Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report November 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	0.84	1.89	4.20	3.40	8.72	4.99	-	5.42
Challenger IM Credit Income Fund - Class I[3]	0.84	1.89	4.20	3.40	8.72	4.99	4.45	-
Bloomberg Bank Bill Index	0.35	1.03	2.08	1.77	3.76	1.59	1.35	1.51
Active return	0.49	0.86	2.12	1.63	4.96	3.40	3.10	3.91

Data Source: Fidante Partners Limited, 30 November 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	$624.3 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	6.0
Modified duration (yrs)	0.05
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	2.6
Non-AUD Denominated	25%
Private Credit Allocation	18%

Monthly Commentary

Performance Update:
The Fund returned 0.84% in November taking the trailing 12 month return to 8.72%, a 4.96% excess return over the Benchmark. The major contributors to returns for the month were interest income and spread tightening.

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

Fund Positioning:
With risk markets rallying as we head into year end our main focus has been getting closer to a neutral positioning within the fund. Key positioning changes are a re-weighting back towards private markets, extending credit duration towards 2.8-3 years and ensuring that cash is fully deployed net of pipeline.

This process has been underway for some months and our private pipeline has grown considerably. As this is deployed, we expect that our allocation to private debt will increase towards 25%, the weighted average discount margin of the Fund will approach 3% and the spread duration of the fund will exceed 2.8 years.

Activity over the month was elevated as we sought to deploy excess liquidity prior to year end. Being November, primary markets had slowed considerably and so much of the liquidity was deployed into secondary markets across financial, non-financial and securitised paper. Two private deals settled with one a secondary corporate loan purchase and the other a primary origination.

Portfolio performance remains robust to the tighter financial conditions. There has been one downgrade over the last 3 months, a private corporate borrower downgraded from BB- to B+. This has been more than offset by 10 upgrades included two private names who have been upgraded from B and B+ to BB and BB-, respectively.

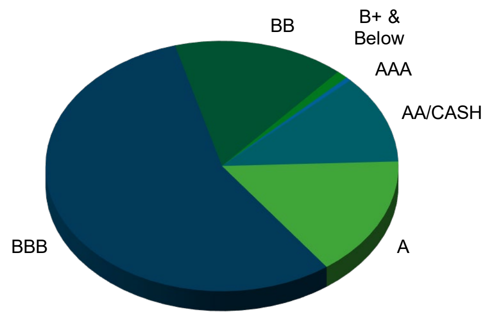
Market conditions:
After a brief respite in October, the rally was back on in November with equities and credit performing strongly while rates rallied. The ICE BofA US Broad Market index returned 4.39%, the strongest monthly performance since 1985 taking the annual return from negative to positive. Equities also performed exceptionally well with US indices up around 5% for the month, sitting around peak levels for the year. The ASX/200, was the laggard however, only up 2.5%.

Credit was more circumspect with high yield indices still around 50 basis points wider than the tight levels of the year. Australian credit lagged with month end spreads 12% wider than the tights of the year followed by European real estate credit which is 8% wider. Notably European real estate credit remains the cheapest credit sector over the longer term with spreads double average levels from 2015 to 2019. Across the Atlantic the story is similar with the ICE BofA US CMBS index trading 2.5 times the average spread levels of 2015-2019. In a sign of much greater fundamental stress, US CMBS did not rally along with wider credit markets in the second half of 2023, instead progressively widening to sit a 244 basis points, ostensibly wide levels for an index with a AAA average credit rating.

