Challenger IM Multi-Sector Private Lending Fund

Monthly Report May 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]	1.36	1.54	2.87	6.34	6.95	7.73	-	7.20
Benchmark Index[3]	0.34	1.05	2.16	4.06	4.42	3.79	-	2.79
Excess Return	1.02	0.49	0.71	2.28	2.52	3.94	-	4.41

*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 1.36% in May, exceeding the Benchmark by 1.02%. Since inception in May 2021, the Fund has returned 7.20% per annum, 4.41% per annum over the Benchmark.

As at the end of May the Fund had 106 issuer exposures with a yield to maturity of 8.0%.

Fund Positioning:

The Fund has a cash balance of 8% with up to an additional 13% of the Fund invested in liquid credit which can be rotated in private credit at 1-2% per annum in incremental spread returns.

Post pipeline the Fund is expected to be generating a return of around 5% over bank bills, roughly equivalent to a yield to maturity of 8.25% per annum over a circa 2.4 year credit duration.

The committed pipeline of investments includes one corporate lending transaction in the financial services space and two asset backed warehouse facilities. Transactions in due diligence are well diversified with 3 corporate transactions (one healthcare and two industrial borrowers) and two real estate deals (one hotel, one residual stock loan).

In the earlier stages of our pipeline, we have an asset backed transaction and a senior secured corporate loan to a borrower in the retail discretionary space. There are over 30 transactions across all stages of our pipeline with the largest share coming from asset backed finance markets.

Fund Details

Portfolio Value ($Million)	$1,144.9
Buy/Sell Spread	+0.5%/-0.0%
Distribution Frequency	Quarterly
Redemption Terms	Quarterly with best endeavours

Key Statistics

Number of Issuers	106
Running yield (%) p.a	7.7
Modified duration (yrs)	0.14
Portfolio Credit Spread Duration (yrs)	2.1
Non-AUD Denominated	11%

Pipeline

Cash & Cash Substitutes	21%
Committed Not Funded	11%
In Due Diligence	11%
Pipeline	2%

The Fund continues to trade the public allocation which was ramped up during the April volatility. The deal pipeline comfortably exceeds the liquid investments in the Fund and we expect the public allocation to be significantly reduced over the coming quarter.

There are 4 positions on the watchlist representing 1.55% of the fund. The largest is a senior secured loan to a private hospital operator that has faced well publicised challenges, fell into receivership in May and is undergoing a sale process. The loan is 0.7% of the Fund and is valued in the low to mid 50s, reflective of secondary trading levels.

Market Conditions:

Markets calmed in May, rebounding quickly from the volatility of early April. In early April high yield credit spreads widened from 300 basis points to 450 basis points over swaps and by May month end had settled in the low 300 basis points area.

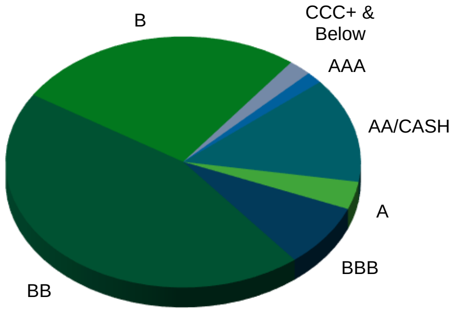
However, as markets settled, the long end of the interest rate curve increased. US 30 year bonds exceeded 5% in May for the first time since 2023 which itself was the first time since the Global Financial Crisis. The increase was most pronounced in US markets implying that higher yields in the long end could be related to waning demand for US treasuries. The US dollar index has also declined 10% since the start of the year and sits at the lowest level since early 2022.

TIC data through early April only showed small amounts of foreign selling of Treasuries though it was private investors that were selling, a cohort which tend to be more reactive. Focus on Trump's Big Beautiful Bill and its implications for foreign investors only surfaced in May and would not be reflected in the data for many months.

