

# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Monthly Report January 2025

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	0.68	1.93	3.93	4.64	8.24	6.78	-	6.27
Challenger IM Credit Income Fund - Class I <sup>3</sup>	0.68	1.93	3.93	4.64	8.24	6.78	5.31	-
Bloomberg Bank Bill Index	0.38	1.12	2.25	2.63	4.48	3.32	2.04	2.30
Active return	0.30	0.81	1.68	2.01	3.76	3.45	3.27	3.97

Data Source: Fidante Partners Limited, 31 January 2025.

<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 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	\$887.9 mil
Buy/Sell Spread	+0.18%/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

### Key Statistics

Number of Issuers	130
Running yield (%) p.a	6.3
Modified duration (yrs)	0.09
Average Rating	BBB-
Portfolio Credit Spread Duration (yrs)	3.0
Non-AUD Denominated	28%
Private Credit Allocation	19%

## Monthly Commentary

### Performance Update:

The Fund was up 0.68% in January, a return of 0.30% over the Bloomberg AusBond Bank Bill Index Benchmark, and 0.25% over the Bloomberg AusBond Credit FRN index.

The main driver of return for the month was income generation at 0.57%. Credit spread movements added 0.16% to the overall contribution with minimal contributions from interest rate and currency movements.

Over the last 12 months the Fund has returned 8.24% outpacing the 5.73% return on the Bloomberg AusBond Credit FRN index, exceeding our goal of outperforming daily liquid credit by 1-2% per annum.

### Fund Positioning:

The Fund continues to deploy capital in an environment of tight public market spreads with seemingly few signs of potential repricing of risk on the horizon. The portfolio is continuing to pivot towards private markets though at a steady pace.

Given the tightness in public and (to a lesser extent) private credit markets, our overarching focus is to remain nimble and prepared for any volatility that may emerge. From a portfolio construction perspective this means being active in our public allocation to maximise trading opportunities whilst maintaining high levels of portfolio diversification.

From a sectoral perspective, the Fund's asset backed allocation has declined as spreads have tightened significantly with no signs of potential move wider on the horizon. Commercial real estate is the one pocket of opportunity with fundamental weakness contributing to an increased flow of opportunities if not some widening in pricing.

There is one stressed position in the Fund, a senior secured loan to an operator of private hospitals. The position is less than 0.5% of the Fund and is currently valued at a mid-70s price.

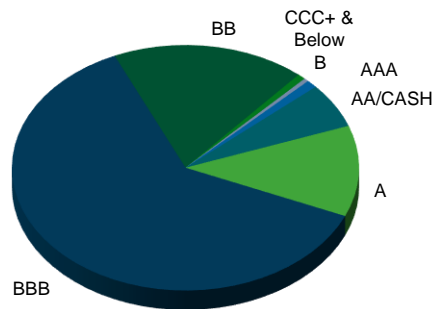
### Market conditions:

Global markets maintained their positive trajectory in January. Yields increased through mid-January, at one point rising 45 basis points from the mid December lows before settling broadly unchanged for the month. Australian and US equities performed strongly with forecast earnings multiples settling at around 20 and 25, respectively. Both are the highest levels since COVID and prior to that the GFC for Australia and the tech bubble of the late 1990s for the United States.