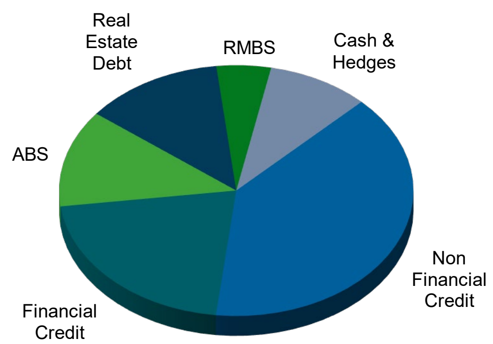
Performance Statistics

Standard Deviation (ann.)	2.2%
% of Down months	8.0%

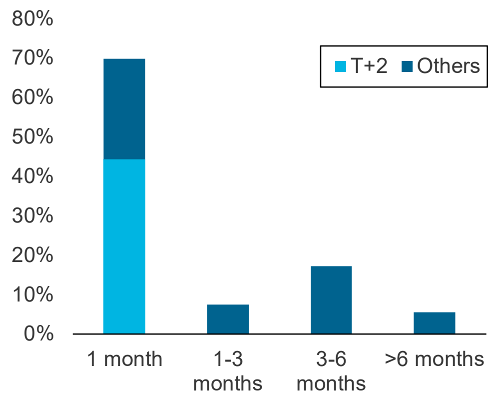
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure

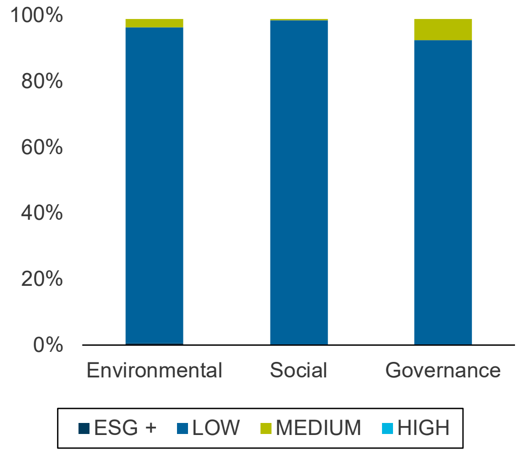


However, the relative tightness in credit markets isn't without some justification. Citigroup high yield analysts noted that in 2023 rising stars are approaching US$80 billion. This only trail 2022's record level of US$82.5 billion. Cumulative net rising stars from 2021 through 2023 have exceeded 2020's downgrades by around US$90 billion. Third quarter earnings have painted a similar picture; according to Bloomberg data around 84% of companies beat earnings forecasts while 62% beat sales forecasts. We should caveat this by noting that earnings forecasts are basically flat to June 2022 levels implying that a significant rebasing exercise has occurred as interest rates have risen.

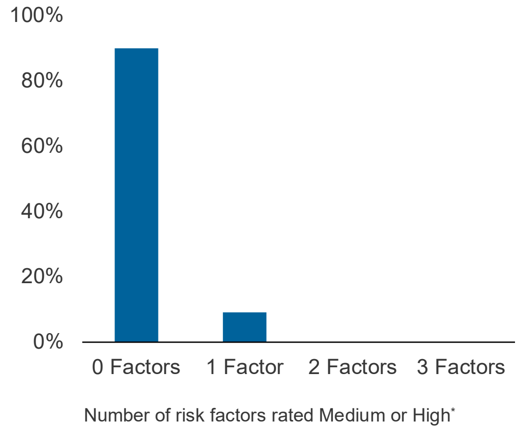
Domestically CBA has noted similar trends highlighting aggregate gross operating profits down 1.3% QoQ but up 3.8% excluding mining. Post-COVID conservatism on the part of Corporate Australia has also resulted in leverage remaining close to 20 year lows with even the most conservative interest coverage ratios sitting around 4-5 times.

Within credit, it is really all about the real estate. We have yet to find a fundamental bottom with overall special servicing rates in US CMBS continuing to rise, up to 6.84% and office approaching double digit levels as vacancy rates continue to rise. In the United Kingdom the story is similar with London office vacancies at 20 year highs. The bankruptcy of WeWork looks likely to exacerbate vacancies in the near term with the firm responsible for 3.25 million square feet of space in Central London and a significant presence in New York and California.

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.

Zenith HIGHLY RECOMMENDED

Recommended Lonsec Research

For further information, please contact:

Fidante Partners Investor Services | **p:** 1300 721 637 | **e:** info@fidante.com.au | **w:** www.fidante.com