

Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report October 2023

Performance¹

	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	0.42	1.68	3.87	2.54	8.67	5.15	-	5.28
Challenger IM Credit Income Fund - Class I ³	0.42	1.68	3.87	2.54	8.67	5.15	4.35	-
Bloomberg Bank Bill Index	0.33	1.04	2.02	1.42	3.66	1.47	1.31	1.43
Active return	0.08	0.63	1.84	1.12	5.01	3.68	3.04	3.85

Data Source: Fidante Partners Limited, 31 October 2023.

¹Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

²The Inception date for Class A is October 1 2020.

³As 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	\$611.0 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	121
Running yield (%) p.a.	5.9
Modified duration (yrs)	0.09
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	2.6
Non-AUD Denominated	26%
Private Credit Allocation	17%

Monthly Commentary

Performance Update:

The Fund returned 0.42% in October taking the trailing 12 month return to 8.67%, a 5.01% net excess return over the Benchmark.

The running yield of the fund is approaching 6% and the yield to maturity is approaching 7% with minimal interest rate duration.

Fund Positioning:

Fund positioning did not change materially in October. We reduced our cash balance slightly adding non-financial corporate exposures to the portfolio. We have been actively reducing our (already minimal) exposure to major bank Tier 2 paper, preferring insurers in the financial sector and corporates more generally. We see bank paper as relatively expensive, particularly in Australian dollars where large institutional investors have corner stoned major bank issuance at spreads which are 40-50 basis points inside the US dollar curve.

The Fund's cash balance will be further reduced as the private pipeline is deployed. Currently the pipeline is just under 10% of FUM which would see the private allocation approach the mid 20s as it is deployed. This would also result in the credit duration of the Fund increasing to c. 2.9 years. Both would represent broadly neutral positioning.

Over the month the credit profile of the fund improved slightly. One name in the portfolio that had been impacted by COVID was upgraded from B to BB leaving the Fund with only one position rated B+ or lower (which itself is going through a refinancing process now). Our private pipeline is typically of a lower credit quality than the rest of the portfolio so an increase in the private allocation will see the overall credit quality deteriorate slightly, whilst remaining below historical averages.

As our private pipeline is deployed the running discount margin of the fund will exceed 3% with the yield to maturity approaching around 7.5% per annum based on October month end swap rates. We continue to hedge out all interest rate and currency risk in line with the strategy of driving returns through cash, and credit risk and illiquidity risk premiums.

Market conditions:

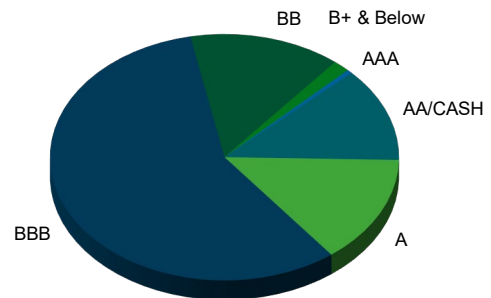
October saw some retracement in markets following the strong rally in the third quarter. US high yield credit delivered the weakest monthly credit spread return (i.e. ex interest rates) since March, retreating by 1%. Investment grade credit was similarly weak, with a -0.7% monthly excess return versus swaps, the third consecutive month of declines and the worst of the three.

At least some of the weakness in markets can be attributed to the volatility in interest rate markets, especially in longer maturities. The BofA US Broad Market Index was down 1.5% in October following a 2.5% decline in September. Year to date the index is down 2.6% driven by a 10 year yield that touched 5% during October, up from lows of 3.3% in April of this year. Earlier in the rates sell-off, risk markets reacted positively inferring that the strength of the US economy implied a resilience to persistent inflation. Yield buyers were out in force; the 6.5% p.a. yield to maturity on the US investment grade index compared favourably to the 5% earnings yield on the S&P500.

