Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report May 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	2.20	4.77	8.33	9.17	5.76	-	6.00
Challenger IM Credit Income Fund - Class I[3]	0.75	2.20	4.77	8.33	9.17	5.76	4.87	-
Bloomberg Bank Bill Index	0.37	1.10	2.20	4.01	4.32	2.32	1.59	1.90
Active return	0.37	1.11	2.57	4.32	4.85	3.44	3.28	4.10

Data Source: Fidante Partners Limited, 31 May 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	$682.8 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	123
Running yield (%) p.a	6.3
Modified duration (yrs)	0.08
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	3.0
Non-AUD Denominated	22%
Private Credit Allocation	19%

Monthly Commentary

Performance Update:
The Fund was up 0.75% in May, a return of 0.37% over the Bloomberg AusBond Bank Bill Index Benchmark, and 0.26% 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 only responsible for around 15% of the total monthly return.

Over the last 12 months the Fund has returned 9.17% outpacing the 5.64% return on the Bloomberg AusBond Credit FRN index, exceeding our goal of outperforming daily liquid credit by 1-2% per annum.

Fund Positioning:
Despite a small hiccup in May, public market credit spreads remain around the tight levels of 2024. With this the yield to maturity on the Fund has settled to around 7% per annum which is slightly below our through-the-cycle return target, reflecting our views that spreads are at the tighter end of the range.

Our focus with respect to positioning is to maintain or slightly increase the yield of the Fund through an increased allocation to private credit opportunities. The current allocation is under 20% but is expected to increase into the low 20s as a reasonably strong pipeline of investments is deployed. The private pipeline is all sub-investment grade rated and so the proportion of the Fund trading below BBB- will also increase moderately towards 23%, still below the maximum of 25%.

Our strategy with respect to our allocation to public markets could be best described as opportunistic. Much of our recent activity has been actively trading our corporate and financial allocations and maximising our return on cash rather than acquiring buy to hold positions. Across the portfolio there are few signs of stress. 1.7% of the portfolio is rated below BB- with nothing rated below B-.

Given the relative tightness in public markets we are running a credit duration of around 3 years. Our bias towards private markets which are typically shorter dated and public markets should ensure that credit duration does not increase in the coming months.

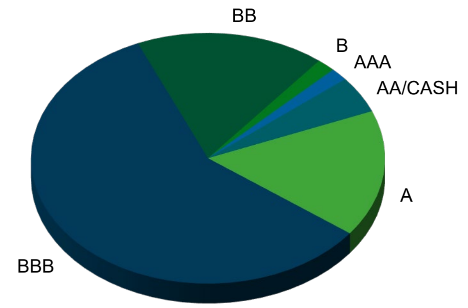
Market conditions:
Credit spreads widened slightly in May though remain at the tighter end of recent ranges. Having increased in April, long term interest rates declined in May with the US 10 year settling at 4.5%, down from 4.68% at the end of April.

Political risk is increasingly coming into focus for investors with France calling snap elections, elections in the United Kingdom due in July and the US elections set to take place in November. The potential for a move to the extreme right has sent OATs (French government bonds) to the widest spread against Bunds (German government bonds) since the Eurozone crisis of 2011/2 (currently c. 80 basis points versus c. 130 basis points in 2012).

