

Challenger IM Multi-Sector Private Lending Fund

Monthly Report January 2026

Performance¹

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) [*] p.a.
Fund return (net) ²	0.87	1.88	4.10	5.28	7.97	8.39	-	7.45
Benchmark Index ³	0.30	0.91	1.83	2.14	3.89	4.12	-	2.92
Excess Return	0.57	0.97	2.26	3.14	4.08	4.27	-	4.53

¹Inception Date: 04/05/2021

²Performance is net of fees. Returns are calculated after fees have been deducted and assuming distributions have been reinvested. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

³References 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.

^{*}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 0.87% in January, an excess return of 0.57% over the Benchmark. Since inception in May 2021, the Fund has returned 7.45% per annum, 4.53% per annum over the Benchmark. As at the end of January the Fund had 110 issuer exposures with a running yield of 7.5%.

Fund Positioning:

Post committed transactions, the Fund has a cash and cash substitutes balance of c. 13% available to rotate into private loans as opportunities emerge in the new year. Once the pipeline is factored in the Fund is expected to be generating an income return of just under 4.6% per annum over bank bills, roughly equivalent to a yield to maturity of 8.9% per annum over a circa 2.5 year credit duration. Early repayments, trading gains and capital appreciation will add to this return.

There is a solid pipeline of new transactions to review which is typical for this time of year. A large share of opportunities is currently in non-construction real estate and within that, the office sector. The Fund has capacity to allocate to real estate lending opportunities as the current weighting to the real estate asset class is 17% and several repayments are expected in the first and second quarters. Real estate exposure has gradually risen throughout 2025, but we don't expect it to increase materially from current levels.

Fund Details

Portfolio Value (\$Million)	\$1,309.3
Buy/Sell Spread	0.5%/-0.0%
Distribution Frequency	Quarterly
Redemption Terms	Quarterly with best endeavours

Key Statistics

Number of Issuers	110
Running yield (%) p.a.	7.5
Modified duration (yrs)	0.10
Portfolio Credit Spread Duration (yrs)	2.5
Non-AUD Denominated	10%

Pipeline

Cash & Cash Substitutes	18%
Committed Not Funded	5%
In Due Diligence	1%
Pipeline	16%

Around \$75 million of private transactions were funded in the month. Notable transactions included a refinance and reweighting of an existing direct loan to an operator of hospitality venues and a senior secured facility against a new operating hotel based in the CBD of Adelaide at a loan to value ratio in the low 70s. Both transactions reflected a strong risk adjusted return with illiquidity premiums (the difference between the discount margin on the private loan and the discount margin of a public loan of similar credit risk and duration) north of 2% per annum.

Over 2025 exposure to asset backed finance was reduced largely based on relative value considerations and elevated repayment levels. Current exposure has fallen to 12% from circa 15% at the same time last year. Favourable conditions for non-bank lenders have led to an uptick in demand for warehouses and there is a solid pipeline on new asset backed opportunities which represent decent relative value. As such we don't expect further material declines in this allocation.

While not exposed to development or pre-development lending, the sectors attracting the most attention from investors, the Fund has exposure to real estate loans secured by existing commercial real estate properties. Asset quality within this allocation has been more mixed recently with several names that, while performing, are under greater scrutiny.

The first is a senior secured loan against an office in Melbourne which is expected to repay in the first quarter post the completion of a sale process. While the sale is now highly likely to complete the final price came in well under the then current valuation taking the loan to value ratio above 80%. This prompted a downgrade to the internal credit rating to B- and the credit team placing it as a Special Mention on the credit watchlist. The other position on the watchlist is a senior secured residual stock loan internally rated BB-, down from BB+ at purchase. The loan was downgraded following a dispute between the sponsors of the project and slower than expected sales. Both assets are still performing albeit below the base case and expected to fully repay the outstanding principal, interest and break fees. The positions total 4% of the Fund are both valued around par.

