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Challenger IM Fixed Income

Responsible Investment Statement

May 2024

Contents

1. Introduction

Challenger Investment Management Fixed Income (CIM FI) believe that explicitly incorporating environmental, social and governance (ESG) factors into investment decision making can improve financial outcomes for investors via stronger excess returns and reduced downside risk as well as promoting more sustainable business practices.

CIM FI has a systematic approach to incorporating ESG considerations into its investment process. We regard these risks as being inherently linked to the sustainability of the businesses to which we lend, to their ability to refinance and ultimately the risk of default.

We believe that our approach to ESG integration not only benefits our clients but also can have a positive impact on society and the environment.

2. ESG philosophy

At CIM FI our investment philosophy is heavily influenced by our long heritage in private lending markets. Since 2005 we have approached credit markets as both a lender and an investor. As an investor we apply a relative value approach, integrating ESG risks into pricing and valuation considerations. As a lender we prioritise direct engagement with borrowers to mitigate ESG risks.

CIM FI's approach is guided by these principles.

To us responsible investing is about being responsible to clients to deliver long term predictable streams of income.

Over the long term we can only do this by incentivising sustainable business practices from the businesses we lend to. We achieve this by adjusting the interest rate charged to borrowers to reflect the sustainability of their business practices.

CIM FI assesses ESG risk against exogenous factors.

There are only two ways that we can exit a position: either the cashflows of a business pay down the outstanding debt or other investors refinance our position. If the cash flows generated by the business are insufficient to pay us back, then we need to be confident that other investors will be prepared to lend to the borrower at the time of refinancing which could be 5 or more years into the future. Responsible investing is rapidly gaining attention from an ever-broadening group of investors and investments that are able to be refinanced today may not be in the future. This will have an impact on long term investment outcomes and we believe is something all investors should be mindful of, regardless of their investment philosophy.

Effective engagement drives positive performance by mitigating downside risk.

We have long engaged effectively with borrowers driving positive performance through a focus on structure and documentation. Prioritising direct due diligence with borrowers allows us to gain transparency into business practices as well as business culture and governance. Our history in private lending markets informs our approach to effective engagement across both public and private strategies.

CIM FI incentivises sustainable business practices by deliberately raising the cost of capital for businesses who do not engage in sustainable business practices and lowering the cost of capital for businesses who do.

ESG risks are most pronounced when poor environmental or social practices are combined with poor governance.

Environmental and social risks are inherent in many businesses. Most have adapted to evolving standards around their business practices. We believe businesses with poor governance are most at risk of prioritising short term results over long term sustainability.

These principles inform the our approach across public and private lending strategies. Assessing the sustainability of the businesses, pricing for the risks identified and engaging with borrowers to mitigate these risks has always been embedded in our investment process.

3. ESG integration

3.1 CIM FI's Investment Process

Our investment belief is that taking a private approach to lending leads to better risk/return outcomes across private and public markets. A private approach means underwriting credit risk as though you will own it – not trade it. It means actively sourcing new opportunities rather than waiting for a bank to call. It means engaging with borrowers and arrangers directly to effect structural changes to transactions to mitigate downside risks and access better quality information. This approach involves having discipline in understanding and quantifying credit, liquidity, and complexity risk premia.

The CIM FI team takes a multi-strategy approach to credit investing, allowing for a broader opportunity set and avoiding sectors which are mispriced. The team adopts a value approach to credit investing such that cheapness and richness are considered in relative not absolute terms, both across sectors and for individual securities.

Consideration of environmental, social and governance (ESG) factors is fully integrated into the investment process and embedded into the team's investment philosophy which emphasizes strong engagement. Attractive returns can be generated by identifying ESG risk factors, engaging with borrowers to mitigate these risks and incentivising positive outcomes through structure as well as price.

This systematic approach to integrating ESG considerations in the investment process is outlined in the diagram below.

