

# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Monthly Report April 2024

### Performance<sup>1</sup>

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) p.a. <sup>2</sup>
Challenger IM Credit Income Fund - Class A	0.65	2.18	4.86	7.53	8.92	5.58	-	5.93
Challenger IM Credit Income Fund - Class I <sup>3</sup>	0.65	2.18	4.86	7.53	8.92	5.58	4.79	-
Bloomberg Bank Bill Index	0.35	1.07	2.17	3.62	4.24	2.19	1.55	1.84
Active return	0.29	1.11	2.69	3.91	4.68	3.38	3.24	4.08

Data Source: Fidante Partners Limited, 30 April 2024.

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

<sup>2</sup>The Inception date for Class A is October 1 2020.

<sup>3</sup>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	\$675.1 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.	6.3
Modified duration (yrs)	0.12
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	2.8
Non-AUD Denominated	22%
Private Credit Allocation	21%

## Monthly Commentary

### Performance Update:

The Fund was up 0.65% in April, a return of 0.29% over the bank bills Benchmark, and 0.2% over the Bloomberg AusBond Credit FRN index.

The main drivers of returns continue to be income with spread tightening making a smaller contribution this month. There was no meaningful contribution from yield curves and currency movements, consistent with the strategy for the Fund which is to not take these risks.

Over the last 12 months the Fund has returned 8.9% outpacing the 5.5% return on the Bloomberg AusBond Credit FRN index, exceeding our goal of outperforming daily liquid credit by 1-2% per annum.

### Fund Positioning:

Public market credit spreads remain around the tight levels of 2024 despite some signs that the year to date rally may be running out of steam. To be clear, spreads are not widening but rather tightening at a slower pace.

With rates rangebound over the month the yield to maturity on the Fund is around 7% per annum. The asset swap margin has declined to 2.5% per annum which is inside the target return for the Fund. With spreads around the tight levels of the past 12 months (see market conditions section) we believe this positioning is appropriate.

We are also continuing to average into private credit. The current allocation to private credit is approaching the mid-20s implying a neutral positioning. If the illiquidity premium remains around current levels (generically 2-3% per annum) we would expect to move this allocation into the low 30s which would imply an overweight position.

As spreads in public asset backed markets continue to rally relative to corporate credit, we are adjusting our positioning accordingly. Single A-rated non-bank prime RMBS is trading around 20 basis points back of major bank 10 non-call 5 year Tier 2 paper, the tightest basis in recent memory.

Our risk appetite is neutral. While there are increasing signs of fundamental credit stress, we have not seen this permeate across the existing portfolio though we remain on close watch. There is currently plenty of headroom to allow the Fund to invest opportunistically through a deteriorating credit environment should any volatility emerge.

### Market conditions:

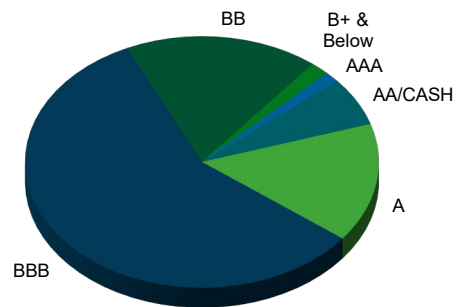
Credit spreads continued to grind tighter in April, albeit not at the same pace as prior months. Risky assets caught a bid with B-rated high yield bonds trading at an asset swapped margin inside 275 basis points in early April. This is the first time since 2007 B-rated bonds have traded so tight and a full 340 basis points inside where they traded at the wides in mid 2022.

Loans have not rallied nearly as much with B-rated 3 year discount margins at 450 basis points, around 260 basis points tighter than the mid 2022 wide print. Investment grade credit has also lagged, still sitting around 25 basis points wider than the tight levels of late 2021.