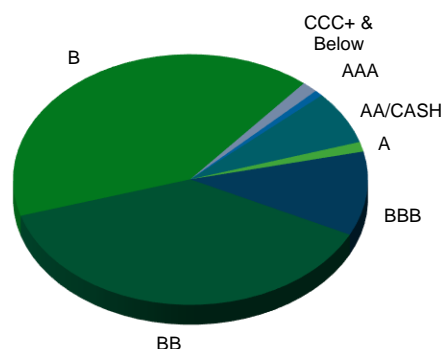
There have been no changes to the substandard or defaulted names on the watchlist, the largest position still being a senior secured loan to a private hospital operator. The position is internally rated D and represents a 0.6% weighting in the Fund. The sale process for the underlying hospitals is ongoing and the pricing of the position may change as realisations of underlying assets occur and any future business structure becomes defined. This month the position moved from the low 50s to the high 50s post confirmed asset sales late last year.

The remaining 0.4% of stressed names are in the direct to retail and waste management service sectors. One is substandard and the other is in default and undergoing a restructure with ongoing management strategies in place to improve performance.

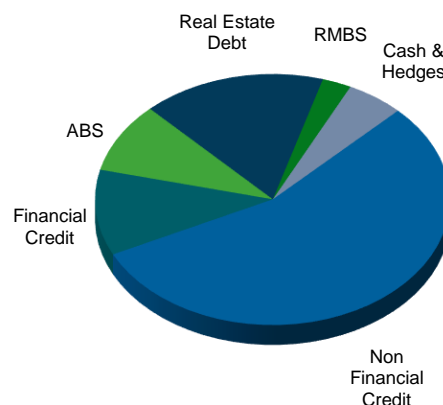
Market Conditions:

For most of January, global markets maintained their positive trajectory. Government bond yields increased slightly with the US 10 year almost reaching 4.3% for the first time since August. However, by mid-February yields had declined sharply, with the 10 years reaching 4.05% as fears around the impact of AI on software and beyond led to markets adopting a more risk off tone.

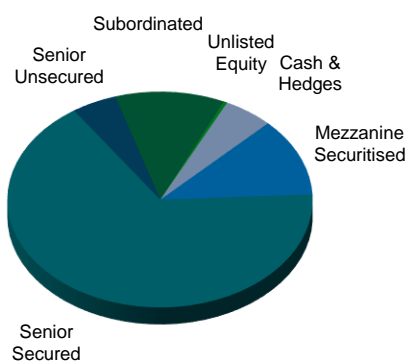
Fund Credit Quality



Fund Asset Allocation



Fund Ranking



Credit markets were not immune. Leveraged loans, which have a mid-teens exposure to software, widened around 45 basis points from mid-January levels and currently sit at the recent wides. High yield credit which has <5% exposure to software was around 30 basis points wider. This was from a much more expensive starting point with high yield spreads having reached 251 basis points on an asset swapped basis in January, the tightest level since 2007. In investment grade credit markets, the most exposed borrowers are Business Development Companies (BDCs) which have mid 20s software exposure. BDC equity is down 6% year to date, trading at a median discount to net asset value of 24% with BDC credits trading at an option adjusted spread of 185 basis points, around 20 basis points wider than the mid-January tights.

Another software-affected part of credit markets is Collateralised Loan Obligations (CLOs). According to Morgan Stanley, broadly syndicated CLOs have around 15% exposure to software with private credit CLOs even higher at around 19%. Despite the relatively high exposure, JPMorgan's CLO index indicated that senior tranches remained quite resilient to the negative tone with only sub-investment grade tranches showing some weakness.

One reason spreads have been so resilient is the strength in fund flows. Deutsche Bank reported that in the 1 month ended February 10, US dollar investment grade inflows were US\$20 billion. The story was similar in Europe where short duration credit funds also received solid inflows. The strong demand has been met with strong supply. Hyperscalers who are expected to reporting cash capex of US\$740 billion in 2026 and over US\$900 billion in 2027, up from US\$437 billion in 2025, have featured heavily. As the capex boom has overwhelmed earnings and increasingly the appetite of equity investors, bond issuance from the hyperscalers took total US dollar investment grade issuance to a record US\$228 billion in January 2026, up 9% from the pcp.

