Challenger IM Multi-Sector Private Lending Fund

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.
Fund return (net)[2]	0.36	1.31	3.71	4.73	7.77	7.45	-	7.26
Benchmark Index[3]	0.34	1.10	2.21	2.98	4.48	3.44	-	2.70
Excess Return	0.02	0.21	1.49	1.75	3.29	4.02	-	4.56

*Inception Date: 04/05/2021
[1]Past performance is not a reliable indicator of future performance. 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]References to the Fund or Challenger IM Multi-Sector Private Lending Fund are to the Class P units only which commenced May 2021 and no other class of units.
[3]Benchmark Index is Bloomberg AusBond Bank Bill Index.

Fund Objective

The Challenger IM Multi-Sector Private Lending strategy is a floating rate, multi-sector credit strategy which invests across Australian and New Zealand private securitised, corporate and real estate lending. The strategy provides high income and diversification from liquid equity and fixed income markets aiming to achieve a return of 5% per annum above cash.

Monthly Commentary

Performance Update:

The Fund returned 0.36% in February, an excess return of 0.02% over the Benchmark. Since inception, the Fund has returned 7.26% per annum, 4.56% per annum over the Benchmark.

Over that same period the Credit Suisse Leveraged Loan index hedged to AUD has returned 4.73% per annum, around 2.7% per annum below the return of the Fund demonstrating the value of illiquidity over a medium-term investment horizon.

As at the end of February the Fund had 98 issuer exposures with a running yield of 8.2%.

Fund Positioning:

The Fund has a cash balance of 13% with an additional 10% of the Fund invested in liquid high yield credit which can be rotated in private credit at 1-2% per annum in incremental spread returns as opportunities arise.

Post pipeline the Fund is expected to be generating a return of just under 5% over bank bills, roughly equivalent to a yield to maturity of 8.5-9% per annum over a circa 2.5 year credit duration.

Fund Details

Portfolio Value ($Million)	$1,081.4
Buy/Sell Spread	+0.5%/-0.0%
Distribution Frequency	Quarterly
Redemption Terms	Quarterly with best endeavours

Key Statistics

Number of Issuers	98
Running yield (%) p.a	8.2
Modified duration (yrs)	0.11
Portfolio Credit Spread Duration (yrs)	1.8
Non-AUD Denominated	9%

Pipeline

Cash & Cash Substitutes	13%
Committed Not Funded	8%
In Due Diligence	13%
Pipeline	7%

The committed pipeline of investments is largely related to corporate lending opportunities split across auto finance, healthcare and mining infrastructure. There is also a residual stock loan and an auto/equipment asset backed finance warehouse in the latter stages of due diligence. In the earlier stages of the pipeline the team is reviewing an office loan, another healthcare borrower and an ABS warehouse, reflecting both positive momentum in deal flow but also good diversity.

With no strong overweight exposures in the portfolio, the Fund has capacity to consider all of the incoming transactions. The current target allocations to commercial real estate and asset backed financings is in the mid teens for each with the remainder of the portfolio expected to be invested in corporate loans. Portfolio quality remains mixed. The 97.7% of the portfolio not rated B- or lower continues to perform broadly in line with expectations. However, those transactions rated B- or lower have continued to slide and have weighed on performance in recent months.

After month end a borrower was downgraded from CCC- to Defaulted after failing to make an interest payment when due. The borrower is reported to be exploring a sale process which will take a number of months to complete. The position has been valued at 76 cents in the Fund and will be revalued to reflect any secondary trading in the name, consistent with the valuation policy.

On the positive side, another borrower who went through a restructure in 2023 is performing well, having refinanced GBP-denominated debt in late 2024 with further potential upside for the Fund should the AUD-denominated debt also be refinanced.

Reflecting our view that credit conditions will remain challenging, the Fund has reduced exposure to borrowers rated B- or lower and is focussed on building a well-diversified portfolio of borrowers rated B or higher.

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.

