Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report August 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	0.63	2.27	3.75	1.49	8.06	-	-	5.22
Challenger IM Credit Income Fund - Class I[3]	0.63	2.27	3.75	1.49	8.06	5.27	4.30	-
Bloomberg Bank Bill Index	0.37	1.04	1.94	0.74	3.37	1.25	1.24	1.28
Active return	0.27	1.23	1.82	0.75	4.69	4.02	3.05	3.93

Data Source: Fidante Partners Limited, 31 August 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	$595.1 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	115
Running yield (%) p.a.	5.7
Modified duration (yrs)	0.05
Average Rating	BBB-
Credit Spread Duration (yrs)	2.6
Non-AUD Denominated	26%
Private Credit Allocation	16%

Quarterly Commentary

Performance Commentary: The Fund returned 0.63% in August taking the trailing 12 month return to 8.06%, a 4.69% excess return over the Benchmark. Spread tightening contributed to around 0.10% 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 6.79% with minimal interest rate duration.

Fund Positioning: Our key word for 2023 has been patience and this remains the overriding theme dictating our positioning, even in the face of a strong rally in risky assets year to date.

The patience theme has manifested itself in us being slower to deploy and react to changing market conditions. We have been patiently looking through the performance in the first half of the year. Encouragingly our patience has been rewarded as a strong pipeline in private lending markets has built up. September and October will likely be our busiest months for private investing for the entire year.

Over the next couple of months, we are targeting an increase in our private credit allocation into the low 20% area, up from 16% currently and around neutral on a historical basis. Much of this pipeline is currently invested in cash or liquid short dated bonds.

Our allocation to securitised credit has reduced over the past 18 months, reflecting our generally cautious view on the sector. While this view remains, the portfolio is very short dated representing around 10% of the total portfolio on a spread duration weighted basis. As such we expect to increase activity, if only to reinvest principal and maintain current allocations.

Turnover in August was in line with previous month's annualising at around 33% with activity spread across the sub-sectors in the portfolio.

Market conditions: After a strong rally throughout the northern hemisphere summer, markets took a breather in August. Equities were slightly weaker with developed markets giving back only some of the gains from the first seven months of the year; the S&P500 was down 2% in August leaving it up only 19% for the year.

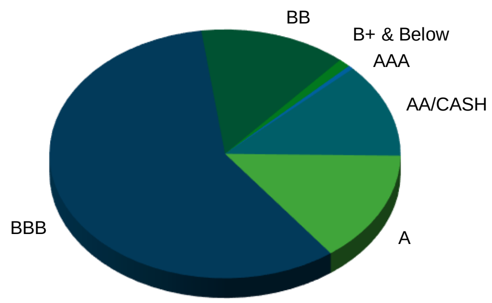
The epicentre for the sell-off was emerging markets which have been a laggard all year. The MSCI EM equities index was down 6% for the month and is only up 5% for the year. The main drag has been China which is the only major market equities index to be down year to date in USD terms.

The epicentre for the China weakness were concerns around the solvency of Country Garden, one of the largest homebuilders in China. As recently as April of this year, USD-denominated bonds were trading at dollar prices in the 70s. Since June the bonds have dropped in value precipitously currently trading below 10 cents. The scale of Country Garden is significant with total liabilities of around USD200 billion of which USD38bn is interesting bearing debt. This compares to Evergrande's total liabilities of USD340 billion of which USD85 billion is interest bearing (source: Barclays). The issues facing Country Garden bring to light the wider debt issues that are faced by China and the commitment of the government to do what it takes to reduce the economy's reliance on real estate.

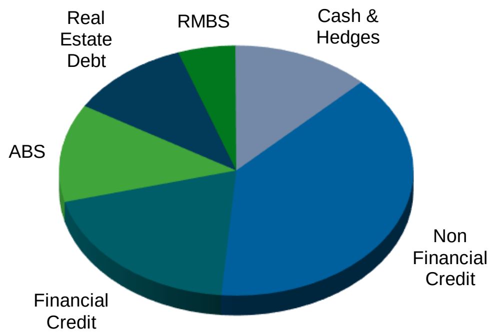
Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	83%

