

Challenger IM Multi-Sector Private Lending Fund

Monthly Report May 2026

Performance¹

	1 Month (%)	Quarter (%)	6 Months (%)	FYTD (%)	1 Year (%)	3 Years (%) p.a.	5 Years (%) p.a.	Since Inception (%) [*] p.a.
Portfolio return including hedging (gross)	0.66	2.09	4.21	8.48	9.24	9.03	7.99	7.74
Bloomberg Bank Bill Index (Benchmark)	0.34	1.00	1.91	3.45	3.78	4.18	3.03	2.44
Active return	0.32	1.09	2.30	5.02	5.46	4.85	4.95	5.30

^{*}Inception Date: 03/02/2020

¹Performance is gross of fees. Returns are calculated before fees have been deducted and assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

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 0.66% in May, an excess return of 0.32% over the Benchmark. Since inception in February 2020, the Fund has returned 7.74% per annum, 5.30% per annum over the Benchmark.

As at the end of May, the Fund has increased issuer exposures to 113 and had a running yield of 7.9%.

The returns for the period were driven by the income of assets. The contribution from movements in credit spreads were negligible following the strong 0.6% contribution that occurred last month.

Fund Positioning:

There was strong M&A activity earlier in 2026. However, market volatility driven in part by geopolitical tensions in the Middle East and interest rate increases has led to a slowdown in new private corporate transaction activity. Despite this, refinancing and selective recapitalisation opportunities remain available, particularly for stronger performing borrowers. New transaction flow has been uneven over the past 18–24 months, reflecting tighter credit spreads and the recent volatile environment. That said, stabilising credit spreads and improving market sentiment in May are expected to support a pickup in borrower activity.

From a sector perspective, the Fund is avoiding new exposures to technology, software, and certain business services segments where AI-related disruption risks are elevated. Instead, the focus remains on credits with strong, defensible competitive advantages.

Fund Details

Portfolio Value (\$Million)	\$1,381.0
Buy/Sell Spread	'0.5%/-0.0%'
Distribution Frequency	Quarterly
Redemption Terms	Quarterly with best endeavours

Key Statistics

Number of Issuers	113
Running yield (%) p.a	7.9
Modified duration (yrs)	0.08
Portfolio Credit Spread Duration (yrs)	2.5
Non-AUD Denominated	8%

Pipeline

Cash & Cash Substitutes	21%
Committed Not Funded	11%
In Due Diligence	3%
Pipeline	9%

Developed real estate assets continue to perform well and remain attractive. The Fund is selectively targeting developed commercial real estate opportunities, particularly in office hotels and residual stock. New transaction flow in real estate remains active, with interest rate dynamics giving rise to attractive bridging opportunities under early consideration.

Settlement activity in private credit was relatively muted during the month. Approximately 4% of the Fund's value is expected to settle in June. Upcoming settlements include a senior secured loan to a diversified industrial manufacturing and distribution business, a senior secured loan to an education resources provider, and commitments to three collateralised warehouse facilities.

Illiquidity premiums in private markets remain attractive. As spreads stabilise further, the Fund expects to capture these premiums. The Fund has 10% capacity to consider more transactions. Cash and cash substitutes need to be held to make these borrower commitments. We are deploying steadily and are positioning cautiously to facilitate further diversification in an environment with macroeconomic headwinds.

When fully invested, the Fund is expected to generate a return of 4.3% over bank bills, equivalent to a 9% yield to maturity with spread duration at 2.5 years. This has been tracking below the Fund's target of the AusBond Bank Bill Index +5%, primarily due to the lower credit spread environment.

Post month end, there is one real estate position with a weighting of 1.9% that is currently on Special Mention. Special Mention is defined as an asset that is performing but requires increased monitoring. The position is first ranking and secured against established residential housing. A sponsor related dispute unrelated to the underlying asset has now been resolved. However, valuation weakness and performance have not tracked in line with base case expectations. The exposure is internally rated BB, with asset coverage reflected in an LVR of approximately 60%.