	CIM FI Team	**Independent Credit Risk Team**	**Governance Oversight**
Origination	• Sources new opportunities		
Initial Screen	• Assess pricing and key terms • Reject c.50% of deals at this stage • **Identify material ESG risk factors and screen deals based on ESG risk appetite.**	• Initial review and discussion with Challenger IM team	
Due Diligence	• Extensive DD • Relect turther c.30% of opportunities • **Assess materiality of ESG risk factors via propriety risk rating methodology & layering process, asset class specific approaches, materiality matrix & direct engagement.**	• Detailed scenario and sensitivity analysis performed • Industry, business and financial analysis and assessment	• Tax and legal teams review transaction docs • Engagement & policy
Execution	• Investment paper submitted to Investment Committee (IC) • **ESG risk factors are presented and discussed in the IC. Material ESG risks are factored in pricing.**	• Credit Risk must provide internal rating on all non-externally rated investments • Credit paper and indication of support submitted to IC	• IC chaired by Chief Risk Officer • Transaction signoffs where required include all functional areas (tax, legal, etc.)
Ongoing Management	• Investment Portfolio Manager owns the exposure from start to finish • **Ongoing monitoring & reporting ESG risk exposures. New ESG exposures are mitigated with companies through engagement.**	• Ratings continuously assessed, affirmed annually • Maintain watchlist • Responsible for any restructures or workouts	• Independent valuation team meets monthly to fair value portfolio • Quarterly IC monitoring committee

3.2 Sustainability Risk Policy Statement

We manage investment portfolios taking into consideration sustainability risks as part of a thorough and robust investment process.

We consider the materiality of sustainability risks in the context of:

- their impact on the sustainability of the businesses to which we lend,
- to their ability to refinance; and
- the risk of default.

Sustainability risk factors that we consider include:

Environmental	Social	Governance
Fossil fuel dependence, carbon emissions, stranded assets, raw material sourcing, biodiversity and land degradation, toxic emissions and waste.	Health and safety, labour management, privacy and data security, product safety and quality, responsible lending, supply chain labour standards, modern slavery.	Ownership, board, risk management and internal controls, accounting standards, corporate culture, anti-competitive practices, management of legal and regulatory environment.

Based on our assessment of material sustainability risks we assign a High, Medium or Low risk rating for each category of environmental, social and governance. We will exclude any company with a High risk rating in any category. Additional scrutiny is applied to entities which have a Medium social or environmental risk layered with a Medium governance risk.

We assess these Sustainability Risks based on both internal and externally sourced research and analysis. We assess local media outlets for timely alerts on relevant issues and entities to further inform our process.

The investments underlying this financial product do not currently consider the EU taxonomy criteria for environmentally sustainable economic activities.

3.3 The CIM FI ESG rating process

Our investment universe comprises global developed market bonds and private lending in Australia and New Zealand with a focus on stable performing credits and typically investing into shorter tenors than other credit investors. This has the effect of reducing correlations with other risky assets and allows us to invest where our predictive power is strongest.

This investment universe influences our approach to ESG. For example, we have minimal exposure to political risks and modern slavery risks are considered to be lower when compared with emerging markets investors. Our focus on stable performing credit means we don't invest in venture debt which also limits our exposure to more speculative but potentially highly impactful technologies which could have significantly positive ESG implications.

The table below illustrates how ESG is considered at every stage of the investment process.

How we invest – CIM FI's Private Credit mentality applied across all markets

Geography / Macro	Sector / Industry	Company / Issuer	Deal Structure	Liquidity
• Avoid situations where macro themes are the key valuation drivers as market shifts can be unpredictable and binary.	• Target sectors that have ongoing financing needs rather than opportunistic issuers. • Assess event risk within the sector? How does the company rank relative to peers?	• Focus on refinancing risk, cash flows, debt distribution, financing costs, covenants etc. • Engage with management team: key man risk, track record, stability.	• Active engagement with issuers in both public and private markets. • Ensure structure aligns economic incentives of the issuer with our clients. • Preference for structures that incentivise deleveraging to aid refinancing.	• Explicit modelling of liquidity premia. • Underweight issuers with high levels of perceived vs actual liquidity. • Focus on shorter tenors when lending in private markets.

Environmental, Social and Governance Considerations

• Avoid countries/ regions which have heightened ESG risks.	• Evaluate the key environmental and social risk factors inherent in the sector.	• Rank the issuer relative to peers in terms of ESG. What is the history and trajectory?	• Seek to mitigate ESG risks or incentivise positive action by engaging on structure.	• Assess the ability of the business to withstand an ESG risk event which limits access to markets.

Materiality of ESG factors

We incorporate material ESG factors into the fundamental analysis of each issuer we consider for inclusion in our portfolios.

Materiality is determined by considering which ESG risks and opportunities the industry is most exposed to as well as any ESG risks and opportunities specific to the issuer itself. A material ESG risk is one which, if not well managed, can have a significant impact on the ability of the borrower to repay the loan.