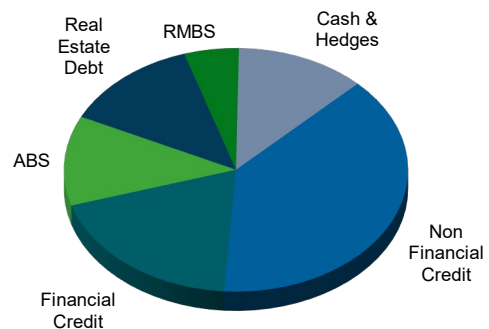
Performance Statistics

Standard Deviation (ann.)	2.3%
% of Down months	8.1%

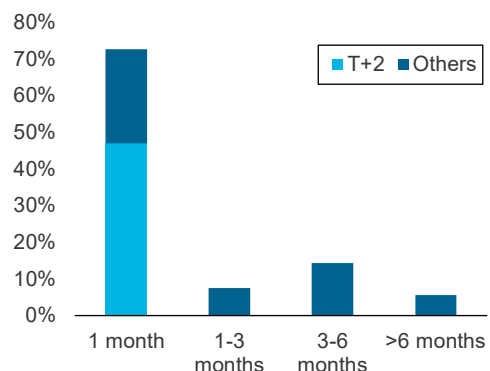
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



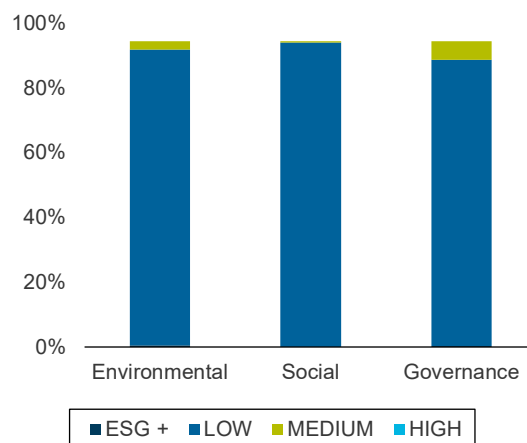
By mid-October the sell-off in rates had run out of momentum and hawkish comments from US Federal Reserve (Fed) Chair Powell drove a sharp rally in rates markets. The US 10 year yield is currently trading 50 basis points inside the mid October peak levels.

Equity markets were softer during October but have rallied sharply since. Third quarter earnings were mixed. Earnings were up 2.5% across the S&P500, with top line growth at 1.5%. The weakest performance came from Materials, Energy and Health Care which all experiences greater than 20% declines in earnings with all but Health Care also experiencing negative top line growth. According to Bloomberg, consensus expectations in the United States are for earnings per share to grow around 7% next year.

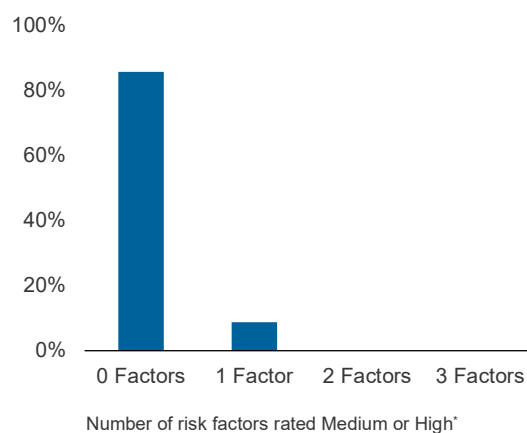
Despite ongoing and escalating geopolitical conflicts, oil prices declined sharply in October. Having hit a 12 month high of \$94/barrel in late September, oil futures have declined by 20%. Broader commodity prices were flat over the month with the Bloomberg Commodity Index unchanged over the month.

Domestically credit markets tracked global markets in delivering a negative credit spread return. Issuance across credit markets was slow in October with less than \$6 billion issued versus more than \$10 billion in August and September. Issuance was dominated by banks who were responsible for over 90% of issuance. Securitised credit markets more active in a relative sense with \$5 billion issued, only \$1 billion less than September. This level of issuance has been supported by relative sticky credit spreads in the mezzanine part of the capital structure; investment grade spreads were 20-30 basis points tighter over the month. In contrast, senior spreads followed wider credit markets in widening slightly.

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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