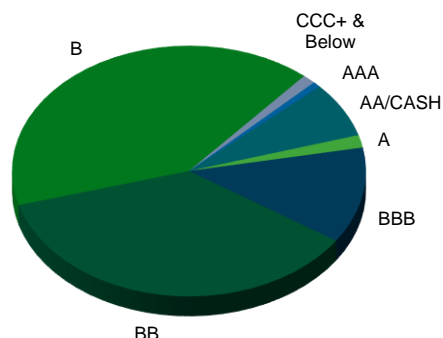
There have been no other changes to the two substandard or defaulted names that represent a 1% weight on the watchlist. The largest position is a senior secured loan to a private hospital operator. The position is internally rated D and represents a 0.7% weighting in the Fund. There has been no further change to pricing. It was revised upward from the high-50s to the low-60s in March due to improved timing of recoveries. The workout process remains ongoing, and the valuation of the position continues to evolve as additional information becomes available. The other position represents a 0.3% weighting to a direct to retail business. The loan has previously been restructured with ongoing management strategies in place to improve performance and maximise recovery value.

Market Conditions:

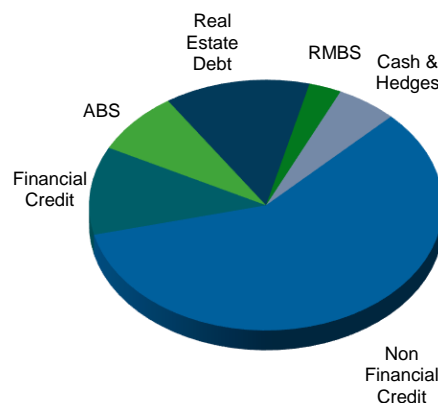
Markets continued to rally in May, despite rising inflation fears. The rally extended April's gains on the back of optimism around a potential near term diplomatic resolution to the Iran conflict and strong corporate earnings. Equities once again reached all-time highs with the MSCI world index returning 4.4% on the month, after gaining 9.5% in April, for a cumulative last two-month gain of +14.2%. Credit spreads generally were tighter over the month across the risk spectrum, led by offshore markets.

Negotiations have been ongoing since the announcement of the ceasefire in early April, but a deal is still to be reached due to unresolved issues around a number of points including Iran's nuclear program. Even as some relatively minor renewal of the conflict occurred at the start of June, markets appear to be looking through, with optimism around a near term deal and reopening of the Straits. This has been reflected in the price of Brent crude which fell from US\$114/barrel at the end of April to US\$92/barrel at the end of May.

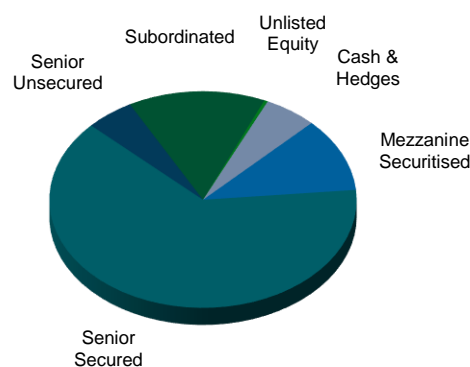
Fund Credit Quality



Fund Asset Allocation



Fund Ranking



The rally in equity markets over the month was driven by strong corporate earnings growth and enthusiasm for AI-related investment, with the S&P 500 increasing by +5.3% over the month, led by technology stocks at +16%. Earnings growth was strong across the board, beating consensus estimates with +27.9% for the overall S&P 500 index, led by technology at +50.7%. While earnings strength has been broad-based, technology continues to be a dominant driver of equity returns, with the AI Big 10 (Magnificent 7, Broadcom, Micron and AMD) now representing ~40% of the S&P 500 by market cap. This enthusiasm for AI-related investments also extended to emerging markets, particularly for countries with exposure to AI semiconductor and chipmakers such as Korea (KOSPI index +101% YTD, +28.5% MTD to May-26) and Taiwan (TAIEX index +54% YTD, +15% MTD to May-26). Similarly in credit, spreads continued to grind tighter on the month and the theme of technical demand continued to play out in public fixed income markets with demand for yield and strong book coverage levels observed.