Within our private lending platform we have developed a proprietary framework to assign a rating for ESG risk factors on each potential investment. This assessment forms a key part of the investment process.

The investment and credit teams jointly determine these ratings as part of the due diligence process. Each investment is assigned one of the following four ratings for each E, S and G risk factor.

CIM FI's internal ESG ratings

ESG+	The factor **actively reduces** the credit risk of the investment
Low	The factor **does not meaningfully affect** credit risk of the investment
Medium	The factor **does meaningfully affect** the credit risk of the investment but this risk **could be mitigated** by engagement with the borrower or valuation
High	The factor **does meaningfully affect** the credit risk of the investment and engagement with the borrower or valuation considerations **does not mitigate this risk**

The ratings feed into the investment process as follows:

- If any factor is High, the investment will be excluded as it is difficult to mitigate the risk through engagement or ascertain fair value;
- If any factor is Medium, the investment will be avoided unless one of two conditions are met: 1- the relative value of the investment justifies the medium risk, or 2- the risk can be mitigated through engagement; and
- The return hurdle for an ESG+ investment will reflect the lower risk profile.

Risk layering

Layering of risks is of particular focus. Investments will likely be avoided where a medium environmental or social risk is combined with a medium governance risk. For companies with an overall Medium risk, where we have the opportunity to engage, we will do so to understand their mitigation strategies. We may add them to our portfolios where we are satisfied with their approach and price is reflective of acceptable relative value.

Interaction of ESG rating and value

	ESG +	Low	Medium	High
Undervalued	Add	Add	Engage & Add	Exclude
Fair value	Add	Add	Engage & Avoid	Exclude
Overvalued	Avoid	Avoid	Avoid	Exclude

The ESG ratings are stored on SimCorp Dimension, the front office system used by CIM FI to manage their investment portfolios.

External ESG ratings are utilised in a similar manner to external credit ratings. They form a part of the overall ESG risk assessment but do not replace it.

Every investment memorandum is required to include a section that explains how these ESG ratings have been determined. Portfolio managers and/or investment committees are responsible for ensuring that an appropriate level of ESG analysis has been conducted and evidenced prior to approving any new exposure.

3.4 Asset class specific approaches to assessing ESG risks

The breadth of CIM FI's investment universe means that there is no one size fits all approach to assessing the ESG risk of a potential investment.

Various asset class level approaches are employed to assess ESG risks. Examples of typical considerations are outlined below.

The team's aim is to apply, where possible, consistent and comparable ESG analysis across the fixed income portfolios.

Given the broad scope of fixed income instruments, the ESG analysis is tailored where needed for different types of issuers and transactions.

Recognising that the nature of fixed income is that the potential downside outweighs the potential upside of an investment, the focus of ESG analysis is largely to identify and protect against risk factors that can impact creditworthiness of a borrower.

Non-financial corporate credit

Assess the strategy of the borrower.

- Does their business entail any environmental or social risks? Examples may include:
  - labour practices (i.e. use of child labour, workplace health & safety),
  - product risk (i.e. tobacco/alcohol),
  - environmental risks (does the business have a direct or indirect negative impact of CO_2 emissions),
  - stranded asset risk (is there a risk that the business is overtaken/replaced by a more "responsible" alternative business)?
- What does climate change mean for the business?

Assess the governance risks of the business.

- Does the board have sufficient independence?
- Does the board have diversity and experience to provide proper oversight of management?
- Is management/ ownership transparent and ethical (including with respect to relevant ESG data i.e. CO_2 emissions data)?
- What is the track record of management/ sponsors in working with bondholders/ lenders?
- Is the financial reporting transparent and clear?

Financial credit

What is the business strategy of the financial institution?

- What are their key products and how are they distributed?
- What is the financial institutions approach to lending (do they consider ESG factors and if so how)?
- Where do they operate (both geographically and market segments)?

What are the governance risks of the business?

- Does the board have sufficient independence, diversity and experience to provide proper oversight of management?
- Is management/ownership transparent and trustworthy?
- What is the relationship of management/board with regulators?
- How do they manage cybersecurity risks?

Asset backed securities

Assess the lending strategy of the originator.

- What is the lending product?
- Does it have deleterious effects on society or the environment (e.g. payday lending)?
- How is the product originated?
- What are the credit policies of the originator (do they consider ESG risk in their decisions) Are there risks of mis- selling to borrower?
- What levels of disclosure are there around the product?
- Is the lending regulated or unregulated?

