Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report November 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	0.69	2.11	3.86	3.37	8.81	6.59	-	6.23
Challenger IM Credit Income Fund - Class I[3]	0.69	2.11	3.86	3.37	8.81	6.59	5.20	-
Bloomberg Bank Bill Index	0.36	1.10	2.22	1.86	4.46	3.07	1.92	2.21
Active return	0.33	1.01	1.64	1.51	4.35	3.52	3.28	4.01

Data Source: Fidante Partners Limited, 30 November 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	$860.1 mil
Buy/Sell Spread	+0.18/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	129
Running yield (%) p.a	6.2
Modified duration (yrs)	0.07
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	3.2
Non-AUD Denominated	28%
Private Credit Allocation	19%

Monthly Commentary

Performance Update:

The Fund was up 0.69% in November, a return of 0.33% over the Bloomberg AusBond Bank Bill Index Benchmark, and 0.32% over the Bloomberg AusBond Credit FRN index.

The main driver of return for the month was income generation at 0.52%. Following on from the strength in October, credit spread movements added 0.15% to the overall contribution.

Over the last 12 months the Fund has returned 8.81% outpacing the 5.77% return on the Bloomberg AusBond Credit FRN index, exceeding our goal of outperforming daily liquid credit by 1-2% per annum.

Fund Positioning:

Credit spreads continued to move tighter in November. The bias towards private markets remains and exposure is expected to increase from the current weighting of 19%. The fund has seen a number of potential BB or investment grade private opportunities in corporate lending or commercial real estate (non-construction) prior to year-end that are likely to progress subject to ongoing due diligence early in 2025. The current allocation to high yield or unrated credit is expected to increase to 30% once our current pipeline of private investments is completed. The constraining limit is 35% and we expect to increase the allocation into the mid-30s range early in the new year if conditions remain unchanged.

Over the month the Fund's allocation to securitised credit is less than 15%, down from 17% a year ago. While valuations on mezzanine tranches of public deals are generally at the tightest end of post GFC ranges, we still see some pockets of opportunity in private warehouse markets and more esoteric collateral types.

Our allocation to Real Estate increased by 2% over the year and was re-mixed towards private markets. The pipeline for private real estate loans is strong, reflecting ongoing dislocation in the sector. Despite the weak fundamentals we see attractive opportunities in real estate lending markets that are expected to close in the new year. The Fund is targeting transactions that fall just outside of bank lending criteria which are coming at yields more than 2% wider than bank pricing and allow the team to negotiate strong creditor protections.

Asset quality within the Fund remains strong with only 0.5% (1 borrower in the healthcare sector rated at B-). All borrowers are current on required payments of interest and principal. The Fund has experienced no defaults since inception.

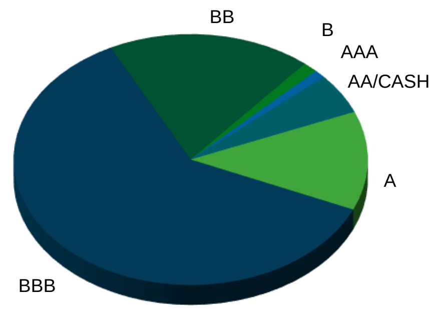
Market conditions:

Donald Trump back in the White House was good news for risk assets in November. Equities rallied strongly with the ASX/200 up almost 4% over the month, the S&P500 up almost 6% and the NASDAQ up over 6%. Europe was the exception; the Eurostoxx was flat for the month and up only 12% on a trailing 12 month basis, over 20% behind the S&P.