Another factor in the resilience of markets has been the consistency in earnings growth. In US markets, earnings growth in Q4 has growth has been over 12% with around three quarters of companies in the S&P500 reporting. In private markets Golub Capital's middle market report, earnings were weaker than public markets, up only 3.1% on a year on year basis with technology reporting earnings growth of 5.9%.

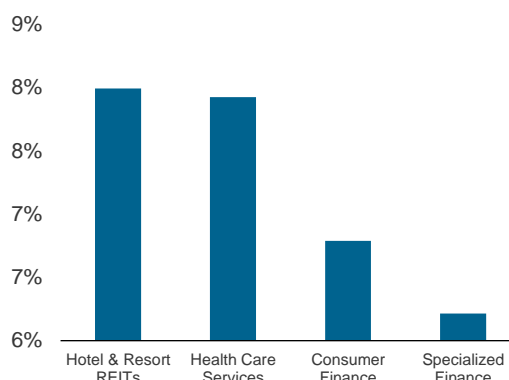
Domestically, the software story has had minimal impact on credit spreads, unsurprising given the low exposure to software. Even in private credit markets software exposure is considerably less than offshore markets.

A more relevant thematic in domestic bond markets remains the phasing out of listed bank hybrids. This investor base has pushed into new parts of the credit market allowing UBS to issue a second AUD denominated Additional Tier 1 (AT1) bond inside of 6 months. The deal priced at 20-30 basis points inside their global curve but has since traded poorly widening by around 25 basis points, still around 10-15 basis points tight to their global curve.

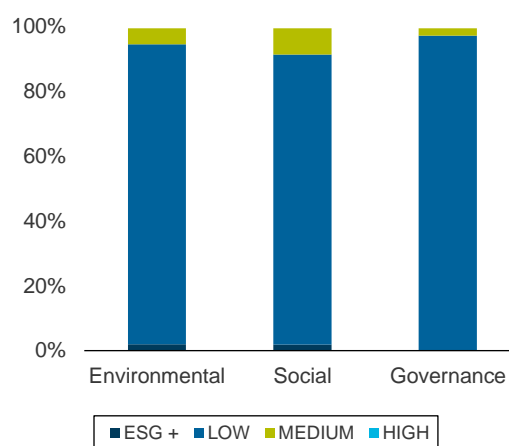
Domestic bank results were strong with the major banks re-rating after a couple of weaker quarters. This was limited to the equity however, with several bank issuances trading poorly in the secondary market. Subordinate/Tier 2 debt was the underperformer.

In the midst of all the technology headlines the RBA hiked interest rates. The cash rate is now at 3.85% with another hike priced for mid-2026. These moves have important implications for sentiment, especially for commercial real estate which used the decline in interest rates to justify a stabilisation in asset values. While we don't think a sharp decline in valuations is on the horizon, we do think financial conditions have the potential to tighten further from here.

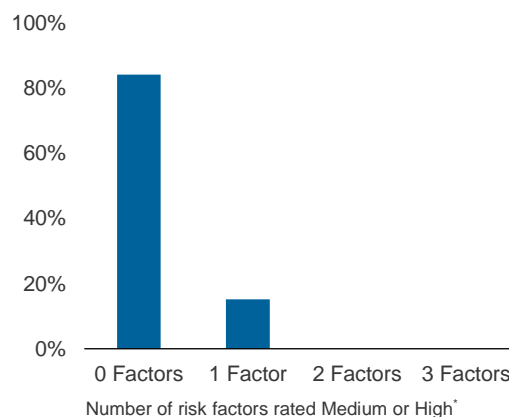
Top Industry Exposures



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.

As always comments, questions and general feedback are welcome.

Warm regards,

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