Assess the governance risks surrounding the structure.

- Is there proper segregation of cash?
- Is there an independent trustee?
- What is the organisational structure of the originator (e.g. are credit underwriters paid on volumes or performance)?
- Are collections outsourced?
- Are they in possession of personal information and if so how is it protected?

Real estate lending

Assess the environmental risks of the property being lent against.

- What is the NABERS/Green Star rating?
- Identity and risks associated with the tenants in the property (e.g. do they require certain NABERS ratings, are they in sensitive industries)?
- What were the prior uses of the site (e.g. potential contamination of development site)

Assess regulatory compliance of property being lent against.

- Assess regulatory compliance (e.g. use of combustible cladding)
- Safety and security of building (e.g. for student accommodation)

Assess the governance risks of the sponsor and property manager.

- Can they be identified including source of funds?
- Are audited financials available?
- What is the track record of management?
- How are assets valued (e.g. frequency/independence)?

3.5 ESG factors

ESG factors that may be taken into consideration include, but are not limited to, those shown in the below ESG Key Issues Matrix. ESG issues are not static and are likely to change over time, therefore this matrix will be amended accordingly from time to time.

The Key ESG Issues Matrix summarises ESG risks most relevant to our portfolios. We recognize that each investment opportunity has a unique set of circumstances. Therefore, we employ a bottom-up approach to determine the materiality of ESG risks on a deal-by-deal basis.

CIM FI Key ESG Issues Matrix

	Environmental				Social				Governance	
	Climate change	Natural resources	Pollution & waste	Environmental opportunities	Human Capital	Product liability	Stakeholder opposition	Social opportunities	Corporate governance	Corporate behaviour
Critical	Stranded Assets	Raw Material Sourcing	Toxic Emissions & Waste		Labour Mgmt	Privacy & Data Security			Accounting Standards	Management of legal and regulatory environment
Critical	Carbon Emissions	Fossil Fuel Dependance			Health & Safety	Product Safety & Quality			Risk Management & Internal Controls	
Critical	Climate risk – physical and transition				Trade Finance Receivables – ABS	Access to Finance			Ownership	
Critical					Modern Slavery and human rights				Board	
Moderate	Redundancy (Cap Ex)	Product Design			Labour Standards – RE EBAs	Health to Demographic	Product Sourcing	Access to Healthcare	Diversity of Management & Board	Tax Transparency
Moderate	Vulnerability to Climate Change	Energy Use/ Efficiency			Animal welfare	Product Safety				Corruption & Instability
Relevant	Product Carbon Footprint	Water Stress	Packaging Material & Waste	Opportunities in Renewable Energy	Human Capital Development	Product Labelling	Political positions	Nutrition & Health	Incentive Structures	Financial System Instability
Relevant	Natural disasters	Biodiversity & Land Use	Electronic Waste	ABS – Green Building	Human Rights and conflict			Access to Finance – ABS	Responsible AI	
Relevant	Use of carbon offsets	Indigenous cultural heritage		Opportunities in Clean Tech	Cybersecurity			Access to Communications		

