

# Challenger IM Credit Income Fund – Class A

ARSN 620 882 055 APIR HOW8013AU

## Monthly Report August 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	0.64	2.15	3.36	1.62	7.36	8.01	-	6.33
Challenger IM Credit Income Fund - Class I <sup>3</sup>	0.64	2.15	3.36	1.62	7.36	8.01	6.35	-
Bloomberg Bank Bill Index	0.32	0.94	2.00	0.62	4.25	4.01	2.47	2.51
Active return	0.32	1.21	1.36	1.00	3.10	4.00	3.88	3.82

Data Source: Fidante Partners Limited, 31 August 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	\$951.8 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	6.0
Modified duration (yrs)	0.07
Average Rating	BBB/BBB-
Portfolio Credit Spread Duration (yrs)	3.3
Non-AUD Denominated	22%
Private Credit Allocation	19%

## Quarterly Commentary

### Performance Update:

The Fund was up 0.64% in August, exceeding the Bloomberg AusBond Bank Bill Index Benchmark return of 0.32%, and the Bloomberg AusBond Credit FRN index return of 0.46%.

Credit spreads across each of the underlying portfolio strategies have been declining back to the lows that were seen earlier this year. Portfolio returns have benefitted from the tightening of spreads. The spread effect contributed 0.16% for the month, lower than the prior period at 0.46%. In total the spread effect has contributed circa 90bps over the year, which equates to around 12% of the total return of the Fund. The spread effect has historically not been the main driver of returns for the Fund and is not expected to be over the cycle. 90% of the Fund's returns over time have been driven by the income effect. The income effect contributed 0.52% the Fund return this month.

Over the last 12 months the Fund has returned 7.36% outpacing the 5.25% return on the Bloomberg AusBond Credit FRN index, exceeding our goal of outperforming daily liquid credit by 1-2% per annum.

### Fund Positioning:

We did not add to credit duration of the Fund over the month, which is now marginally lower at 3.3 years. We remain cautious on market conditions and do not expect to add to credit duration from current levels. Credit duration is a measure of sensitivity to a move in credit spreads and hence maintaining around current levels in a market where credit spreads are tight is overall defensive in nature. The Fund is well placed to redeploy if market conditions weaken, or we see a pickup in primary activity leading to increased spread concessions.

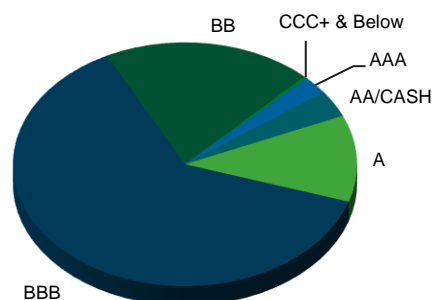
In July we rotated out of offshore markets and foreign currency denominated transactions and continued to do so in August albeit at a slower pace. Notable transactions included switching a Euro denominated exposure into an Australian denominated exposure at better pricing levels despite the same duration and similar level of risk. The Fund can take exposure to foreign currencies but fully hedged and primarily focused on Australian and New Zealand issuers. The positioning shift was motivated by domestic market spreads lagging and the offshore market tightening.

In public credit the market had limited new supply for most of the month and hence most transactions were completed in secondary markets. Opportunities were scarce, as intermediary inventory was low and credit well bid. As such the Fund focussed on relative value opportunities which added to returns whilst maintaining the Fund's credit duration. We did not participate in primary later in the month as there were signs off market indigestion with several primary transactions underperforming despite the strong interest seen during the book building processes.

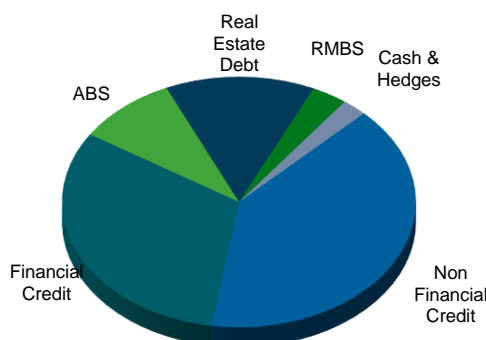
## Performance Statistics

Standard Deviation (ann.)	2.1%
% of Down months	7.3%

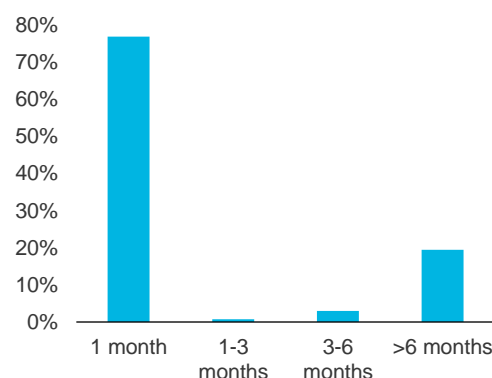
## Fund Credit Quality



## Fund Asset Allocation



## Fund Liquidity Exposure



One private debt transaction settled in the month. The transaction was a 2-year senior secured loan facility against an operating serviced apartment building with a long track record located in the Melbourne CBD. Of late we have seen a pickup in real estate opportunities at attractive illiquidity premiums with the last two settled transactions having illiquidity premiums more than 200bps. The real estate exposure since June has increased reflective of the recent relative value opportunities taken in this asset class.

Post pipeline we expect the private allocation to be within the 20-25% range. As transactions settle, we will rotate out of public credit and pick up the illiquidity premiums that are still attractive in private markets. If the rally in public market continues, we expect to allocate to private credit at the higher end of the range to harness the illiquidity premiums we still see on offer.

