increase modestly from here (most of the private market opportunities we see are sub-investment grade).

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

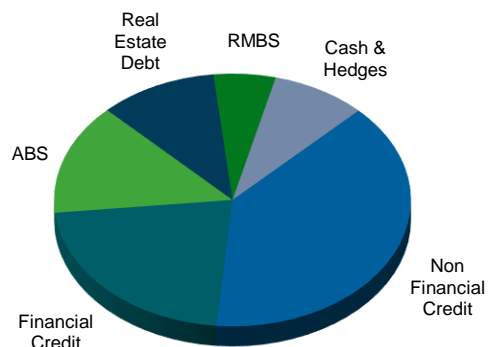
## Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	8.6%

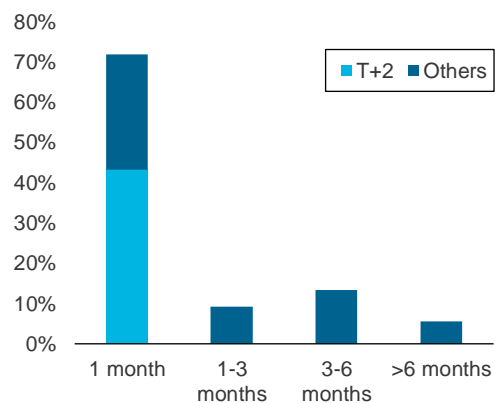
## Fund Credit Quality



## Fund Asset Allocation



## Fund Liquidity Exposure





**For further information, please contact:**

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