Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report January 2024

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	0.75	2.63	4.35	5.23	8.43	5.21	-	5.69
Challenger IM Credit Income Fund - Class I[3]	0.75	2.63	4.35	5.23	8.43	5.21	4.66	-
Bloomberg Bank Bill Index	0.37	1.09	2.15	2.53	4.00	1.83	1.44	1.66
Active return	0.38	1.53	2.20	2.71	4.43	3.38	3.22	4.03

Data Source: Fidante Partners Limited, 31January 2024.

[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	$641.3 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	122
Running yield (%) p.a	6.0
Modified duration (yrs)	0.12
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	2.6
Non-AUD Denominated	25%
Private Credit Allocation	18%

Monthly Commentary

Performance Update:
A strong rally in risk markets helped the Fund start 2024 on a positive note returning 0.75% over the month. This takes the 1 year trailing return to 8.43%, an excess return of 4.43% over the Benchmark. The Fund's returns continue to compare favourably to the 5.1% return on the Bloomberg AusBond Credit FRN index over the same period.

As is expected for the strategy the bulk of the return for the month came from income generation with a smaller contribution coming from spread compression. Interest rates and currencies had immaterial contributions as these risk factors are hedged.

Fund Positioning:
The sharp rally in credit spreads and rise in interest rates has permeated through the Fund. The yield to maturity is currently 6.75%, above historical averages while the discount margin of 2.50% is below.

The ICE BofA Australia Corporate Index has rallied 20 basis points from the wides of 2023 to an asset swap spread of 105 basis points. As a result of the strong rally in public market credit we are tilting the Fund back towards private markets and have a strong pipeline of investments due to settle in the first quarter. Cash reserved for this pipeline is around 5% of the Fund and will add around 20 basis points to the overall yield once deployed. Post this pipeline, we expect our private allocation to approach the mid-20s, still leaving plenty of headroom should credit spreads remain at current levels or tighten further from here.

The credit duration of the Fund, a proxy for our sensitivity towards moves in public markets is towards the lower end of historical ranges, implying a lower exposure to market risk and reflective of our view that spreads are tight relative to financial conditions.

The Fund's exposure to commercial real estate backed debt has ticked up slightly and is currently sitting at just below 13% up from 10% six months ago. The 13% allocation is split 3% private exposures and 10% public. Over the coming year we expect opportunities in private single asset backed commercial real estate loans to increase which may see us re-weight the mix of commercial real estate debt towards private markets and away from public.

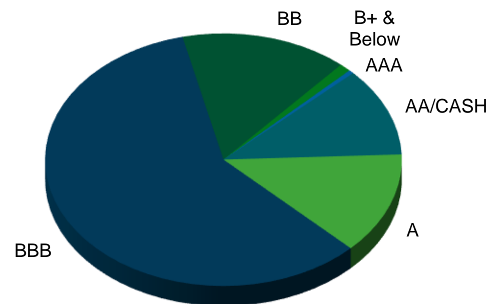
Underlying credit quality of the Fund remains strong. Only 1% of the Fund is rated below BB-, being a B+ rated issuer operating in the defence industry. Our high yield exposure is 16% with the average rating of the Fund currently hovering between BBB and BBB- on a default weighted basis.

Activity in the Fund was muted given the time of year. Most of our buying activity was related to short term cash management. We were repaid on one private corporate loan with no new private deals funding in the month.

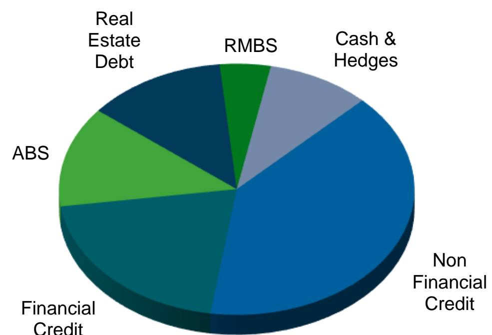
Performance Statistics

Standard Deviation (ann.)	2.2%
% of Down months	7.8%

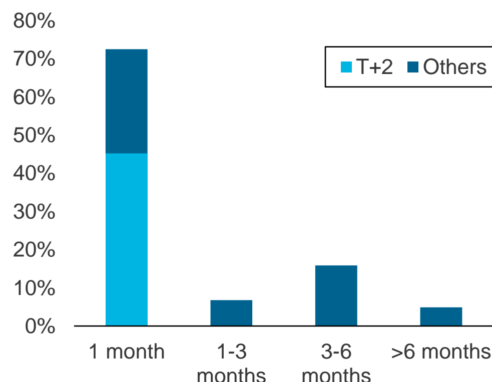
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Market conditions:
The word of the month is "tight". Tight credit spreads and tight financial conditions. The market has proved to be remarkably resilient to tighter financial conditions and an increasingly hawkish rhetoric amidst central banks. Rates volatility remains elevated, well above the 200 day moving average while equity volatility is well below the 200 day moving average.