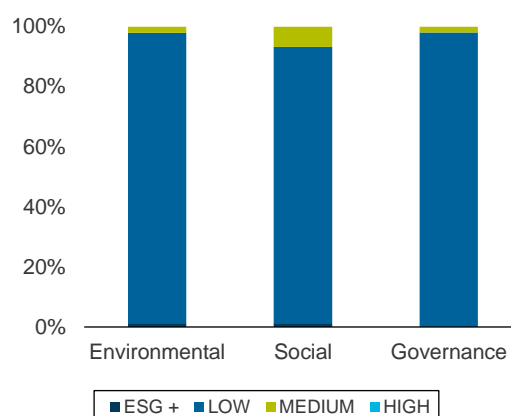
The liquidity profile of the Fund is strong. Over 77% of assets in the Fund could be liquidated within 30 days in normal market conditions. The Fund default weighted average credit rating is at BBB/BBB- (WARF 550 area). A notable ratings upgrade over the month added to Fund risk capacity. A performing B rated private borrower in the engineering and manufacturing sector representing a 0.7% weight was upgraded to BB-. We expect this position to be refinanced in the market over the next 6-12 months, which is earlier than its 2028 maturity. Fundamental portfolio performance is strong with only 1 name on our watchlist, a private hospital operator. This is the only asset the Fund holds below a BB- rating. The borrower has been downgraded over time and is currently rated D and held at a fair value in the 50s. This position represents circa 0.3% of the Fund.

### Market conditions:

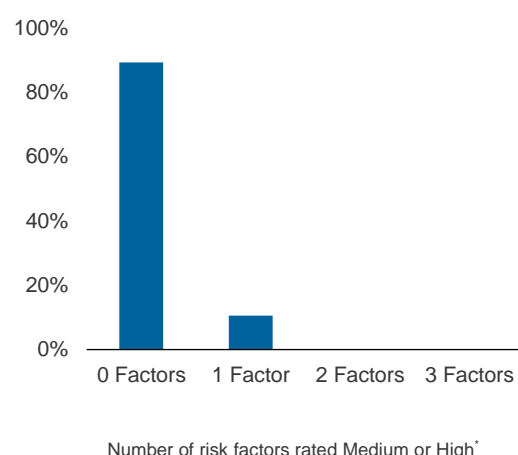
Risky assets continued to defy gravity in August. US equities ended the month trading at 25 times forward earnings, an implied yield of 4% which is below the yield of the US 10yr treasury bond. Domestically equities have lagged recent moves "only" trading at 21 times forecast earnings though both domestic and US markets are at peak multiples outside of recessions.

Credit is showing signs of finding a base level, albeit an expensive one. High yield credit spreads are below 200 basis points and creeping closer to the lows of January 2025. Investment grade spreads are similarly grinding tighter but at a slower pace than previous months. US investment grade corporate spreads are in the 110-120 basis point range. Australian credit spreads are through the tights of early 2025, trading inside of 100 basis points on an asset swapped basis.

### 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 M

Despite the strong performance of corporate credit, securitisation markets were the star performers in August. Domestic mezzanine spreads are at pre-GFC levels with BB rated tranches pricing at margins of 275 basis points over the bank bill swap rate, flat to a Firstmac deal which was issued in November 2006 and was the pre-GFC tight print for a BB. Single A rated tranches are pricing at 145 basis points over bank bills, thankfully still well wide of pre-GFC levels where several deals achieved pricing margins inside of 50 basis points.

Securitised mezzanine credit now prices inside of financial subordinated debt. In September IAG priced a 12.7m 7.7yr Tier 2 note (A- rated) at a margin of 175 basis points over bank bills. Perhaps reflecting the lack of income products available to replace the listed bank hybrid market, UBS opportunistically issued an Australian dollar denominated Additional Tier 1 security. They printed \$1.25 billion of Baa3 rated bonds (ignoring the lack of an S&P rating which would have been BB) at a spread of roughly 275 basis points. For context, the amount issued on this single deal is equivalent to all public BB securitised issuance in the Australian market in 2024 and 2025 combined.

In private markets spread pressure is growing even as deal flow is strong. There is growing evidence of banks providing asset level finance taking unleveraged spreads in the mid to high 300s into the 600s once leverage is applied. Asset quality remains stable in corporate and asset backed markets with less visibility on the performance of the construction lending sector.

In September ASIC released a highly anticipated report into private credit markets in Australia and placed a stop order on several retail funds investing in private credit. This is discussed in greater detail in this month's "What we're watching" piece.

### Quarterly Distribution Returns History (%)

	<i>Mar</i>	<i>Jun</i>	<i>Sep</i>	<i>Dec</i>	<i>FYTD</i>
<b>2025</b>	1.52%	1.73%			6.22%
<b>2024</b>	1.47%	2.22%	1.39%	1.33%	6.27%
<b>2023</b>	1.90%	2.10%	1.04%	1.21%	5.30%
<b>2022</b>	0.68%	1.59%	0.61%	0.42%	2.96%
<b>2021</b>	0.98%	1.00%	0.26%	0.41%	2.88%
<b>2020</b>				0.81%	

Source: Fidante Partners. Past distributions are no indication of future distributions. 1. Calculated as the cents per unit (CPU) distribution at quarter end divided by the ex-distribution unit price at the start of the quarter. 2. Annual distribution return (Financial -Year-to-Date) is calculated as the Total Return (after fees) minus Growth Return. Total Return (after fees) is calculated using pre-distribution quarter end withdrawal unit price, and assumes distributions are reinvested. Growth Return equals the percentage change in unit price.



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