Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report July 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	0.85	2.16	3.91	0.85	7.76	-	-	5.15
Challenger IM Credit Income Fund - Class I[3]	0.85	2.16	3.91	0.85	7.76	5.29	4.25	-
Bloomberg Bank Bill Index	0.37	0.97	1.81	0.37	3.15	1.13	1.20	1.19
Active return	0.48	1.18	2.10	0.48	4.61	4.16	3.05	3.95

Data Source: Fidante Partners Limited, 31 July 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	$589.5 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.	5.7
Modified duration (yrs)	0.06
Average Rating	BBB-
Credit Spread Duration (yrs)	2.6
Non-AUD Denominated	27%
Private Credit Allocation	16%

Quarterly Commentary

Performance Commentary: The Fund returned 0.85% in July taking the trailing 12 month return to 7.76%, a 4.61% excess return over the Benchmark. Spread tightening contributed to around 25% of total returns for the month with the remainder largely coming through interest income.

The running yield of the Fund is approaching 6% and the yield to maturity is around 6.75% with minimal interest rate duration.

Fund Positioning: The surprisingly strong year to date rally in credit (and risky assets generally) has necessitated further shifts in our target asset allocation. With public market spreads across the Fund in the order of 50 basis points tighter than where they started the year, a change is necessary.

The first part of the change in positioning is a reassessment of the opportunity in private credit markets. We have been neutral on private markets, preaching patience as we have been expecting that public markets would widen in the second half of 2023, reflecting a more challenging fundamental environment. While we still believe patience is important, the relative pick up between private and public markets means we can pick up incremental yield via switches from public to private.

Our private pipeline totals around 5% of total assets and will be invested at an average spread of 5% taking our private allocation above 20% for the first time this year. The average spread of 5% is equivalent to an illiquidity premium of around 2.5%, comfortably above our through the cycle target of 2%.

Our private pipeline comprises a roughly equal split between corporate and commercial real estate loans. As previously highlighted our current allocation to private CRE debt is very low. While we expect further stress in this sector, we are steadily increasing exposure off the back of a significant pick up in deal flow.

Our weighting to securitised paper continues to decline. In our view, pricing in investment grade rated mezzanine tranches does not fully reflect fundamental risks with sub-investment grade tranches representing much better return for risk. We are similarly cautious on bank capital. Our current allocation to financial credit is 20% and we have been actively seeking out opportunities to reduce exposure to a sector which we believe is priced to near perfection.

Market conditions: "It's quiet, a little too quiet"

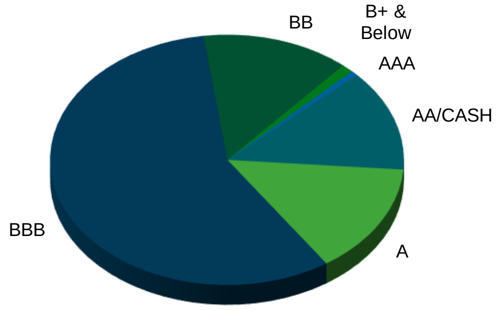
US equity markets ended July up 20% for the year with VIX, the volatility index below 15 for the second consecutive month. This was despite Q2 results for the S&P500 showing flat sales growth and negative earnings growth with Energy, Materials and Healthcare all performing poorly.

In Australia, despite being only part way through FY23 results, earnings are also down albeit top line growth remains intact.

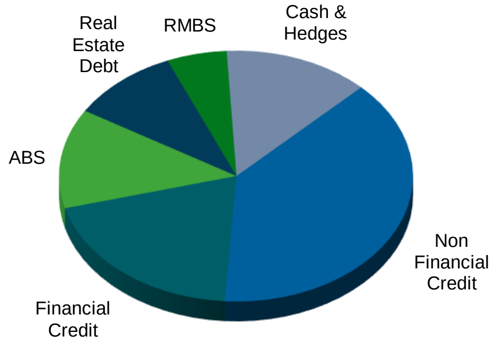
Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	8.5%