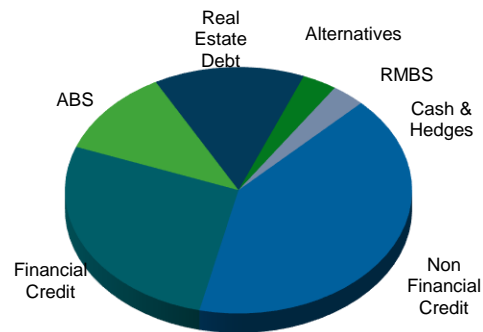
### Performance Statistics

Standard Deviation (ann.)	2.1%
% of Down months	6.7%

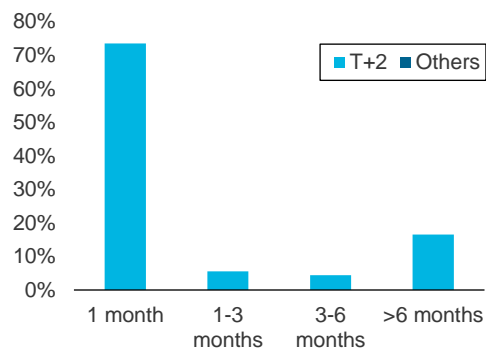
### Fund Credit Quality



### Fund Asset Allocation



### Fund Liquidity Exposure



Credit markets also tightened in January with high yield spreads touching the tightest levels since 2007. Investment grade spreads remain wider than 2021 levels appearing cheap to high yield credit on a relative basis.

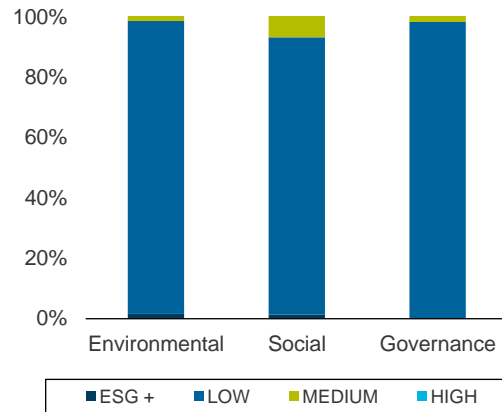
Securitised markets also continue to tighten across the capital stack with domestic mezzanine spreads roughly 10 basis points tighter and senior spreads around 5 basis points tighter on the month. Collateralised loan obligations (CLOs) which have long appeared cheap to other securitised products on a relative basis have also caught a bid. BBB-rated tranches tightened by close to 40 basis points in January before retracing around 10 basis points of that move in early February.

The strength in markets came despite several tariff related announcements from the new Trump administration and the emergence of DeepSeek, a Chinese competitor to ChatGPT and other western artificial intelligence tools. The resilience in markets can seemingly be attributed to strong earnings momentum with a positive earnings surprise of 6.5% in the second half of 2024 with close to 80% of companies on the S&P500 reporting. Domestically bank earnings have shown that households and institutional borrowers have managed the higher interest rate environment exceptionally well with non-performing loan ratios declining over the quarter.

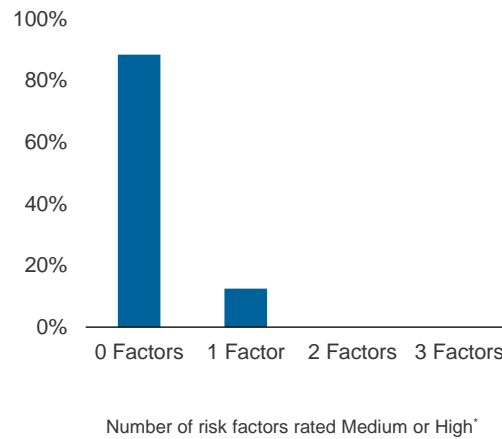
With public market valuations at such expensive levels, it is hardly surprising that private markets continue to attract attention from investors and borrowers alike. Activity has increased meaningfully with a strong pipeline across corporate, real estate backed and asset backed finance. Illiquidity premiums are wide, seemingly reflecting the fact that private credit funds have floors beneath which they cannot go below. Consider the growing ASX listed investment trust market with over \$6 billion in assets and a minimum net return hurdle of the RBA cash rate plus 3.25% per annum implying gross target spreads of more than 400 basis points.

Even with private market valuations appearing cheaper than public markets there are several headwinds on the horizon. The private credit market in Australia has sizeable exposure to commercial real estate, most specifically residential development lending and land banking. In January there were a number of articles published referencing lenders enforcing on projects, significant restatements of performance and other points of stress on the horizon. Added to this are declining house prices in Victoria and New South Wales plus an upcoming review from ASIC on the governance practices of private credit funds. On the corporate side, the deteriorating financial position of the Star has distressed funds circling. We expect this dichotomy in performance (strong in the aggregate but weakness in individual names) to continue unless there is a sustained bout of volatility.

### 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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