

Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report September 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	0.53	1.77	3.68	1.77	8.48	6.10	-	6.08
Challenger IM Credit Income Fund - Class I ³	0.36	1.11	2.21	1.11	4.41	2.82	5.02	-
Bloomberg Bank Bill Index	0.36	1.11	2.21	1.11	4.41	2.82	1.79	2.12
Active return	0.17	0.65	1.48	0.65	4.07	3.28	3.23	3.96

Data Source: Fidante Partners Limited, 30 September 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 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	\$807.1 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	127
Running yield (%) p.a	6.3
Modified duration (yrs)	0.15
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	2.9
Non-AUD Denominated	23%
Private Credit Allocation	21%

Monthly Commentary

Performance Update:

For the third quarter of 2024 the Fund returned 1.77%, an excess return of 0.65% over the Benchmark and 0.4% over the Bloomberg AusBond Credit FRN index with returns driven by almost entirely by income with credit spreads flat over the quarter. Since inception, the Fund has returned 6.08% per annum, an excess return of 3.96% per annum over the Benchmark, exceeding the target return of the Fund. Over this same period the Fund has outperformed the Bloomberg AusBond Credit FRN index by over 2.3% per annum, demonstrating the value of investing across the liquidity spectrum.

At September month end the running yield of the Fund was slightly over 6% p.a. with a yield to maturity of 6.7% per annum.

Fund Positioning:

The data suggested credit spreads were flat over the quarter but to this portfolio manager it felt like they tightened. In particular, the mezzanine tranches of asset backed markets have been the star performer of 2024 although the shortness of the deals means the contribution to performance was less than the spread move would imply.

We have been taking advantage of the strong rally in asset backed markets to reduce our weighting from over 17% at June to below 15% in September. The reduction was rotated into financial credit following APRA's proposal to ban AT1 instruments for banks.

We are also continuing to average into commercial real estate lending markets where we are seeing attractive opportunities through our private franchise. The allocation is just over 15%, up a couple of percentage points over the quarter. We do not expect to increase meaningfully from current levels but will remix the Fund towards bilateral private opportunities and away from public bonds.

We have also been steadily tilting the Fund back towards private markets across the corporate and asset backed allocations. Over the quarter the private allocation increased to 21% up 2% and is set to approach the mid-20s once pipeline is deployed.

Asset quality within the Fund was unchanged with no exposures rated below B- and only 1.4% of the Fund rated below BB-.

With spreads at the tight ends of recent history we continue to run the Fund at a margin of 2.5-3% over bank bills with incremental returns coming through early prepayments and trading the public portfolio.

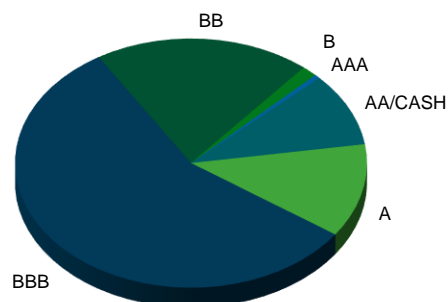
Market conditions:

See the quarterly round the grounds report for a detailed discussion on our views across sectors.

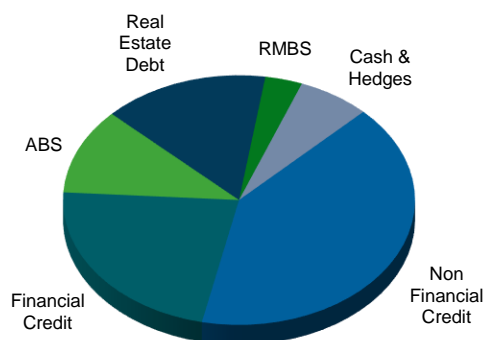
Performance Statistics

Standard Deviation (ann.)	2.1%
% of Down months	7.1%

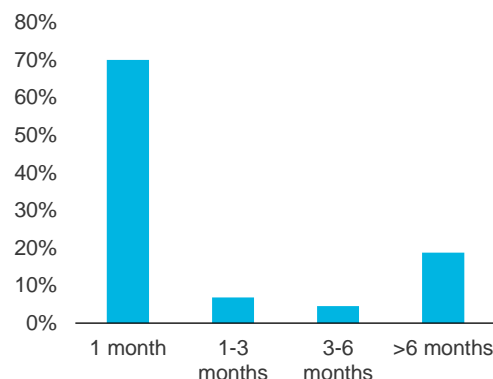
Fund Credit Quality



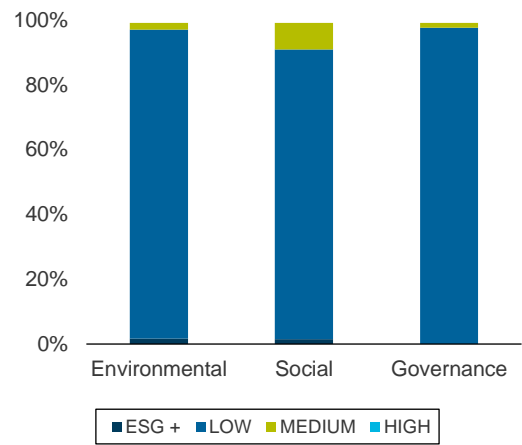
Fund Asset Allocation



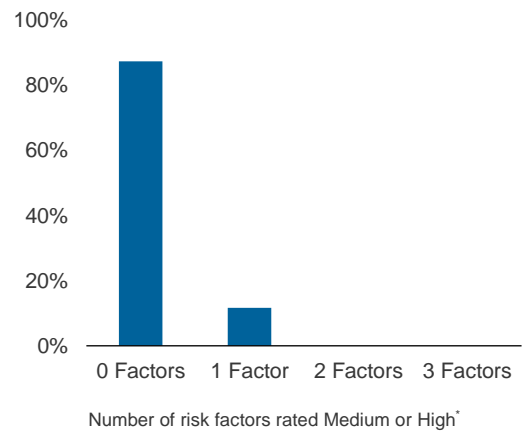
Fund Liquidity Exposure



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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