Challenger IM Multi-Sector Private Lending Fund

Monthly Report August 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]	0.64	2.44	4.01	1.78	7.87	8.43	-	7.37
Benchmark Index[3]	0.32	0.94	2.00	0.62	4.25	4.01	-	2.85
Excess Return	0.32	1.50	2.02	1.16	3.61	4.42	-	4.52

*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 0.64% in August, exceeding the Benchmark by 0.32%. Since inception in May 2021, the Fund has returned 7.37% per annum, 4.52% per annum over the Benchmark.

As at the end of August the Fund has 107 issuer exposures with a yield to maturity of 7.6%.

Fund Positioning:

In anticipation of settling private non-financial credit commitments in August, the Fund was holding a large cash at hand balance at the start of the month and raised additional liquidity via the sale of public investment grade assets that have performed well over the holding period. The Fund had expected that over $100 million of committed and approved transactions would settle in August. At month end $65m of these commitments were funded.

The residual of this $35m settlement pipeline has been carried forward into September. The timing of settlements post approvals is known with a high degree of certainty but there are many uncontrollable factors such as legal, regulatory, and borrower needs, which happen to impact their timing.

There are now $105m of approved private non-financial and real estate credit transactions (including the rollover from August) that are expected to settle in September. These will be funded by the cash holding that was 8% at month end and by public bond and asset backed credit rotations.

Fund Details

Portfolio Value ($Million)	$1,222.5
Buy/Sell Spread	+0.5%/-0.0%
Distribution Frequency	Quarterly
Redemption Terms	Quarterly with best endeavours

Key Statistics

Number of Issuers	107
Running yield (%) p.a	7.5
Modified duration (yrs)	0.09
Portfolio Credit Spread Duration (yrs)	2.2
Non-AUD Denominated	13%

Pipeline

Cash & Cash Substitutes	19%
Committed Not Funded	6%
In Due Diligence	7%
Pipeline	5%

An additional $33m and steadily growing settlement pipeline for October is now brewing. The Fund is on track to be fully deployed by year end. The Pipeline cash and cash substitutes reporting at 19% on the bottom table at the right is expected to fall below 5%. The portfolio will be using available cash and rotating other lower yielding asset holdings as expected settlements occur.

Post settlement of the pipeline the Fund is expected to be generating a return of around 4.8% over bank bills, roughly equivalent to a yield to maturity of 8.5% per annum with a circa 2.5 year credit duration. Spreads have been grinding tighter in both public and private markets. There is a higher risk of increased refinancing activity given conducive market conditions and current market spread levels. Illiquidity premiums though are still around 150-200bps in this market and making private credit an attractive alternative to public credit spread levels. Hence any rotations are beneficial to the current portfolio yield and running spread.

New transactions in due diligence include investments in a senior secured 5 year transaction to a leading insurance restoration services business that has been operating for over 70 years. Another includes a senior secured loan to a new fully leased A grade office in Melbourne at an LVR of circa 70%.

There have been no changes on our watch list. There are three positions on the watchlist representing 1.20% of the Fund. The largest is a senior secured loan to a private hospital operator that has faced well publicised challenges and fell into receivership in May. The loan is 0.7% of the Fund and is now valued in the low 50s.

Market Conditions:

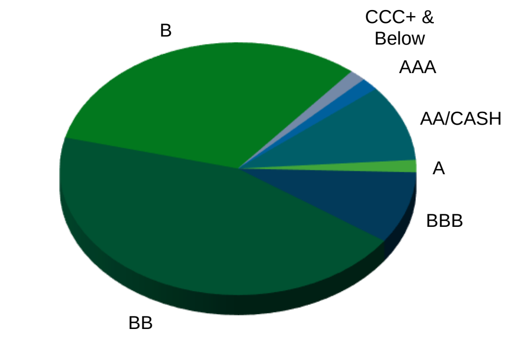
Risky assets continued to defy gravity in August. US equities ended the month trading at 25 times forward earnings, an implied yield of 4% which is below the yield of the US 10yr treasury bond. Domestically equities have lagged recent moves "only" trading at 21 times forecast earnings though both domestic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