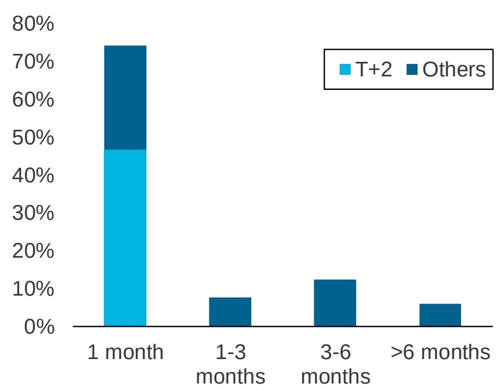
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Bond prices also fell in August as investors continued to recalibrate expectations around when central banks will start cutting interest rates. US 30 year mortgage rates hit 7.6% in August, the highest level since May 2000, an increase of 4.7% from the low rate of 2.9% in January 2021. This stands in stark contrast to Australia where extreme competition from mortgage lenders has led to P&I loans for owner occupiers only increasing 2.7% to 5.3%.

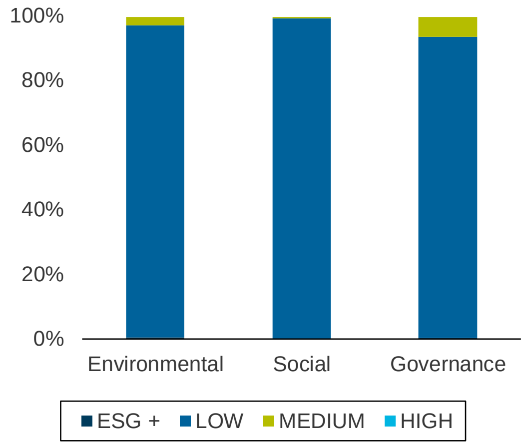
Earnings season is now almost complete for Australia and the United States. In Australia, earnings for the half were weak with a -5% earnings surprise. Results in the United States were stronger, up 7% for the quarter on the back of 2% positive sales surprises.

Global credit was moderately wider over the month of August. Australia however stood in stark contrast with spreads continuing to rally. This was reflected in strong levels of issuance. Over $15 billion was issued during the month with banks responsible for $12 billion. Demand for major bank senior unsecured paper was notably strong with CBA issuing $5 billion across 3 year and 5 year maturities on the back of a $7.45 billion order book. Perhaps more surprising was that it was followed by ANZ who issued $5.5 billion on the back of a $7.63 billion order book. In the 5 year tranche, spreads were set at 93 basis points on the ANZ deal which is 15-20 basis points tighter than where USD denominated bonds issued by the same banks are trading in secondary markets. This is suggestive of strong demand coming from investors who are constrained to invest in Australian dollars or who value repo-eligibility.

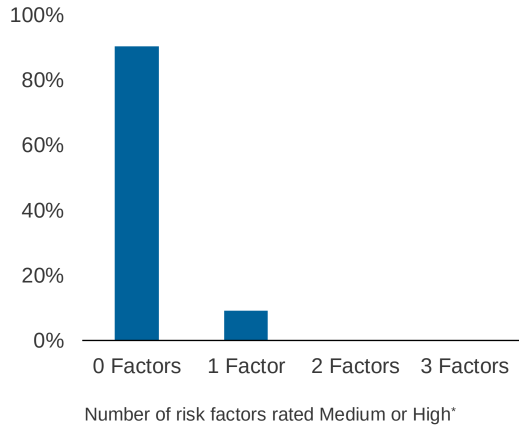
The strong tone in Australian financials flowed into securitisation markets. Issuance was down but pricing was very strong with mezzanine tightening by 50-60 basis points over the month.

In private markets, the issuance pipeline is very strong, but the more mainstream parts of the market are competitive with pricing and terms starting to give back some of the gains of the last 12 months. Our current pipeline comprises over $1 billion in potential deal volume across 30 transactions broadly evenly spread across commercial real estate, asset backed finance and corporate direct lending opportunities. Despite the strong demand in the market, there are signs that the higher inflation/high interest rate environment is weighing on select borrowers. The quarter ended July saw 2,507 companies enter external administration for the first time, the highest figure since October 2015. Despite these figures, very few private debt managers are reporting any meaningful increases in non-performing loans, something which continues to surprise us.

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.

For further information, please contact:

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