Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report September 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	0.62	2.12	4.17	2.12	8.83	-	-	5.29
Challenger IM Credit Income Fund - Class I[3]	0.62	2.12	4.17	2.12	8.83	5.30	4.35	-
Bloomberg Bank Bill Index	0.34	1.08	1.99	1.08	3.56	1.36	1.28	1.36
Active return	0.28	1.04	2.17	1.04	5.26	3.94	3.07	3.93

Data Source: Fidante Partners Limited, 30 September 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	$595.8 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.	5.8
Modified duration (yrs)	0.11
Average Rating	BBB-
Credit Spread Duration (yrs)	2.6
Non-AUD Denominated	27%
Private Credit Allocation	17%

Quarterly Commentary

Performance Update:
The strong year to date performance of the Fund continued in the September quarter. The Fund was up by 2.12% over this period, an active return of 1.04%. On a trailing 1-year basis, the Fund has returned 8.83%, 5.26% over the Bloomberg AusBond Bank Bill index. This compares favourably to the AusBond Credit FRN index which returned 4.63% over the same period.
Over the quarter income accounted for three-quarters of total returns. Spread tightening with a smaller positive contribution from spread tightening and yield curve reshape. Discipline around duration positioning continues to limit the capital volatility of the Fund.

Fund Positioning:
As interest rates moved higher over the quarter credit spreads have tightened. In our view this is rationale but only to a point. Higher yields attract outright yield buyers who care about total returns, not necessarily the credit spread return. If defaults are contained, then adding some credit risk to a portfolio of fixed interest exposures may be rationale even at very tight credit spreads. But at some point, the higher interest rate environment will weigh on fundamental credit performance. As credit risk concerns expand investors will reassess the required excess return for credit risk.

The key question is when this inflexion point will hit. The longer it takes the greater the opportunity cost of being underinvested. All year we have preached patience and this remains our view. However, we increasingly believe that the inflexion point where markets will be forced to start pricing for fundamental risk will be reached on or before mid-2024. There are several reasons for this:

1. Consumers built up extraordinary levels of savings during COVID. In the United States this was estimated to be US$2.1 trillion by the San Francisco Fed. Only in this quarter was it fully exhausted. In Australia, Barrenjoey estimates that by early 2024 the $190 to $250 billion of excess savings built up during COVID will be exhausted.
2. Quantitative tightening across the globe is expected to peak in early 2024. Notably in Australia the Term Funding Facility will be fully repaid by mid-2024 with 57% of the total amount drawn still outstanding; and
3. Valuations adjustments resulting from moves in interest rates are still yet to pass through markets. The longer long term interest rates are elevated, the greater the impact on valuation models and asset allocation plans.

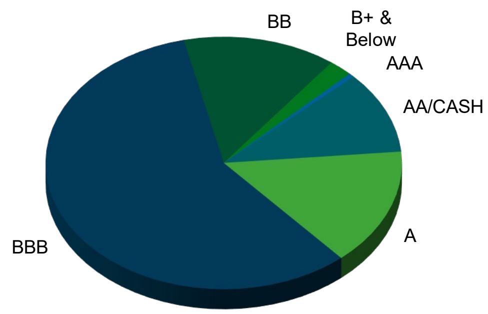
As such, while patience remains our key theme of 2023 our patience is not infinite. We are comfortable holding our current fund positioning through early 2024 with the expectations that some repricing of risk will occur. Our current spread duration of only 2.6 years and low private credit and high yield allocations (17% and 16%, respectively) reflect this view. We are also mindful of convexity in the portfolio and have limited exposure to callable instruments without strong call incentives (for example, recently issued RMBS and bank capital).

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

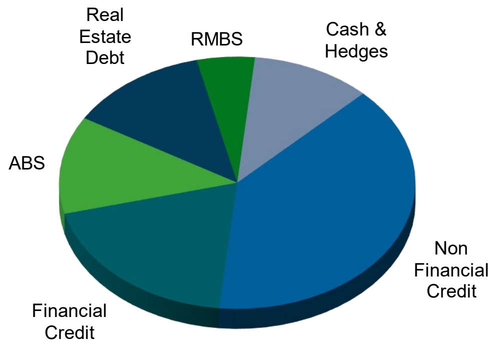
Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	8.2%

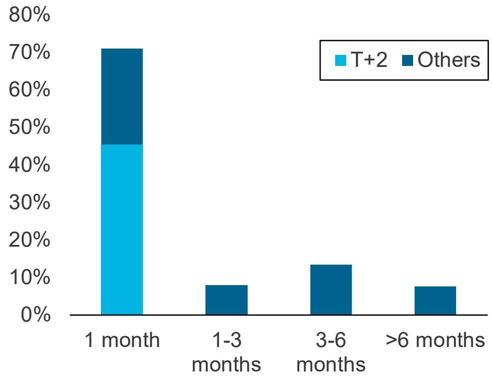
Fund Credit Quality



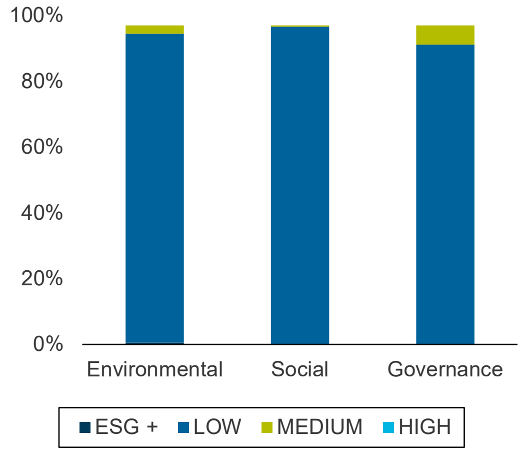
Fund Asset Allocation



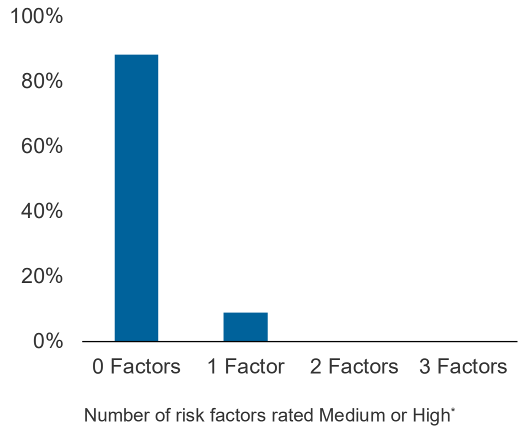
Fund Liquidity Exposure



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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