3.6 Exclusions

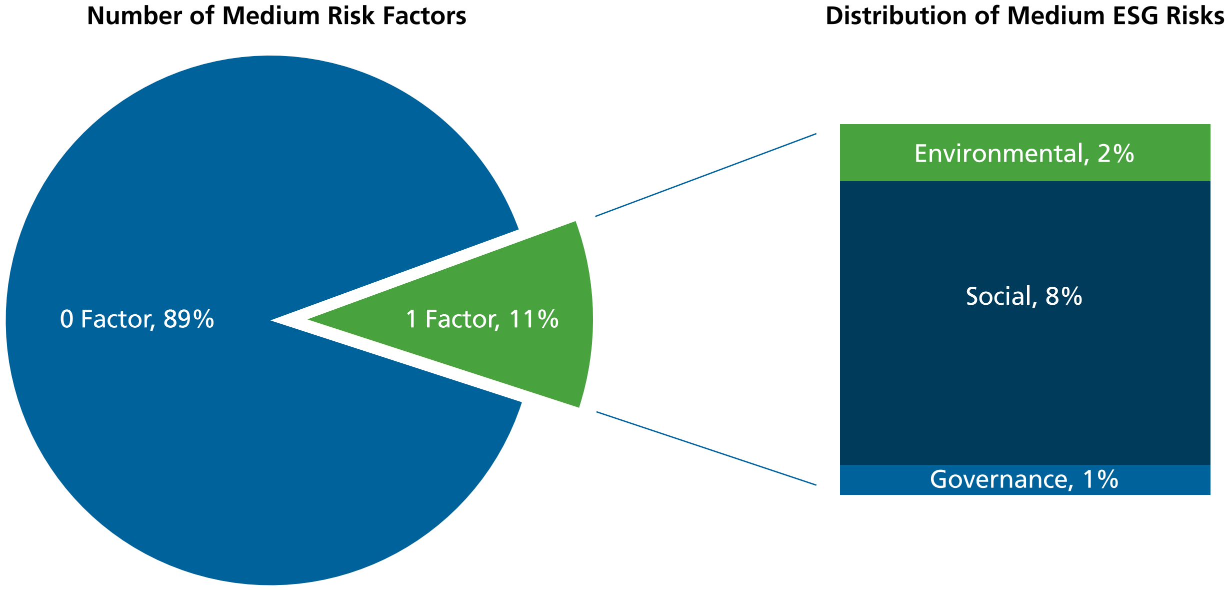
We do not explicitly screen out any sectors as our ESG integration goals are to enhance and supplement its evaluation of the risk-return profile of investments. All investment opportunities must be assessed under the same systematic process in order to deliver on the objective of achieving superior investment returns for our clients.

Based on the ESG analysis process, we exclude any investment classified as high risk. This is where we have ascertained that the identified ESG risk exposure cannot be mitigated.

3.7 Portfolio construction & monitoring of ESG risks

ESG ratings are also used within the portfolio construction process to check that there is no concentration of environmental, social and governance risk factors within portfolios. These are monitored and discussed at portfolio construction meetings.

Example ESG ratings distribution – Credit Income Fund (May, 2024)



Within the fund, all ESG factors are assigned as Low or ESG+ for 89% of the portfolio. The remaining 11% have only 1 factor rated as Medium (2% had a Medium score for Environmental, 8% for Social and 1% for Governance). There is no layering of Medium risks in any individual investment.

We measure impact through investment performance, most particularly lower default experience through more explicit consideration of ESG risks and more effective engagement to mitigate these risks.

4. Material ESG Considerations

4.1 Climate change risks and opportunities

We acknowledge that climate change and its associated risks, both from a physical and transition perspective, have become an increasingly important consideration in investment analysis and are a significant factor in our investment process.

Our investment process favours shorter term lending decisions where we have the ability to assess, price and manage credit risks. Climate change is an example of a risk that is difficult to assess, price and manage, especially over a longer term. As such we tend to avoid sectors which are vulnerable to the physical effects of climate change, such as rising sea levels, extreme weather events and resource scarcity. Climate change sensitive sectors exposed to physical risks require long term predictions with high degrees of uncertainty.

While we do consider investments in climate opportunities on a deal by deal basis, the opportunities in this asset class for investment are relatively limited. With respect to climate change the majority of investment opportunities arise from engaging with brown firms on the transition towards a lower carbon economy. It is critical to engage with issuers to encourage implementation of strategies that will meet the requirements of the transition to a sustainable economy.

It is also important to consider the evolving views of the wider investment community. While long term utilisation of non-renewable energy sources are uncertain these sectors will be increasingly difficult to refinance in the future regardless of where utilisation levels are. For such deals, ultimate repayment of principal will likely come through underlying cashflows, rather than through a refinance and deals should be structured accordingly.

CIM FI’s approach to climate risk is two-fold, looking at the long term and short term implications of climate change.

Over the short term, assessment of climate change risks will consider risks such as extreme weather events e.g. droughts, wildfires and floods. Sectors such as agriculture, insurance linked securities, power generation, water infrastructure are all considered through this lens. We also consider the impact of transition risks associated with potential regulatory changes imposed by governments in the effort to move to a low carbon economy, such as the introduction of a carbon price or costs associated with transitioning away from carbon dependence.

4.2 Modern slavery risks

The risks of modern slavery can be potentially material contributors to credit risk. When companies are found to engage in deliberately exploitative labour practices, serious questions should be raised about the governance of the company. The potential for large scale litigation is elevated and they risk significant brand damage and loss of social license. All of these could ultimately lead to defaults.

