

Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report December 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	0.55	2.13	3.94	3.94	8.31	6.60	-	6.23
Challenger IM Credit Income Fund - Class I ³	0.55	2.13	3.94	3.94	8.31	6.60	5.22	-
Bloomberg Bank Bill Index	0.38	1.12	2.24	2.24	4.47	3.19	1.98	2.26
Active return	0.18	1.02	1.69	1.69	3.84	3.41	3.23	3.98

Data Source: Fidante Partners Limited, 31 December 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 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	\$881.1 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	6.4
Modified duration (yrs)	0.10
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	3.1
Non-AUD Denominated	29%
Private Credit Allocation	19%

Quarterly Commentary

Performance Update:

For the final quarter of 2024 the Fund returned 2.13%, an excess return of 1.02% over the Benchmark and 0.82% over the Bloomberg AusBond Credit FRN index with returns driven by income (1.57% contribution) and credit spreads (0.54% contribution). Since inception the Fund has returned 6.23% per annum, an excess return of 3.97% 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 2.4% per annum, demonstrating the value of investing across the liquidity spectrum.

At December month end the running yield of the Fund was 6.4% p.a. with a yield to maturity of 6.9% per annum.

Fund Positioning:

Having taken a break in Q3, public market spreads resumed their move tighter in Q4. With illiquidity premiums remaining relatively wide, we are favouring private lending opportunities and steadily increasing our allocation to private deals.

The reweighting to private markets is in full swing though has taken longer than expected due to high repayments in the private lending allocation. Over the quarter we added over 2% to our allocation to private credits but this was offset by an elevated level of early repayments. As reminder early repayments of private credits add to the total return of the fund as they are generally valued at a discount to par (recall CIM doesn't take upfront fees and assets are initially valued at a discount to par reflecting the upfront with the discount released over time).

Faster redemptions leading to a strong pull to par effect have helped the Fund maintain returns in a tighter spread environment. The Fund is running at an asset swapped margin of around 240 basis points, which is at the tight end of our target range. As the private pipeline is deployed, we'll see this increase back into the mid to high 200s which we believe is appropriate in the current environment.

Asset quality in the Fund has been resilient, helped we think by the strict portfolio guidelines which has limited the ability of the Fund to acquire names rated below BB- at purchase and the requirement to maintain a default weighted average investment grade credit rating through time. We had one private loan downgraded to a CCC rating over the quarter. The borrower is an operator of private hospitals which was originally rated BB but has been downgraded multiple times as it has faced a difficult operating environment. There is one other private loan which is rated below BB-, a borrower operating in the defence industry which has been rated B+ for some time and has a stable outlook.

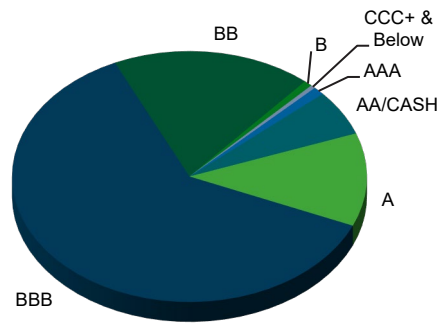
Market conditions:

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

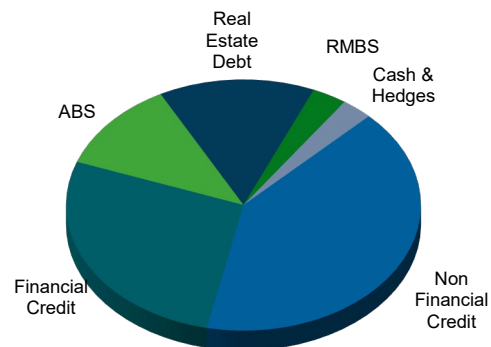
Performance Statistics

Standard Deviation (ann.)	2.1%
% of Down months	6.8%

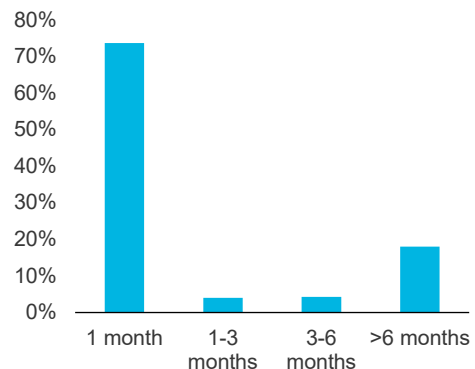
Fund Credit Quality



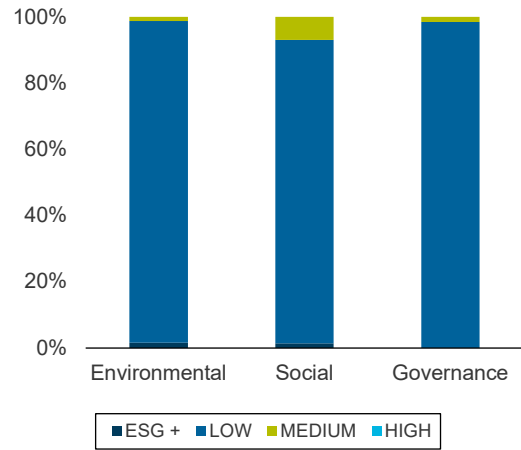
Fund Asset Allocation



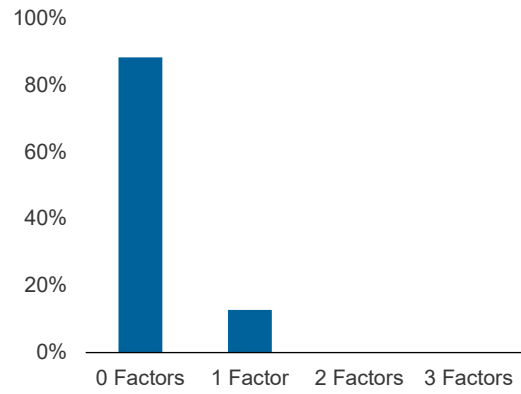
Fund Liquidity Exposure



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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