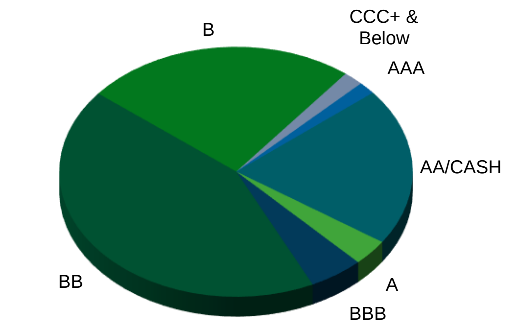
High yield credit spreads bottomed at an asset swapped spread of 258 basis points in mid-February. This is the tightest level since mid 2007 when spreads hit a low of 183 basis points. In the second half of February and early March credit spreads have increased by 60 basis points though this is still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

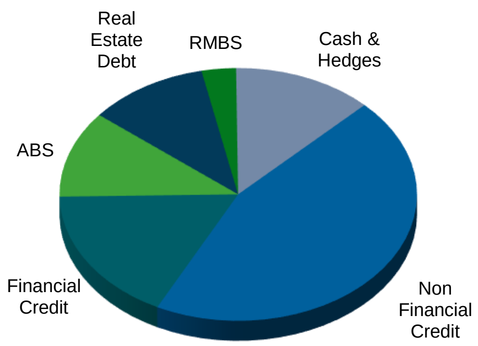
Investment grade credit spreads widened back to early October 2024 levels. Spreads in the investment grade market never tightened by as much as high yield markets with the low for spreads hitting 107 basis points, well above the 93 basis point low reached in late 2021, the 86 basis point low from early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

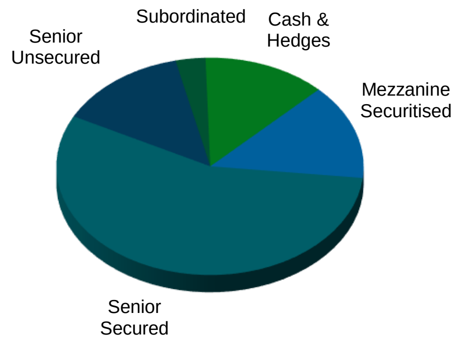
Fund Credit Quality



Fund Asset Allocation



Fund Ranking



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.

As always comments, questions and general feedback are welcome.

Warm regards,

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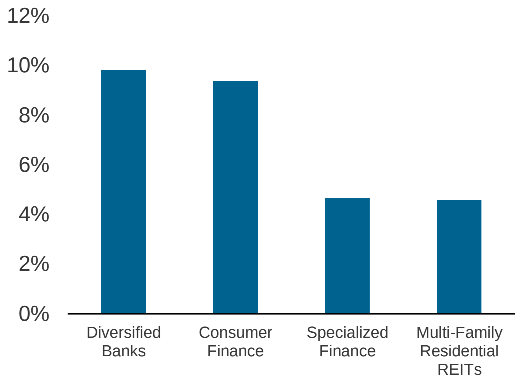
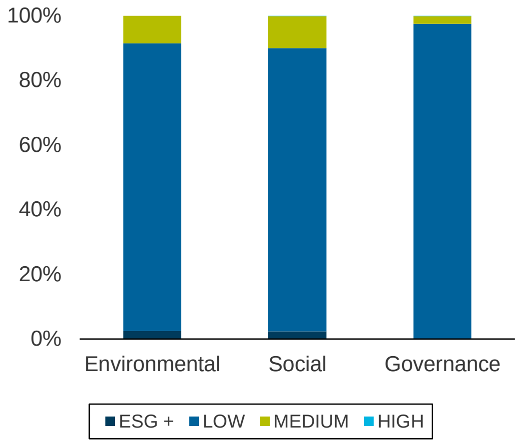
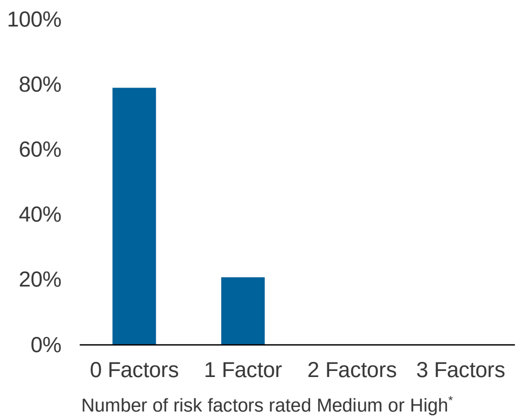
Top Industry Exposures



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.