As a result of the focus on developed markets, the direct risk of modern slavery is relatively lower than peers that directly lend into emerging markets. When considering modern slavery risks the main area of focus in due diligence is in the supply chains of borrowers. Often these supply chains are based in emerging markets where labour protections are much lower than in developed markets. In assessing supply chains, we will consider the following questions:

- Does the borrower have an ownership stake in offshore supply chains?
- How are their supply chains audited/overseen?
- What is the track record of their suppliers with respect to labour practices?

Even where the responses to these questions suggest that the risks of exploitative labour practices are low, we will consider structural features to incentivize the risk remaining low and ensuring if they increase that there is recourse to the borrower.

These features may include:

- a requirement for regular external audits from bodies like Sedex; or
- specific representations and undertakings that the borrower is required to make around their compliance either as a condition precedent to funding or on an ongoing basis.

If the borrower has no exposure to emerging markets either directly or indirectly via supply chains, there may still be modern slavery risks. As assessment of modern slavery risks will involve an assessment of the governance of the borrower including a review of compliance with law ("is the company paying staff wages in line with award levels?") and societal expectations ("is the company engaging in exploitative practices that may negatively impact it's credit risk?").

As an organisation incorporated in Australia with more than A$100 million in revenues, Challenger Group is required to report on steps taken to respond to the risk of modern slavery in its operations and supply chains. This reporting requirement extends to CIM FI's investment activities described above.

4.3. Nature Risk

Globally there is a growing focus on addressing biodiversity loss, which was highlighted at the UN Biodiversity Conference (COP 15) in 2022 where the Global Biodiversity Framework, with targets, was adopted. We acknowledge this focus including the work of the Taskforce on Nature Related Financial Disclosure (TNFD) and recognise the investment risks associated with degradation of the natural world and biodiversity loss. The financial services sector has an important role to play in monitoring, assessing and engaging with issuers on nature related risks, which can have a material impact on investment portfolios. Assessing nature risk is in our portfolio and client's best interests.

While short-term lending may appear less exposed to nature-related risks, there is still potential for sudden materialisation of these risks through direct and indirect disruptions to operations or supply chains, impact to assets, increasing regulatory pressures and legal obligations or reputational damage. During our due diligence process, we seek to identify an issuer's exposure to material nature-related risks. The research on nature related risks and fixed income is developing and we will continue to monitor the outcomes of the TNFD and review how this can be applied to certain sectors and industries in our portfolios. Material nature related risks will continue to be applied and implemented via the Key ESG Issues Matrix and the ESG due diligence process.

4.4. Diversity, Equity and Inclusion

The presence of strong diversity, equity, and inclusion (DE&I) frameworks, inclusive practices, and diverse teams within companies are indicators of strong governance and can contribute to long-term financial success. While DE&I initiatives are traditionally linked to long-term horizons, we recognize the importance of considering these factors within our investment activities as they can lead to improved decision-making, innovation and effective risk identification and management.

DE&I is also important to us as an investment team and we believe that all forms of diversity contribute to diversity of thought and ultimately better outcomes for investors. Challenger is a signatory to the Financial Services Council Women in Investment Management Charter which introduces accountability and transparency mechanisms to enable organisations to achieve their desired, self-nominated gender diversity target within their investment management teams. In signing onto the Charter, we have set internal targets for gender diversity within the investment management division and report and monitor on progress against these targets annually. While this Charter is focused on gender diversity, we support and promote broader diversity considerations across the team.

At the Challenger Group level, the employee value proposition includes an overarching pillar to embed a culture of "stronger together, supporting each other". Challenger aspires to a diverse and inclusive workplace where employees can succeed regardless of their life circumstances and experiences including, but not limited to, gender identity, age, cultural background, religious beliefs, marital or family status, disability, sexual orientation, socio economic background or carer responsibilities.

Challenger's diversity and inclusion strategy is endorsed by the Board and Chief Executive Officer and has three key areas of focus:

- Diverse and inclusive culture – where differences are valued and employees have a strong sense of belonging;
- Gender equality through equitable practices – improving business outcomes through equitable representation, opportunities and reward for women and men and other recognised genders; and
- Diversity beyond gender– supporting employment outcomes for people over 50 and other diversity groups represented by the employee networks.

5. Challenger Group Responsible Investment Governance Structure

CIM FI forms part of the overall Challenger Group structure on responsible investment. Challenger takes ESG risks into consideration in its investment decision-making and ownership practices, and when they appoint managers to act on their behalf. Incorporating ESG considerations into investment decision-making and portfolio construction, also helps Challenger to build a more resilient organisation and protects both the business and customers from financial and non-financial risks.