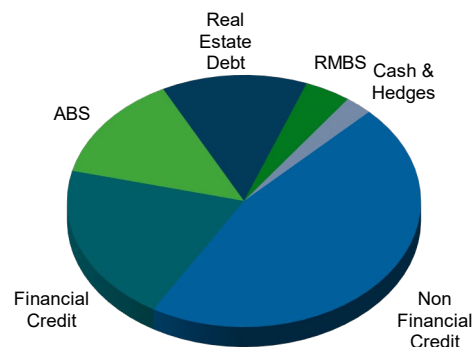
## Performance Statistics

Standard Deviation (ann.)	2.2%
% of Down months	7.5%

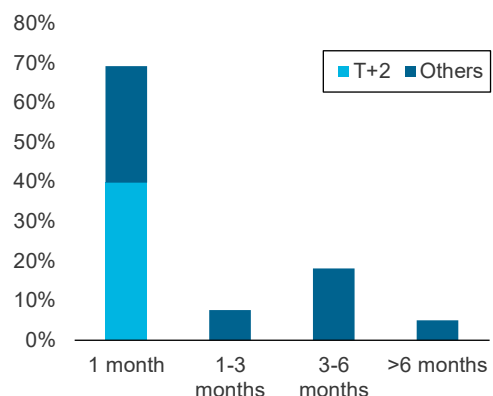
## Fund Credit Quality



## Fund Asset Allocation



## Fund Liquidity Exposure



Interestingly the relatively strong performance in credit contrasted with weaker equity markets. US and Australian equity indices declined in April, by 4% and 3%, respectively.

The weaker equity performance can be attributed to a reassessment of future rate cuts. We started 2024 with over 6 cuts priced in the United States and ended April with just over 1 cut priced. In Australia, there are no cuts priced in 2024 compared to just under 3 cuts being priced in December.

In the United States, first quarter earnings are almost complete with around 90% of companies having reported. There was a strong beat on earnings, surprising by 7% with sales beating estimates by 1%. Investors would be encouraged by the continued growth in earnings which were up 5% over the quarter though there were some notable misses with Materials, Energy and Health Care all showing earnings declining by 20% or more.

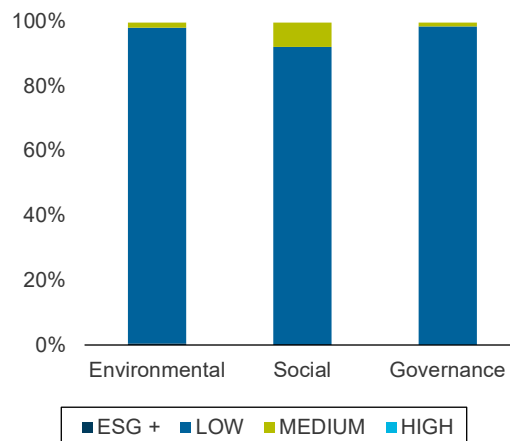
The theme of divergence in fundamental performance was evident in credit performance in April. Standard & Poor's (S&P) reported that in April global defaults by count were the highest level since October 2020. S&P expects that speculative grade default rates will increase over the coming months from a current trailing 12 month global rate of 3.9%. Ratings drift continues to be negative in the US, implying more downgrades than upgrades, albeit the trend is slightly improving.

Consistent with the negative but improving bias, the Fed's Senior Loan Officer Survey continues to point to tightening credit conditions within the banks albeit at a moderating pace.

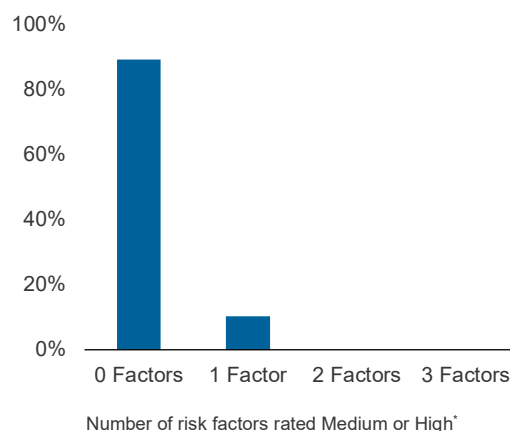
Within domestic credit markets, asset backed securities have continued to find widespread support amongst investors. April saw \$6.6 billion in issuance with single A-rated credit spreads clearing inside of 200 basis points for the first time since late 2021.

As public credit spreads have rallied more investors have turned to private markets. There have been new entrants across asset backed finance, corporate lending and commercial real estate lending. We have observed a particularly strong bid in asset backed markets where tranche sizes are small enough to allow investors with the ability to write \$5-10 million tickets to get involved. Activity has been steadier in corporate and real estate markets.

### 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.



**For further information, please contact:**

**Fidante Partners Investor Services** | p: 1300 721 637 | e: [info@fidante.com.au](mailto:info@fidante.com.au) | w: [www.fidante.com](http://www.fidante.com)

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