

Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report March 2024

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	0.79	2.28	4.62	6.84	8.98	5.50	-	5.89
Challenger IM Credit Income Fund - Class I ³	0.79	2.28	4.62	6.84	8.98	5.50	4.78	-
Bloomberg Bank Bill Index	0.37	1.09	2.15	3.26	4.19	2.08	1.51	1.79
Active return	0.43	1.20	2.47	3.58	4.79	3.43	3.27	4.10

Data Source: Fidante Partners Limited, 31 March 2024.

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	\$667.2 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	128
Running yield (%) p.a.	6.1
Modified duration (yrs)	0.10
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	2.9
Non-AUD Denominated	25%
Private Credit Allocation	20%

Monthly Commentary

Performance Update:

For the first quarter of 2024 the Fund returned 2.28%, an excess return of 1.20% over the Benchmark and 0.8% over the Bloomberg AusBond Credit FRN index. Returns were driven by income and spread tightening of roughly two thirds to one third split. Since inception the Fund has returned 5.89% per annum, an excess return of 4.10% per annum over the Benchmark.

Over this same period the Fund has outperformed the Bloomberg AusBond Credit FRN index by over 2.2% per annum, demonstrating the value of investing across the liquidity spectrum.

At March 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:

With the rally in risk assets that started in Q3 2023 continuing into 2024, public markets appear increasingly expensive. This is especially true in the investment grade mezzanine tranches of the domestic securitised credit market. While BB and below and AAA rated tranches still represent reasonable value, single A and BBB rated tranches flag as expensive on both an outright and relative (i.e., compared to financial and corporate bonds) basis.

As such the Fund's exposure to securitised credit has declined to 17% which is down around 1% over the quarter. Assuming credit spreads remain around current levels we expect to reduce our weighting to investment grade rated securitised credit and opportunistically allocate to BB-rated names where there is value. We also see opportunities in European and UK securitised credit which is not as expensive as Australia relative to historical levels.

Our reduced weighting to securitised credit will in part be rotated into financials which still represents reasonable value. This is especially true in Tier 2 where the supply outlook is benign. We also see value in senior unsecured bonds for liquidity management as it has not rallied nearly as much as corporate or securitised credit.

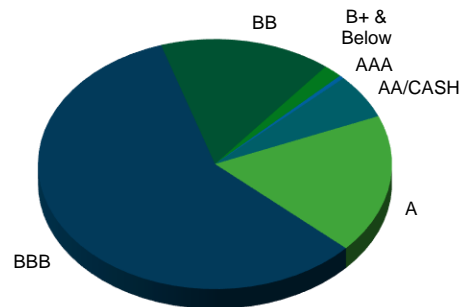
Our view on non-financial corporate credit is more ambivalent. Offshore demand has certainly driven domestic spreads to tight levels, but the relative scarcity of BBB-rated corporate paper has ensured that deals are well supported and perform in secondary markets. Activity over the quarter was mainly limited to shorter dated issuances.

Over the past 12 months our exposure to real estate debt is unchanged at 13%, albeit in recent months we have been tilting this exposure towards private markets. At quarter end private real estate exposure was slightly under 3% but is expected to increase closer to 5% over the coming months. As discussed on multiple occasions previously private markets tend to lag public markets both in rallies and sell offs. This time is no different. Public high yield credit spreads have tightened by 200 basis points in the last 12 months. Over the same period, we estimate private spreads have tightened by 50-100 basis points. As such the Fund is pivoting back into private markets. Our allocation to unrated/high yield credit was in the mid-teens in March 2023. We expect this to be in the high 20s once our pipeline of private investments is deployed.

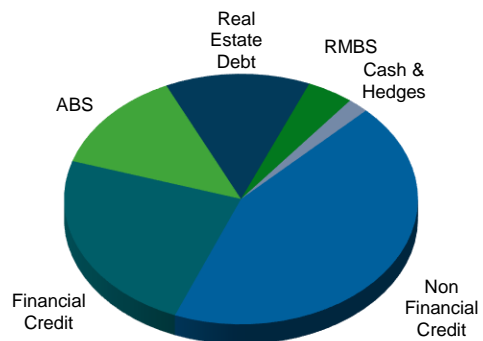
Performance Statistics

Standard Deviation (ann.)	2.2%
% of Down months	7.6%

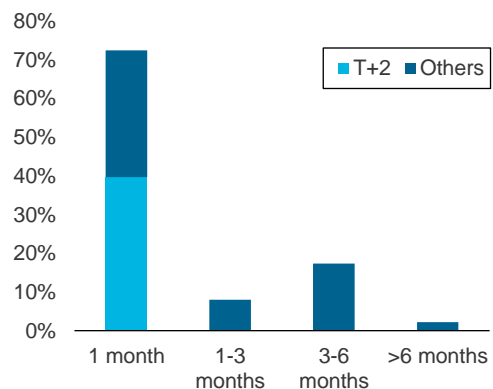
Fund Credit Quality



Fund Asset Allocation



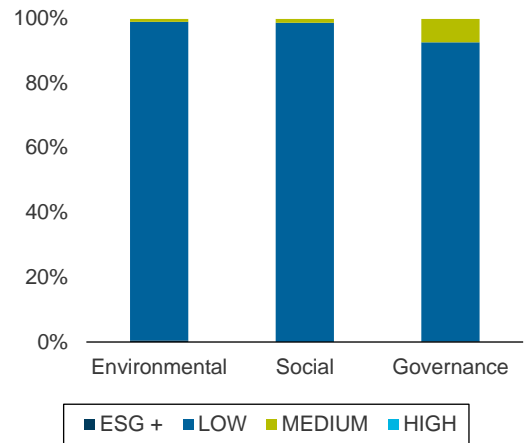
Fund Liquidity Exposure



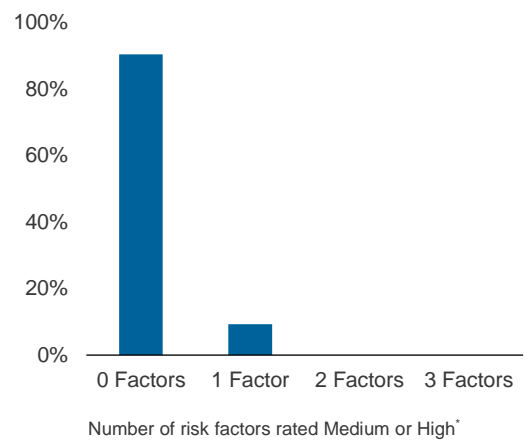
Market conditions:

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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