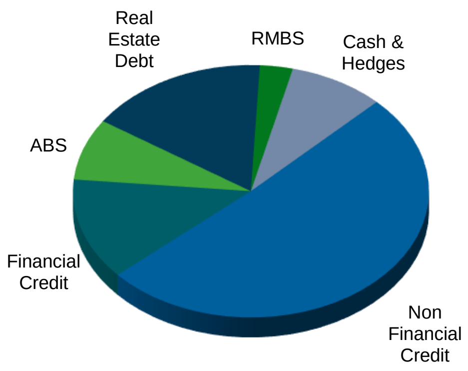
Despite the strong performance of corporate credit, securitisation markets were the star performers in August. Domestic mezzanine spreads are at pre-GFC levels with BB rated tranches pricing at margins of 275 basis points over the bank bill swap rate, flat to a Firstmac deal which was issued in November 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 12.7nc7.7yr 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.

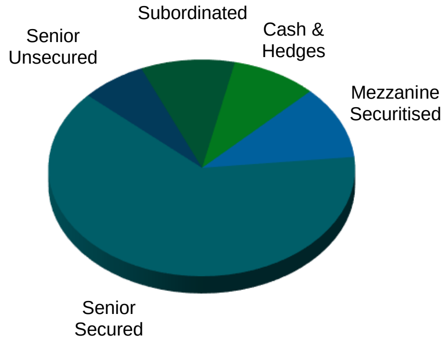
Fund Credit Quality



Fund Asset Allocation



Fund Ranking



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.

As always comments, questions and general feedback are welcome.

Warm regards,

Pete Robinson

Head of Investment Strategy – Fixed Income

+61 2 9994 7080 | probinson@challenger.com.au

For further information, please contact:

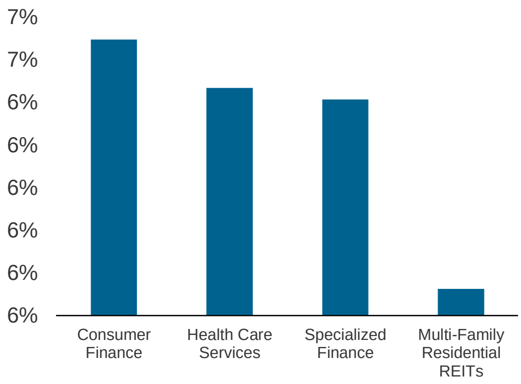
Linda Mead

Senior Institutional Business Development Manager

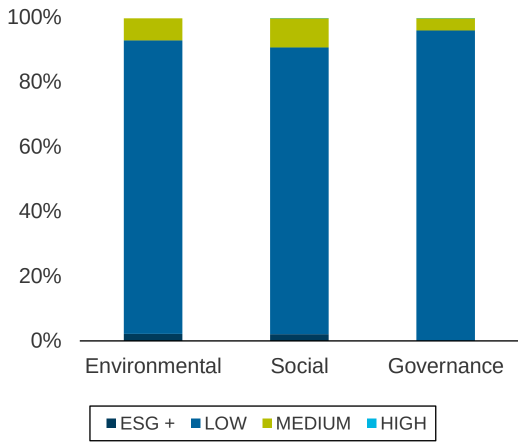
+61 2 9994 7867 | lmead@challenger.com.au

www.challengerim.com.au

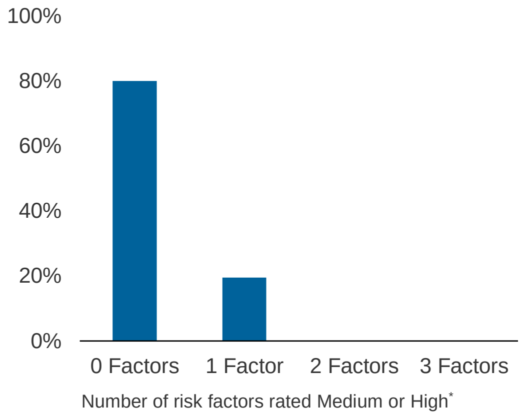
Top Industry Exposures



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.