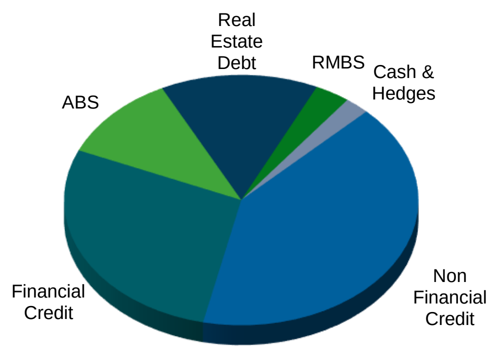
Performance Statistics

Standard Deviation (ann.)	2.1%
% of Down months	6.9%

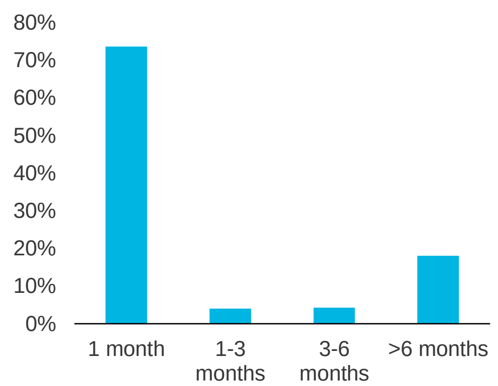
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Indeed, the story in Europe and Australia was even worse when you take currency into account. The US dollar was up around 4% in October and another 1% in November, hitting the highest levels since late 2022.

US credit similarly outperformed with high yield bonds ending November at the tightest levels since May 2007. US high yield credit is the major outperformer with investment grade credit still trading wide of the late 2021 tights, let alone pre-GFC levels. For context in May 2007, US non-financial credit traded at 49 basis points asset swapped. Today it is trading north of 120 basis points.

Domestically credit was tighter in November but did display some signs of indigestion towards the end of the month. Over $18 billion in credit was issued in November, the most active month we can recall for some time. Benchmark deals came from CBA, Woolworths, Barclays, Scentre Group, Melbourne Airports amongst others.

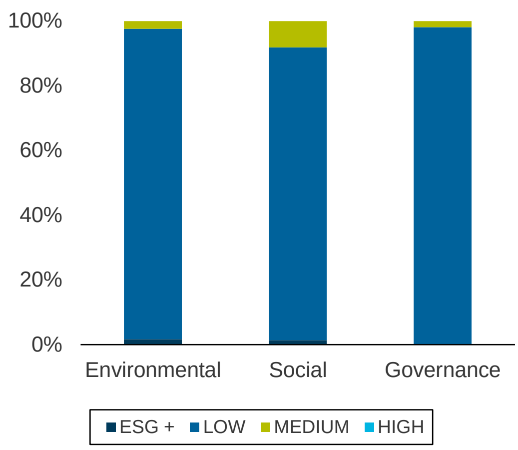
We also saw securitisation maintain their pace of issuance. Through early December, total securitised issuance in Australian dollars stands at $80 billion, surpassing 2007's record levels by over $20 billion dollars. Pricing has started to stabilise albeit in some cases at extraordinarily tight levels; BBB-rated tranches of non-conforming RMBS are trading at margins inside of 200 basis points, only 60 basis points wider than where AAA-rated deals are pricing.

In the United States and Europe CLO issuance has also surpassed previous records with over US$185 billion and EUR46 billion in new supply across public and private CLO product. Having historically traded around the same levels as domestic RMBS, it is interesting to note that CLOs now trade well wide with US broadly syndicated BBBs around 70 basis points back and BBs close to 300 basis points wider. European and Private Credit CLO BBBs trade even wider than this.

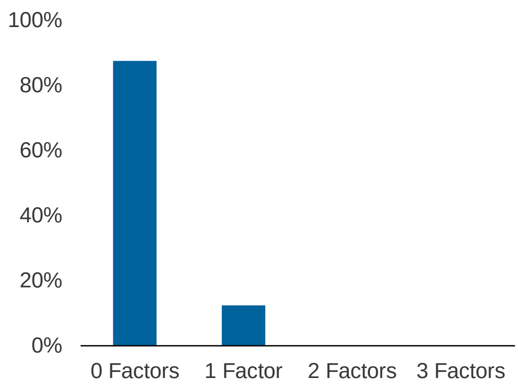
Turning back to Europe, geopolitical risks re-emerged over the month. Political instability in France resulted in OATs trading wide of Greek sovereign bonds and the 10 years spread over bunds approaching 90 basis points, the highest level since the European sovereign debt crisis.

The contrast between pricing and fundamental credit risk is relatively stark. According to S&P the net outlook bias for credit in the US is -8.4% versus -4% in Europe and -1.3% in Asia Pacific. The US speculative grade default rate is over 4%.

ESG Profile



ESG Risk Layering



Number of risk factors rated Medium or High*

* 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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