Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

Monthly Report February 2025

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	0.48	1.72	3.86	5.14	7.98	6.98	-	6.27
Challenger IM Credit Income Fund - Class I[3]	0.48	1.72	3.86	5.14	7.98	6.98	5.41	-
Bloomberg Bank Bill Index	0.34	1.10	2.21	2.98	4.48	3.44	2.10	2.34
Active return	0.14	0.62	1.65	2.16	3.50	3.55	3.31	3.93

Data Source: Fidante Partners Limited, 28 February 2025.
[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	$891.2 mil
Buy/Sell Spread	+0.18%/-0.18%
Distribution Frequency	Quarterly
Redemption Terms	Monthly with 10% Fund level gate

Key Statistics

Number of Issuers	128
Running yield (%) p.a	6.2
Modified duration (yrs)	0.07
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 0.48% in February, a return of 0.14% over the Bloomberg AusBond Bank Bill Index Benchmark, and 0.01% over the Bloomberg AusBond Credit FRN index.

The main driver of return for the month was income generation at 0.49%. Credit spread movements added 0.09% to the overall contribution with minimal contributions from interest rate and currency movements.

Over the last 12 months the Fund has returned 7.98% outpacing the 5.66% return on the Bloomberg AusBond Credit FRN index, exceeding our goal of outperforming daily liquid credit by 1-2% per annum.

Fund Positioning:

When pipeline is included, the Fund has reached its target asset allocation of a 25% private credit allocation allowing the Fund to generate a spread of circa 270 basis points over bank bills.

The default weighted average credit rating is BBB- with a sub-investment grade allocation of 18% and a credit duration of 3.05 years implying a broadly neutral risk allocation.

The liquidity profile of the Fund is strong with over 70% of the Fund in assets that could be liquidated within 30 days in normal conditions.

Allocations to asset backed finance have bottomed at around 14%, a level which we expect to maintain. Relative value favours corporate exposures with subordinated financials presenting better spread returns than asset backed exposures of similar credit ratings. Our allocation to non-development commercial real estate lending continues to tick up with no exposure to construction finance.

Overall portfolio performance is strong with only 1 name on our watchlist, a private hospital operator which has been downgraded to CCC- and looks likely to default. This position represents less than 0.5% of the Fund and is carried at a significantly discounted valuation in the mid-70s in dollar terms.

Market conditions:

Risk markets finally showed some signs of fatigue in February. After a brief bout of volatility in August 2024, markets had delivered 5 strong months of performance from already expensive levels.

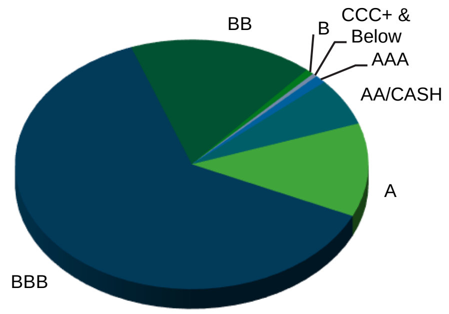
High yield credit spreads bottomed at an asset swapped spread of 258 basis points in mid-February. This is the tightest level since mid-2007 when spreads hit a low of 183 basis points. In the second half of February and early March credit spreads have increased by 60 basis points though this is still only a moderate widening relative to recent sell offs.

The widening in high yield credit spreads can be attributed to fading confidence in the so called "Trump put". Over the month the Trump Administration ramped up tariff threats with their position unchanged even as the market started declining.