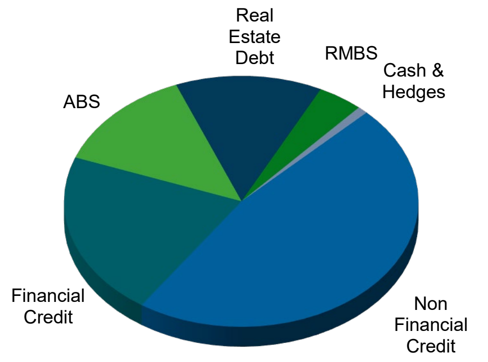
Performance Statistics

Standard Deviation (ann.)	2.2%
% of Down months	7.4%

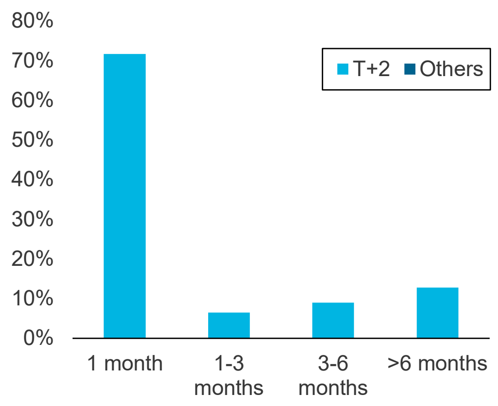
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



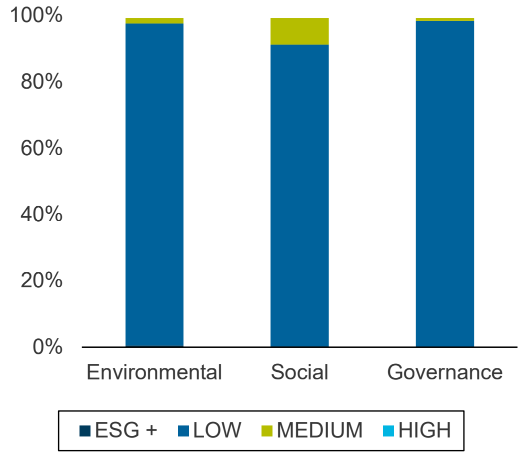
Despite the political ructions as we head into the Northern Hemisphere summer, volatility has declined. The VIX index which tracks equity market volatility traded in a 12-14% range during May. Rates volatility was muted as well hitting the lowest levels since early 2022. But while volatility may already be on summer holidays, debt capital markets teams are still in the office. Australian corporate bond markets saw A$8.7 billion in issuance in May, up from $6.7 billion in April, taking year to date issuance to A$63 billion. Offshore markets also saw plenty of supply with US investment grade markets issuing US$133 billion taking year to date issuance to US$765 billion, up 26% on a year on year basis.

A theme we have already called out this year is tighter spreads bringing more issuance back to public markets. High yield issuance is up significantly in 2024. May saw US$31 billion in issuance taking YTD issuance to US$142 billion, up 172% on 2023 levels. Leveraged loan issuance was even more robust with US$160 billion in issuance. According to Bloomberg this was the most active month for new pricings since data tracking started back in 2013. More than 80% of the issuance was loan repricing where existing loans are re-struck at a lower interest rate.

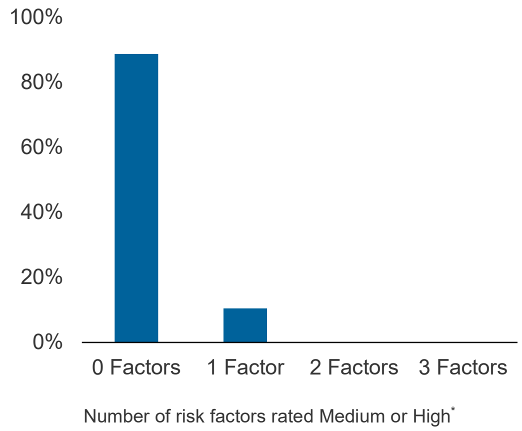
The renewed bid from public markets has pushed spreads in private markets to tighter levels. A recent Bloomberg article quoted dealmakers saying spreads were around 100 basis points tighter from last year. While this may seem extreme, it's worth noting that public market single B high yield bond spreads are around 175 basis points tighter since May 2023 implying that if anything, private markets are more attractive.

S&P's credit cycle indicator is showing a credit recovery in 2025 with corporate earnings showing resilience and markets remaining supportive. However, they have called out weakness in the household sector which has yet to bottom. In the United States speculative grade defaults are close to 5% with distressed exchanges making up most defaults.

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:

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