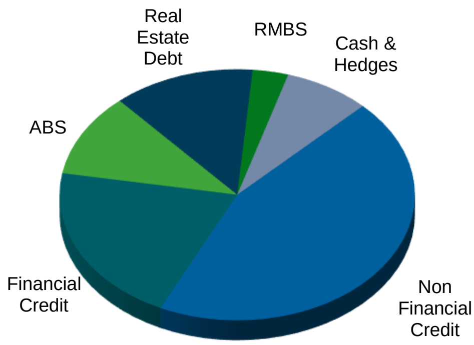
Domestically supply weighed on credit spreads with $12 billion in issuance in May and $18 billion in June. Securitised issuance also rebounded with $15 billion issued across May and June. In early June Commonwealth Bank's market capitalisation exceeded A$300 billion for the first time, up 40% over the last 12 months and trading on a gross dividend yield of 3.7%, an earnings multiple of 30 times and a price to book ratio of over 4 times. Globally the average price earnings ratio of the banks is 12 times and with the majors ex-CBA at around 15 times. Credit markets do not have a CBA premium with five year senior unsecured pricing flat across the four majors at around 80 basis points, a 10 basis point tightening over the month.

In private markets responses to ASIC's review into Australia's capital markets were released with 90 submissions, around half of which were public. To date, the commentary has been much ado about nothing with no material impact on market conditions, or indeed, market practices. The listed investment trust sector rebounded strongly in May with all but three LIT's trading at or above their net tangible asset values. There was one new raising which came to market and several existing LITs announcing additional placements taking total assets under management to around A$7.5 billion. In offshore private markets, Fitch reported a slight increase in the U.S. Private Credit Default Rate to 4.6% for the 12 months ending May 2025 up from 4.4% in April 2025. Fitch also downgraded its outlook to 'deteriorating' from 'neutral' in 2025. In Europe, according to Lincoln International, private market valuations grew by only 0.5% in the first quarter of 2025 with earnings growth adding 3.1% but multiples contracting by 2.6%.

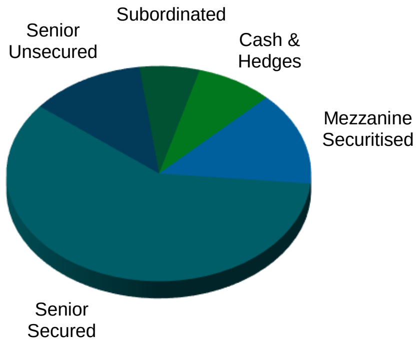
Fund Credit Quality



Fund Asset Allocation



Fund Ranking



As always comments, questions and general feedback are welcome.

Warm regards,

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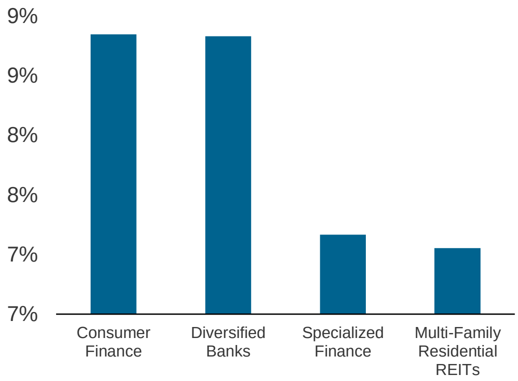
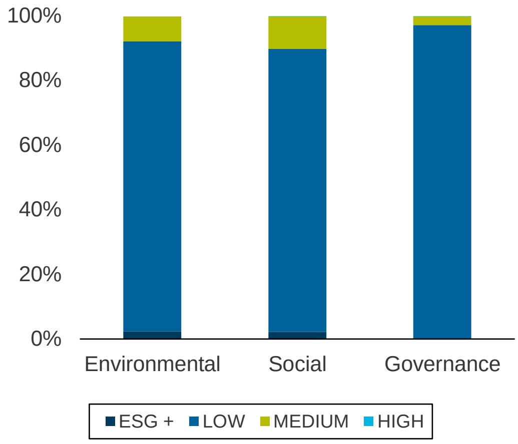
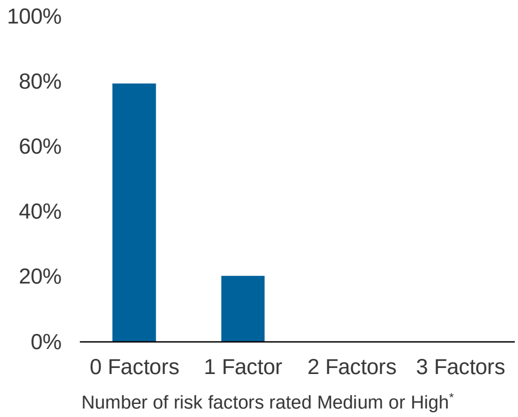
Top Industry Exposures



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.