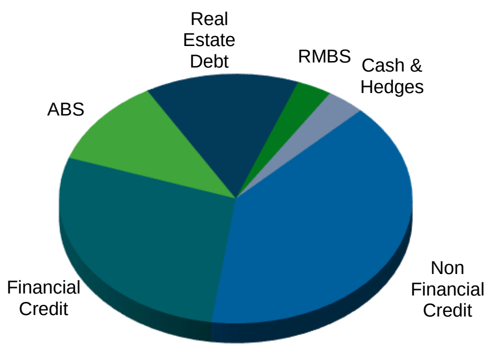
Performance Statistics

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

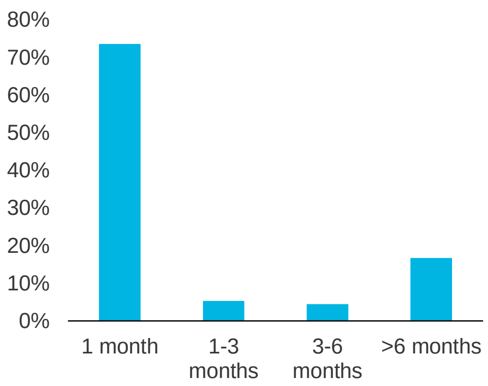
Fund Credit Quality



Fund Asset Allocation



Fund Liquidity Exposure



Investment grade credit spreads widened back to early October 2024 levels. Spreads in the investment grade market never tightened by as much as high yield markets with the low for spreads hitting 107 basis points, well above the 93 basis point low reached in late 2021, the 86 basis point low from early 2018 and the pre-GFC low of 40 basis points from mid-2006.

As is often the case we have yet to observe a change in sentiment in domestic asset backed markets. From the end of 2024 AAA spreads are 10 basis points tighter clearing at a margin of 125 basis points while BB spreads are 25 basis points tighter at a margin of 375 basis points. Offshore securitised markets have also been well bid with AAA spreads clearing in the low 70s in spread terms and investment grade tranches trading in the high 100s.

Fundamental asset quality is passable in both asset backed and corporate markets. The S&P SPIN index is showing stable arrears levels in Australian non-conforming RMBS transactions with 30+ delinquencies at around 4%. Non-qualifying mortgage RMBS transactions from the United States showed a moderate uptick in arrears with 2023 vintage transactions the worst performing with 8.2% of loans in 30+ delinquency. There is some evidence that the LA wildfires have affected early stage delinquencies, something which will need to be considered for those areas affected by Tropical Cyclone Alfred.

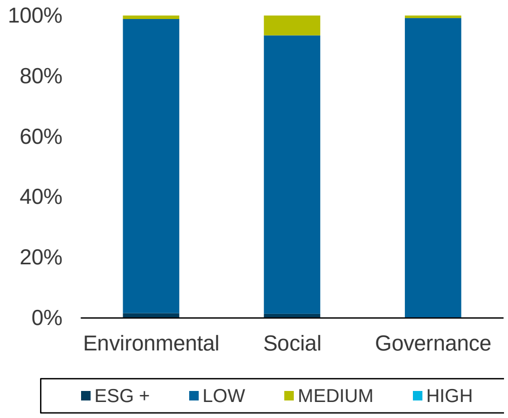
In investment grade credit leverage has ticked higher in cyclicals whilst declining for non-cyclical borrowers. Overall, the leveraged finance market has benefitted from rate cuts helping EBITDA interest coverage stabilise at around 2.3 times from a peak of 3.6 times in late 2022. S&P noted that there is a dispersion in fundamental performance with around 20% of public speculative grade issuers reporting deficits in EBITDA interest coverage.

A similar story is evident in domestic private credit markets where competition is strong and capital still abundant despite an increasing number of negative headlines warning of losses and weak governance in the sector. In February ASIC released a discussion paper into private markets in which they highlighted opacity, conflicts, valuation uncertainty, illiquidity and leverage as key risks they would be focussed on. The discussion paper posed a number of questions for industry to respond on and will release an update in 2025.

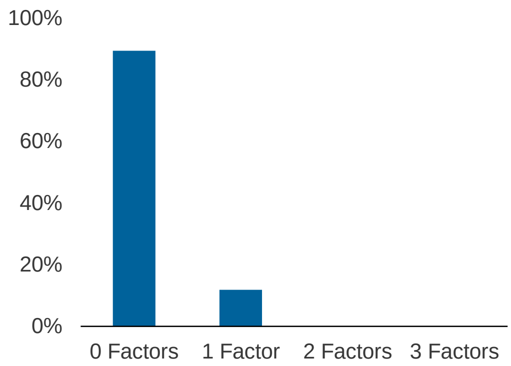
ASIC's investigation is timely with the financial press reporting on multiple stressed situations in corporate and real estate lending markets. Despite the number of headlines, we estimate the default rate is circa 3-5% which compares favourably with the United States where Fitch's Private Middle Market Portfolio had an 8.1% default rate in 2024.

Over the month of February and early March there has been a meaningful uptick in volatility of ASX listed investment trusts which invest in private credit. At the time of writing all are trading at a discount to their net tangible asset values implying some scepticism over valuations and asset quality. The sector remains in inflow but there are signs that capital flows are slowing. If capital flows reverse, the likelihood of an increase in defaults and wider pricing will increase.

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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