High yield bond markets reflect the buoyant mood of equity markets with asset swap spreads hitting a low of 311 basis points, down from 473 basis points during the Silicon Valley Bank collapse in March 2023. Similarly leveraged loan markets have tightened, though not by as much as bond markets, weighed down by a loan default rate which, according to Moody's has ticked up to 6.2% on a trailing 12 month basis.

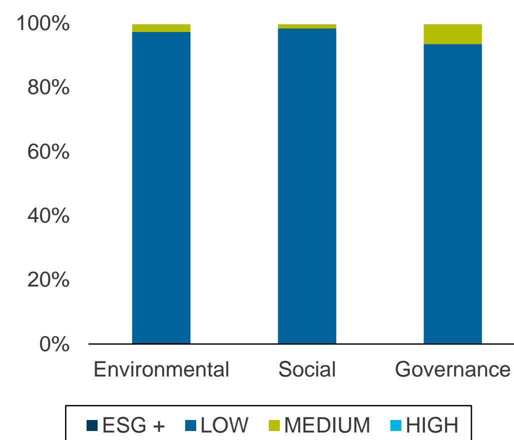
Borrowers took advantage of the favourable conditions in markets to unleash a barrage of primary issuance. According to Bloomberg, US investment grade issuance set a January record at US$188 billion, above the US$175 billion issued in 2017. Order books were on average 3.6 times covered with around a 3.6 basis point concession. This compares to 2023 averages of 3.5 times coverage and 8.5 basis points concession, respectively. In US high yield bond markets issuance was slower but still relatively strong at over US$28 billion, above 2022 and 2023 but well below 2021's record of US$51.9 billion.

Domestically primary issuance was over $13 billion, above 2023 but below 2022's levels. As we have previously noted, issuance continues to be dominated by financials with banks pre-funding their Term Funding Facility maturities. Securitised credit markets also reflected the positive tone around risk. Domestic primary issuance in January was quiet as it is typically the case but for February, month to date issuance has already doubled compared to February 2022's levels and is set to be the strongest February on record. Credit spreads across the capital structure have re-racked tighter in both Australia and Europe with investment grade spreads around 25 basis points tighter over the month.

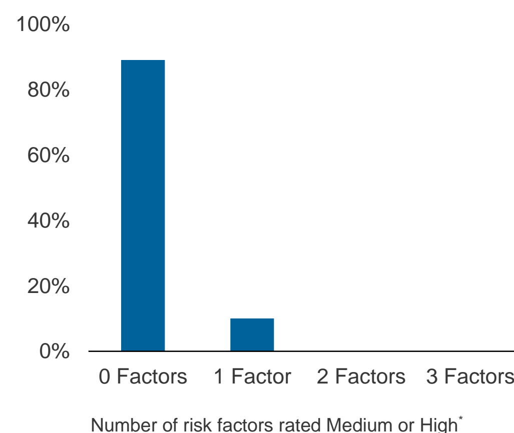
Private market commentary still far exceeds the availability of data. Most of the bearish headlines continue to relate to commercial real estate markets, especially US office where vacancy rates ended the year at 18.3%, up 1.80% over the year. This pushed the special servicing rate on the office sector to 9.74%, up 129 basis points on the month, the highest increase on record and the highest rate in over a decade *(Source: Trepp)*. There are early anecdotal signs that some of this stress may be coming to Australia with several mortgage funds reporting increased arrears levels and reports of individual assets facing pressure.

In corporate direct lending markets, data is staler and thus it is more difficult to infer a clear trend. Cliffwater data as at the end Q3 2023 shows non-accrual rates at around 1.5% of cost value, around 0.50% higher than the low but well below 3.5% which was reached during COVID or even the 3% reached during the 2015/6 shock to commodity prices.

ESG Profile



ESG Risk Layering



Number of risk factors rated Medium or High*

* 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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