

# Challenger IM Multi-Sector Private Lending Fund

## Monthly Report February 2026

### Performance<sup>1</sup>

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) <sup>*</sup> p.a.
Fund return (net) <sup>2</sup>	0.43	1.92	3.87	5.72	8.04	8.40	-	7.43
Benchmark Index <sup>3</sup>	0.28	0.90	1.80	2.43	3.83	4.14	-	2.93
Excess Return	0.14	1.02	2.08	3.30	4.21	4.26	-	4.49

<sup>1</sup>Inception Date: 04/05/2021

<sup>2</sup>Performance 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.

<sup>3</sup>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.

<sup>4</sup>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 0.43% in February, an excess return of 0.14% over the Benchmark. Since inception in May 2021, the Fund has returned 7.43% per annum, 4.49% per annum over the Benchmark. As at the end of February the Fund had 110 issuer exposures with a running yield of 7.6%.

Spreads were softer in the period across all markets with the move wider not attributable to any particular sector of the Fund. The income effect for the month contributed 0.63% to the portfolio return, offset by a -0.14% spread contribution.

#### Fund Positioning:

The Fund has a cash and cash substitutes balance of 19%, of which 7% is expected to be deployed into five committed loans in the coming months. The pipeline is healthy with four potential private loan opportunities representing 10% of the Fund. After factoring in successful pipeline deployment, the portfolio is expected to be generating an income return of just under 4.6% over bank bills, roughly equivalent to a yield to maturity of 8.8% over circa 2.5 year credit spread duration. Early repayments, trading gains and capital appreciation can incrementally add to this return.

### Fund Details

Portfolio Value (\$Million)	\$1,341.0
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	7.6
Modified duration (yrs)	0.10
Portfolio Credit Spread Duration (yrs)	2.4
Non-AUD Denominated	10%

### Pipeline

Cash & Cash Substitutes	19%
Committed Not Funded	7%
In Due Diligence	1%
Pipeline	10%

Half of the opportunities in the pipeline are currently in developed real estate within the office sector. The Funds capacity to allocate to real estate lending opportunities is high. The current weighting to the real estate asset class is 16% and at least two repayments are expected in the second quarter representing 2.5% of that exposure. Real estate exposure has gradually risen throughout 2025 and overtime we do not expect the allocation to exceed 25% of the Fund.

Commitments include an increase in exposure to a position in the childcare sector, a loan to a well-known food manufacturing brand, a loan to a medical services and supply provider, a loan against an A grade office building in Melbourne with a loan to value ratio of around 70% and a securitised warehouse facility.

A small volume of private transactions funded over the month. The impact of the summer holiday with the market pausing over that period likely has played a part. Transactions timelines from origination, due diligence, documentation through to settlement can take two to three months. Transactions funded for this period included an increase in exposure to an existing loan to an operator of hospitality venues. The transaction offers a strong risk adjusted return with an illiquidity premium (the difference between the discount margin on the private loan and the discount margin of a public loan of similar credit risk and duration) is north of 2.5% p.a.

Exposure to software, a sector coming under significant scrutiny in US private credit markets, is 6.7% across five names, with all positions performing.

There is one real estate position with a weighting of 2% that is currently on special mention (an asset classified performing and needing increased monitoring) post month end. The position is first ranking and secured against established residential housing. It is internally rated BB-. This loan is adequately covered by the asset value.

Post month end, one position with a weighting of 1.9% was recently removed from special mention following execution of a sale contract. This position had been previously downgraded to B- by Challenger's credit risk management team due to an increase in the loan to value ratio. The loan is first lien senior secured against an income-producing office building in Melbourne and is expected to be repaid in early May. The credit rating is currently being reviewed.

There have been no changes to the substandard or defaulted names on the watchlist. The largest position 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 position is now marked in the high 50s post asset sales late last year. The pricing of the position is reviewed monthly, where all work out developments including observed secondary market trading are considered.

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.

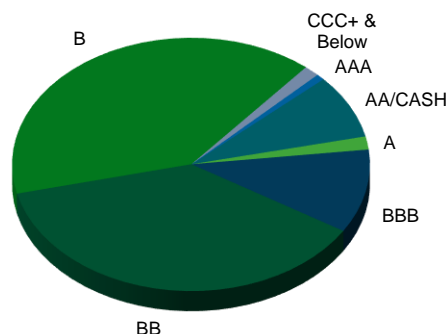
**Market Conditions:**

A combination of a resurgence of fears around private credit cockroaches, higher oil prices as a result of the US/Israeli attacks on Iran and concerns about the impact of artificial intelligence on software companies broke the back of a market that had been relentlessly bullish for close to 12 months.

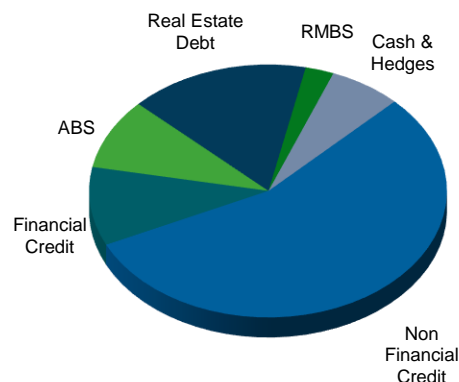
The oil price has been the most material driver of risk sentiment in recent weeks. Having started the year at US\$55/barrel, crude oil has increased to over US\$95/barrel at the time of writing. This is the highest level since mid-2022 when the Russia invaded Ukraine.

