

# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Monthly Report August 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	0.54	1.72	3.96	1.23	8.58	6.03	-	6.07
Challenger IM Credit Income Fund - Class I <sup>3</sup>	0.54	1.72	3.96	1.23	8.58	6.03	5.01	-
Bloomberg Bank Bill Index	0.38	1.11	2.22	0.75	4.39	2.70	1.75	2.07
Active return	0.16	0.61	1.74	0.48	4.19	3.33	3.26	4.00

Data Source: Fidante Partners Limited, 31 August 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 Challenger IM Credit Income Fund is a floating rate, multi-sector credit strategy which invests across high quality, predominantly investment grade opportunities. The Fund is designed to exploit the inefficiencies in pricing across the continuum of credit, liquidity and complexity risks aiming to achieve a return of 3% per annum above cash. It employs a relative value approach across a number of credit asset classes to provide diversification from traditional fixed income strategies

### Fund Details

Management Fee	0.60% p.a.
Strategy FUM	\$737.1 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)	0.09
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	3.0
Non-AUD Denominated	23%
Private Credit Allocation	23%

## Monthly Commentary

### Performance Update:

The Fund was up 0.54% in August, a return of 0.16% over the Bloomberg AusBond Bank Bill Index Benchmark, and 0.11% over the Bloomberg AusBond Credit FRN index.

The main driver of returns for the month was income generation with no contribution from credit spread, currency or interest rate movements.

Over the last 12 months the Fund has returned 8.58% outpacing the 5.84% return on the Bloomberg AusBond Credit FRN index, exceeding our goal of outperforming daily liquid credit by 1-2% per annum.

### Fund Positioning:

It can be difficult to maintain positioning for an extended period but in the absence of new information, staying disciplined in portfolio construction is critical. With public market spreads not moving materially and cross-sectoral relative value remaining steady, we are continuing down the path we have previously communicated.

In short, this means we are steadily increasing our exposure to private credit which currently sits at 23%. Our high yield/unrated bucket has increased to 27% up from 24% at the start of 2024. Once pipeline is accounted for, we expect this to increase to around 28% and could see this increasing to c. 30% if conditions remain unchanged.

Our weighting to securitised credit has flatlined at around 18% which is unchanged over the last 8 months. With new issuances pricing at cyclically tight levels, we expect our allocation to remain in the mid to high teens with repayments likely to be recycled into corporate and financial bonds.

Asset quality within the Fund is generally okay. Investment grade rated borrowers have exhibited resilience to higher interest rates. There is one private borrower in the healthcare sector that has been downgraded to B- and is less than 0.7% of the Fund.

### Market conditions:

Markets tracked the sombre tone of our colleagues in the northern hemisphere who trudged back into the office following the end of long summer. The US 10 year government bond yield traded in a 3.8-4% range during August and has since declined below 3.7% for the first time since June 2023. The 2s10s curve has moved from -50 basis points to flat currently.

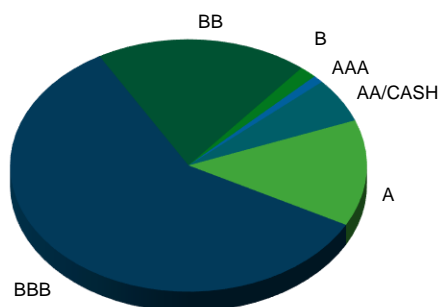
Earnings season finished in both the United States and Australia on a mixed tone. Domestically, there were few positive surprises with revenues and earnings delivering in line with expectations. Consequently, equity performance for the month was flat with the ASX300 trading on a forecast earnings yield of just over 5%, around half a percent lower than where it was trading a few months ago.

In the United States, revenue growth came in at 5% with earnings growth at over 10%. All sectors barring Materials and Industrials delivered positive earnings growth with only Communications delivering a negative surprise on earnings. US valuations are far more buoyant than Australian equity markets, pricing on a forecast earnings yield of around 4.2%.