The Challenger Board bears the ultimate responsibility for setting and approving Challenger's approach to ESG integration. The ESG Steering Committee provides executive management focus on the development and implementation of the ESG risk management framework. The investment teams have responsibility for integrating ESG considerations into their investment process, with senior investment leaders across Challenger Life and Challenger Funds Management having Key Performance Indicators linked to responsible investment and ESG integration.

Challenger's Responsible Investment Policy is the overarching policy that governs ESG at Challenger. This Policy provides the principles with which ESG is integrated across the firm. This policy complements the Challenger Investment Management Fixed Income Responsible Investment Statement which provides specific guidance around how CIM FI embeds sustainable investment principles into its investment process. The Challenger Responsible Investment Policy is reviewed annually and requires the Challenger Limited Board, ESG Steering Committee, Challenger Leadership Team and investment teams to have responsibility for integrating ESG considerations into the investment process.

Challenger's ESG, Sustainability and Distribution teams collaboratively engage across the industry to effect change and advocate on behalf of CIM FI and the wider investment platform. The ESG team actively engages with the Principles for Responsible Investment (PRI), Financial Services Council ESG Working Group, Responsible Investment Association of Australasia (RIAA) and the Investors Against Slavery and Trafficking Initiative (IAST). Challenger has been a signatory to the PRI since 2015 and is committed to its six principles.

Signatory of:

PRI Principles for Responsible Investment

riaa Responsible Investment Association Australasia

FSC FINANCIAL SERVICES COUNCIL

IAST APAC

6. Resources

As many CIM FI portfolio investments are not ESG rated by third party institutions (being private loans to unlisted companies, securitised credit exposures or loans secured by commercial real estate), the determination of ESG scores for many client portfolios is driven by internal teams.

We believe that ESG integration is strongest when portfolio managers and analysts are deeply involved in the process. We utilise a wide selection of external sources, where available, to assess our portfolio's. These include:

- Specialist research and insights on individual issuers and sectors from MSCI ESG Research;
- Broker research from a broad range of sell-side institutions and ESG service providers;
- Credit rating agency research (primarily Standard & Poor's and Moody's);
- Publicly available financial information regarding individual companies;
- Insights from Challenger's ESG team; and
- Research from industry bodies, regulatory bodies or multi-lateral organisations such as the PRI, investment consultants, World Bank, ASIC and others.

Third party research is stored on the CIM FI ESG intranet page and discussed at portfolio construction meetings and which are chaired by the Head of Investment Strategy (who is the Challenger IM ESG representative at the Challenger IM Group level).

CIM FI believes that ESG integration is strongest when portfolio managers and analysts are deeply involved in the process.

7. Engagement on ESG

CIM FI seeks to engage with borrowers in two main ways. First, the investment team engages with the management of borrowers directly to understand the relevant E, S and G factors affecting the issuer and to advocate for changes to improve the overall sustainability of a borrower's business model. Additionally, the investment team engages with borrowers (and arrangers) to effect changes in structures to protect its interests as a lender.

We consider engagement a significant opportunity, particularly in our private lending activities, where we have more ability to engage directly with borrowers and to effect real change in either business models or deal structures (e.g. through bespoke covenant design).

Our heritage in private lending markets drives the overall investment approach. The public markets investment team is expected to actively engage with borrowers, arrangers and other market participants. In public markets there is greater opportunity for public engagement and advocacy designed to influence other investors.

Clients are provided with regular updates on recent engagements which are relevant to their portfolios.

8. Responsibility for ESG integration

ESG integration is strongest when portfolio managers and analysts are deeply involved. As such, all portfolio managers and analysts are responsible for assessing, discussing and incorporating ESG factors in investment decisions, in accordance with this policy and process.

The Head of Investment Strategy – Fixed Income is responsible for the ESG investment process and has oversight of how individual portfolio managers and analysts are integrating ESG into their investment decisions.

9. Scope

This Responsible Investment Statement applies to all relevant employees of the Challenger Investment Management Fixed Income team.

10. Oversight

The Responsible Investment Statement is reviewed annually by the Head of Investment Strategy – Fixed Income and Senior ESG Specialist, Fidante. The statement is ultimately authorised by the Chief Executive of Funds Management, Challenger.