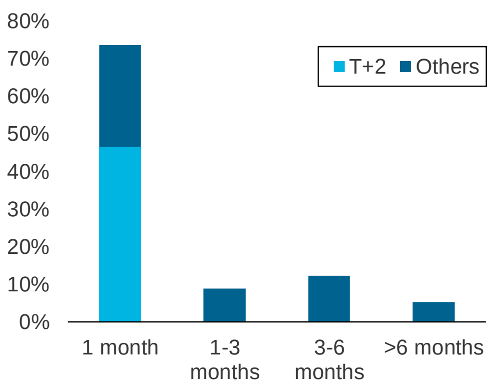
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Rates volatility has not declined nearly as much as equity volatility. Despite growing consensus that rates have peaked, US fixed income markets continue to sell off with 10 year yields reaching their highs for 2023 and getting close to the October 2022 peak. The most notable news here was the Fitch downgrade of the US sovereign debt rating to AA+. While we don't see an immediate flow on impact to corporate credit spreads, higher rates will weigh on borrowers due to the elevated cost of debt.

In Australia, long term rates have also increased and are now above the 2022 peak, trading roughly on top of US long term interest rates.

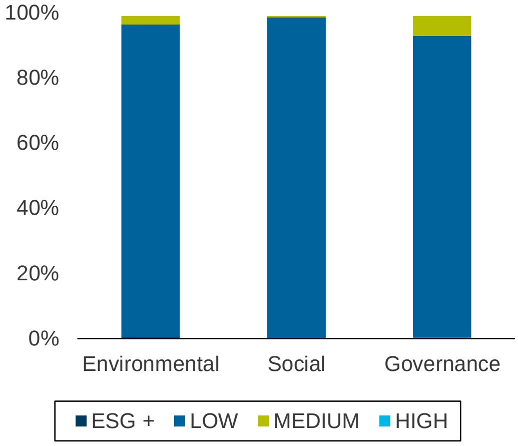
Credit has followed the risk on tone from equity markets with spreads tightening strongly. Year to date CCC-rated credit has returned 11% over swaps, a total return of close to 13%. This is the strongest start to a year since 2016 and has occurred despite speculative grade default rates increasing to 4% in the US on a trailing 12 month basis and recoveries which are well below historical averages. In leveraged loan markets downgrades are approximately double upgrades YTD (US$250 billion in downgrades versus US$121 billion in upgrades according to JP Morgan). Credit spread returns in investment grade and BB rated credit have been strong but more moderate than CCC-rated borrowers compared to historical experience.

Despite the calmness, there are some pockets of stress. Commercial mortgage backed securities (CMBS) continue to underperform corporate credit markets and Chinese property developers are back in the headlines with credit spreads hitting 26% close to the November 2022 peak of 29.5%.

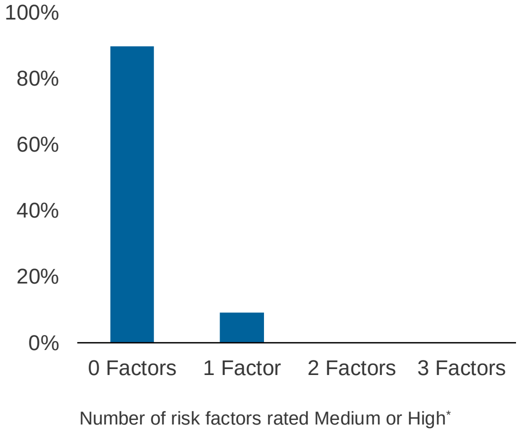
Activity in private markets continues to pick up both domestically and offshore. HPS collected more than US$19 billion for a mezzanine debt fund with Bloomberg reporting that Oaktree is targeting US$18 billion for its opportunistic credit fund. With fund sizes this big, individual private debt deal sizes are comfortably exceeding US$1 billion and in some cases approaching US$5 billion. Whilst issuance in syndicated loan markets was up in July, the US market is down 2% from peak levels in late 2022 suggesting private markets may be taking share from public.

In domestic private lending markets volumes have also increased. Our pipeline currently comprises around 30 individual transactions with a broad spread across sectors and return profiles. Anecdotally, while are seeing some activity in secondary markets the overall tone of the market is positive suggesting that there has yet to be any meaningful withdrawal of capital from the non-bank space.

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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