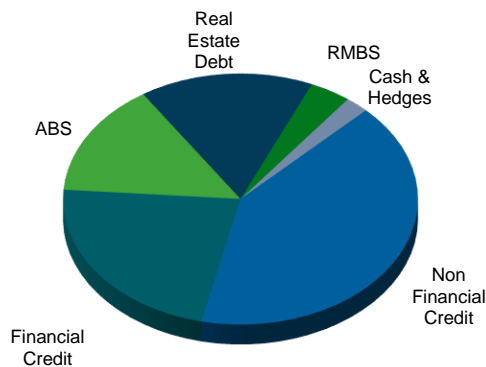
## Performance Statistics

Standard Deviation (ann.)	2.2%
% of Down months	7.1%

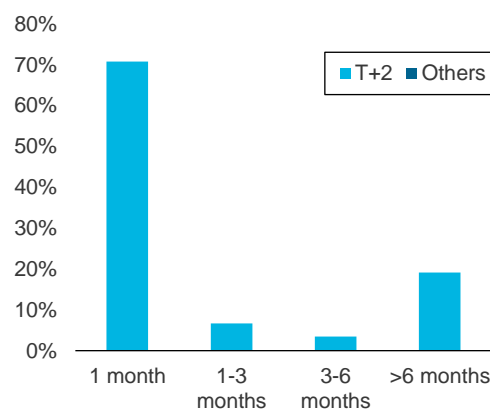
## Fund Credit Quality



## Fund Asset Allocation



## Fund Liquidity Exposure



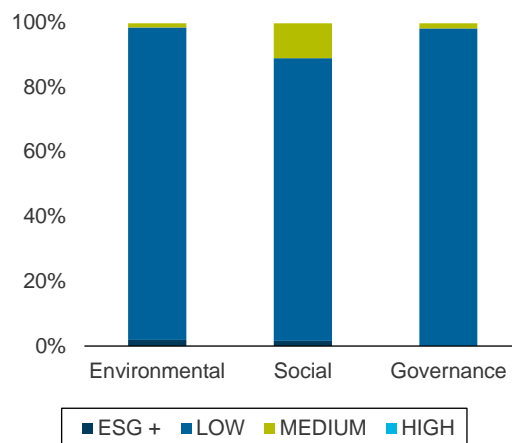
Credit spreads widened sharply in early August off the back of the unwind of the Yen carry trade which we discussed last month. High yield spreads increased by more than 70 basis points from the tight levels of late July and have since rallied settling around 40 basis points wider in early September. Year to issuance in US high yield bond markets is over US\$200 billion, almost double 2023 levels. Leveraged loan markets have been even more active with over US\$800 billion in refinancings and repricings although less than 10% of this relates to M&A activity.

Domestically credit spreads have been steadily moving wider. The ICE BofA Australia Corporate Index hit 115 basis points in early September, 14 basis points wider than the tight levels from early March. Elevated primary issuance has helped keep spreads wide. Year to date issuance of A\$110 billion makes 2024 already the second most active year on record, trailing only 2023. Around 85% of issuance has come from financials, slightly down on 2023 when over 90% of issuance was related to financials.

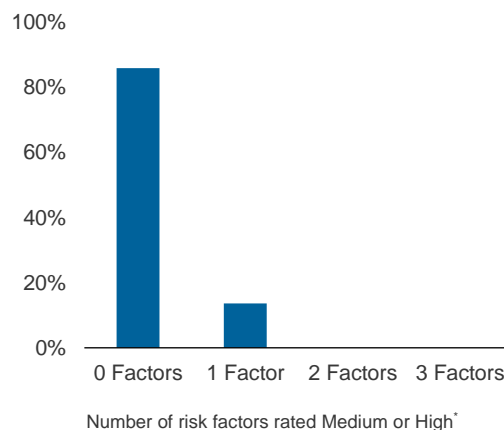
The one exception to the slightly weaker tone within credit markets are securitisations, most specifically the mezzanine tranches. Issuance has been exceptional, with the strongest volumes since 2007. Over 2024 BBB rated spreads have tightened by 140 basis points currently pricing in the very low 200s in spread terms. However, AAA-rated senior spreads have performed more like corporate bonds and have only tightened by 5 basis points over the year.

Private markets continue to attract significant attention from investors and regulators alike. Attention is focussed on the commercial real estate sector where there is more evidence of stress although this has yet to lead to a withdrawal of capital from the space. Fund flows remain positive with private credit listed funds trading at premiums to net tangible assets suggesting more capital is available to be invested.

### 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 | w: www.fidante.com

This material has been prepared by Challenger Investment Partners Limited (Challenger Investment Management or Challenger) (ABN 29 092 382 842, AFSL 234678), the investment manager of the Challenger IM Credit Income Fund ARSN 620 882 055 (Fund). Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at [www.fidante.com](http://www.fidante.com) should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Challenger Investment Management and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Challenger IM and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.

The rating issued for Challenger IM Credit Income Fund – Class A, 09/2023 is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit [lonsec.com.au](http://lonsec.com.au) for ratings information and to access the full report. © 2024 Lonsec. All rights reserved.

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned Challenger IM Credit Income Fund – Class A, 10 Jun 2021) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product. Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at [Fund Research Regulatory Guidelines](#).