Most central banks remained cautious and on hold with a hawkish tilt in May. However, some economic data released over the month pointed to improving inflation dynamics. In the US, Powell's term as Fed Chair ended and Kevin Warsh was sworn in as the next Chair of the Fed, with his first FOMC (Federal Open Market Committee) taking place on 16-17th of June. While Trump may be hoping Warsh will be dovish on interest rates, this will be difficult for the new Chairman. On average, US macro data is pointing to a resilient economy (with more jobs added than anticipated, US CPI running at 3.8% yoy and while core CPI is running at 2.8% yoy to the end of April). However, there are signs that the cycle may be turning as consumer sentiment deteriorated with the University of Michigan released their consumer sentiment index reading at 44.8, just below the prior historical trough seen in June 2022, with the fall in sentiment driven by concerns around cost of living and inflation pressures.

Domestically in Australia, the RBA hiked rates for the third consecutive time by 0.25% to 4.35% as they continued to work to bring inflation back to their 2-3% target range. The RBA signalled they are likely to pause the current tightening cycle, but hike further if necessary. The budget was also released this month, where the government announced significant reforms to negative gearing and CGT, aimed at cooling the housing market and encouraging the construction of new residential properties. The changes are likely to lead to a reduction in investor demand, as the changes makes holding investment properties less attractive (although we note that the changes will only apply to investment properties bought after budget night). This could potentially lead to some weakness in the Australian housing market in the short term with Morgan Stanley estimating a 5-10% national house price decline in 2026, largely driven by rate hikes but accentuated by the changes introduced in the budget.

In summary, the themes we witnessed in April continued to play out in May, with markets rallying on the back of easing geopolitical concerns, strong corporate earnings and continued technical strength. However, the backdrop remains vulnerable to renewed conflict, inflation pressures, and a higher for longer rate environment, particularly as consumer sentiment continues to fall.

As always comments, questions and general feedback are welcome.

Warm regards,

Challenger Investment Management

For further information, please contact:

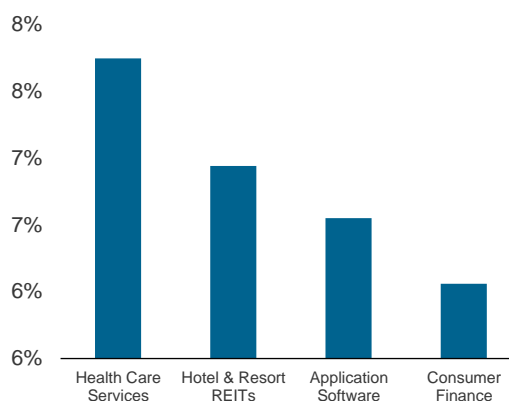
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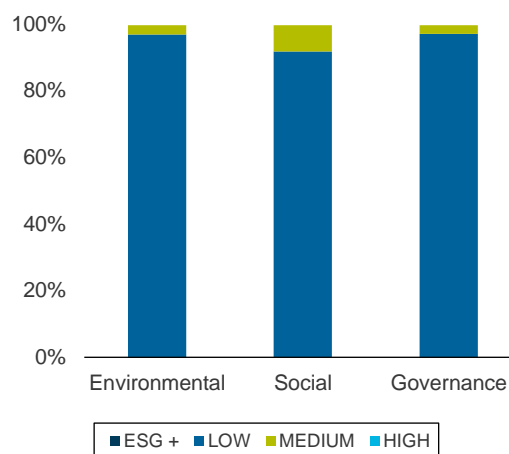
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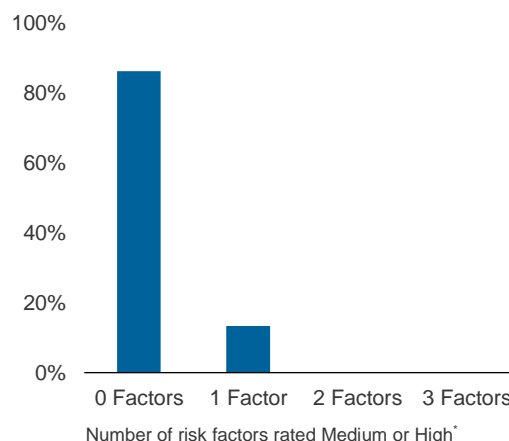
Top Industry Exposures



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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