# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Monthly Report December 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 | 1.01 | 2.29 | 4.45 | 4.45 | 8.95 | 5.14 | - | 5.61 |
| Challenger IM Credit Income Fund - Class I[3] | 1.01 | 2.29 | 4.45 | 4.45 | 8.95 | 5.14 | 4.60 | - |
| Bloomberg Bank Bill Index | 0.37 | 1.06 | 2.15 | 2.15 | 3.89 | 1.71 | 1.40 | 1.59 |
| Active return | 0.65 | 1.23 | 2.30 | 2.30 | 5.07 | 3.43 | 3.20 | 4.02 |

Data Source: Fidante Partners Limited, 31 December 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 | $624.8 mil |
| Buy/Sell Spread | +0.18/-0.18% |
| Distribution Frequency | Quarterly |
| Redemption Terms | Monthly with 10% Fund level gate |

### Key Statistics

| | |
|---|---|
| Number of Issuers | 124 |
| Running yield (%) p.a | 6.0 |
| Modified duration (yrs) | 0.12 |
| Average Rating | BBB- |
| Portfolio Credit Spread Duration (yrs) | 2.7 |
| Non-AUD Denominated | 25% |
| Private Credit Allocation | 20% |

## Monthly Commentary

**Performance Update:**
The Fund ended 2023 up 8.95%, an excess return of 5.07% over the Benchmark and 3.89% over the Bloomberg AusBond Credit FRN index. In the six years since launch the Fund has returned 5.61%, an excess return of 4.02% over the Benchmark, exceeding the target return of the Fund.

Over this same period the Fund has outperformed the Bloomberg AusBond Credit FRN index by over 2.5% per annum, demonstrating the value of investing across the liquidity spectrum.

Around one quarter of the returns generated in 2023 came from spread tightening as markets rebounded strongly from 2022. The remainder was almost entirely interest income as the fund does not actively trade interest rate or currency risks.

At month end the running yield of the Fund was slightly over 6% per annum with a yield to maturity of just over 7% per annum.

**Fund Positioning:**
The Fund entered 2023 with markets relatively cheap. As such we had extended credit duration beyond 3 years and reduced our private credit allocation below 20%. We ended 2023 with markets relatively expensive and have accordingly reduced credit duration to around 2.7 years and increased our private credit allocation which is set to approach 25% as a strong pipeline of opportunities is settled.

As we have reweighted the portfolio back towards private credit, we have moderately increased the credit risk profile. 17% of the portfolio is internally or externally rated high yield versus 13% a year ago, though our weighting to B+ or lower rated credits (recall the Fund cannot purchase these and as such these reflect downgrades and also note that B+ is currently the lowest rating in the Fund) declined from 2% to 1% over the year.

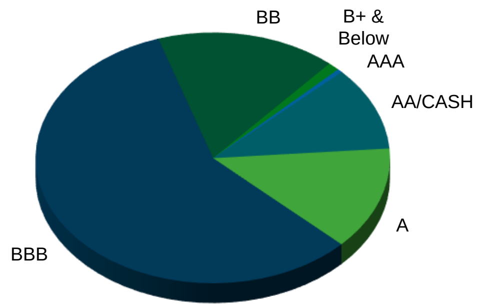
The most material change to our asset allocation has been a re-weighting towards real estate debt. This remains largely public market bonds issued by REITs which present as cheap to wider public markets. We also reduced our weighting to financials and increased our exposure to corporate non-financial risk. Our weighting to securitised paper was broadly flat over the year, reflecting our mixed views on the sector.

Looking forward to 2024 and assuming no material changes to markets, we would expect our weighting to real estate debt to increase slightly with a rotation from public REIT paper to private senior secured loans over investment properties. We have been underweight in this sector since the launch of the Fund but expect to see greater opportunities in the year ahead as more loans require a non-bank solution. We are more agnostic towards financials; particularly non-AUD denominated exposures and have room to add risk there. We also have room to add private non-financial corporate risk and expect the activity in this part of the market to continue to increase, so long as markets are not overly volatile.

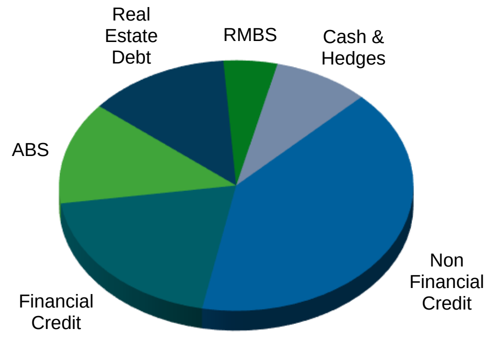
## Performance Statistics

| | |
|---|---|
| Standard Deviation (ann.) | 2.2% |
| % of Down months | 7.9% |

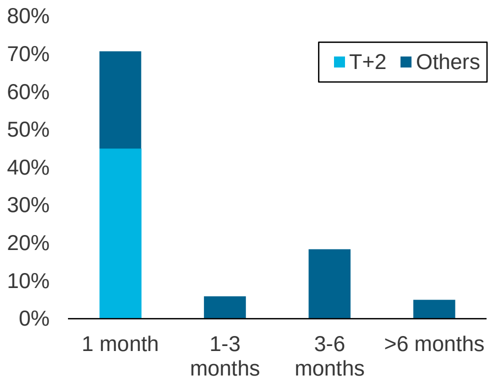
## Fund Credit Quality




## Fund Asset Allocation



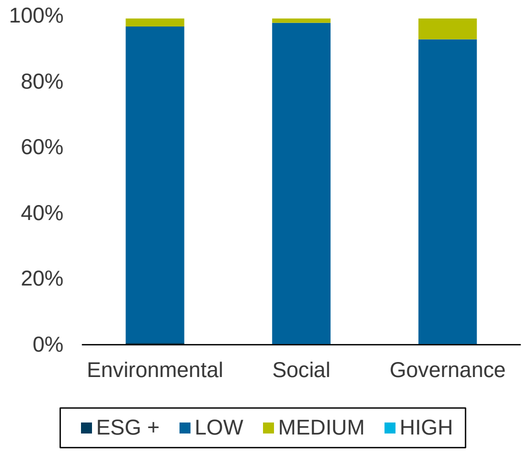

## Fund Liquidity Exposure



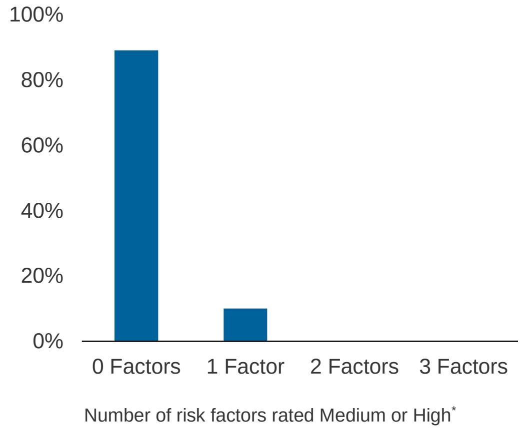
If volatility does emerge, we have a ready-made playbook. We will slow our private credit activity and pivot to public non-financial and financial bonds markets looking to extend our credit duration back into the 3-3.5 year area and even higher if the sell-off proves to be persistent.

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

### 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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