A protracted oil shortage due to the closure of the Straits of Hormuz has widespread implications for global trade but in the near term have further embedded expectations of a rate hike when the RBA meets in mid-March with an implied cash rate peaking at 4.5% in late 2026. The basis between the Australian 10yr and the US 10yr peaked at 75 basis points in early March, having been negative in mid-2025.

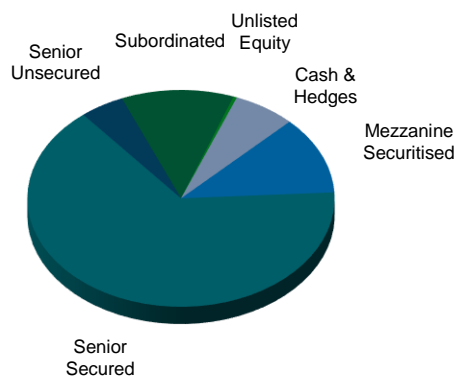
**Fund Credit Quality**



**Fund Asset Allocation**



**Fund Ranking**



Up until late February the higher rate environment in Australia had brought in demand from outright yield buyers which helped keep spreads contained. However, the persistence of the volatility has led to progressively weaker liquidity conditions over the first couple of weeks of March. Verizon issued a hybrid deal in early March, which seemed to print to demand and has since traded 10-15 basis points wider than the new issue spread level. Investment grade credit is circa 25 basis points wider than the tights of late January with high yield around 60 basis points wider but still remaining well inside the tariff volatility of March/April 2025.

Domestic RMBS have reverted to form with the first deal with non-disclosed margins pricing in early March. When margins on a deal are not disclosed it implies either the buyer or the seller of the notes doesn't want the market to know the interest margin on the deal. This was a common feature of the market following the Global Financial Crisis but has become increasingly rare since as investors need the margins to be disclosed so they can trade the notes in secondary markets. With multiple deals in the pipeline there is a strong bias for further widening from current levels.

Offshore, more specific credit market related issues also weighed on sentiment. Last month the concern was private credit's exposure to the software sector. This month concerns turned to outflows from interval funds. As a reminder, interval funds are evergreen vehicles that allow investors to redeem funds on a quarterly basis with a cap of 5-7% of total net assets. This structure is primarily used by private credit managers given that private credit loans typically repay in 2-3 years. The structure is relatively new and untested, having never faced widespread redemptions until now. Over March, several high profile funds were forced to cap redemptions at their gates with some experiencing redemption requests of up to 14% of the total fund. While the structures are working as intended and protecting the other +80% of investors who didn't submit redemption requests, the action of gating has sparked fears of further gating which seems to be prompting investors to redeem first and ask questions later. Higher redemptions will mean tighter financial conditions which could start to weigh on fundamental performance which to this point has been benign.

The interval fund feature is less common in Australia but has been applied to some recently issued listed investment trusts, many of which are trading at discounts to net tangible assets and are thus likely to face some redemption pressure. The listed note market has also traded off with margins now in the low to high 300s, around 50 basis points wider on the month.

With spreads still relatively tight on a historical basis, there is room for further widening especially if markets remain volatile and financial conditions continue to tighten.

*As always comments, questions and general feedback are welcome.*

*Warm regards,*

**Challenger Investment Management Team**

For further information, please contact:

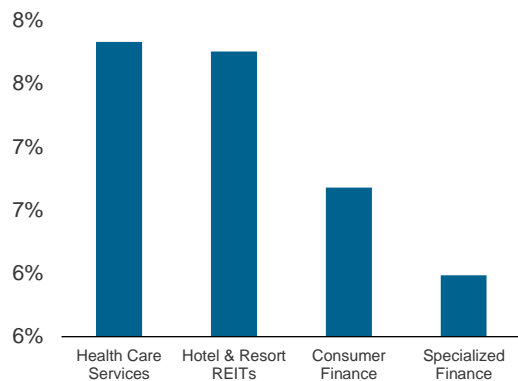
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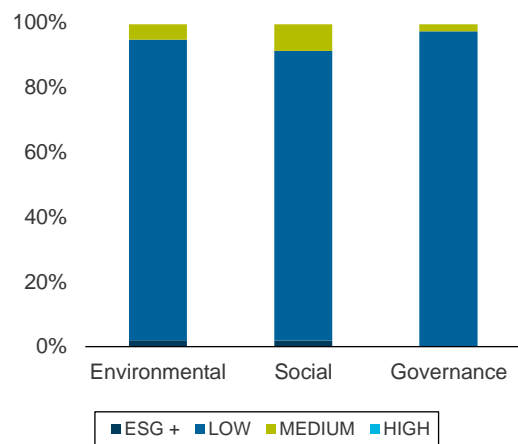
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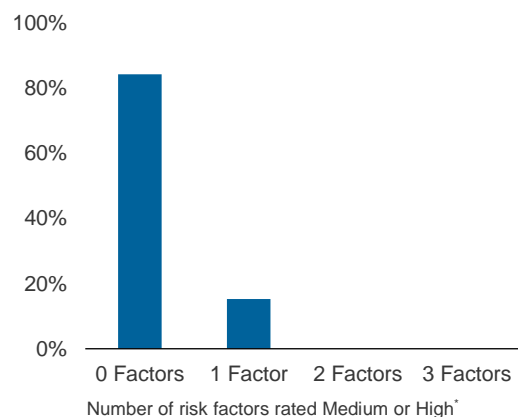
**Top Industry Exposures**



**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.

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