



Challenger Investment Management

Principles of Internal Governance and Asset Stewardship

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Table of Contents

1. Organisation and Investment Approach	3
Investment Approach.....	3
Alignment of Purpose and Values with clients	3
Ownership, Management and Governance Structures	3
Key Management and Investment Personnel	3
Investment Strategies and Conflicts of Interest.....	4
2. Internal Governance	5
Ethical Conduct and Professional Practice	5
Personal Trading	5
Management of Conflicts of Interest.....	5
Risk Management and Compliance.....	5
Error Correction Policy	6
Brokerage and Commissions	7
Equitable Asset Valuation and Pricing	7
Best Execution and Trade Allocation.....	7
Remuneration Policy.....	8
Whistleblower Policy.....	9
Training and Development.....	9
Complaints and Dispute Resolution	10
3. Asset Stewardship	10
Monitoring of Company Performance on financial and non-financial matters	10
Engagement with company management and the board and escalation of issues	10
Approach to considering Environmental, Social and Governance factors	10
Proxy voting.....	11
Collaborative engagement with other investors including involvement with industry groups and associations.....	11
Principles used for policy advocacy including participation with industry groups and associations.....	11
Client engagement, education and communication regarding asset stewardship.....	11

1. Organisation and Investment Approach

The Principles of Internal Governance and Stewardship set out in the FSC (Financial Services Council) Standard 23: Principles of Internal Governance and Asset Stewardship (**the Standard**) have been adopted by Challenger Investment Partners Limited (CIPL), consisting of the Challenger IM Fixed Income team. CIPL is a subsidiary of Challenger Limited. In this statement, Challenger IM Fixed Income is referred to as Challenger Investment Management (**CIM**)¹.

Investment Approach

The Fixed Income team's investment philosophy takes a private ownership approach to lending and aims to achieve better risk/return outcomes for clients across private and public markets. The team's philosophy includes taking a long-term approach to underwriting credit risk, actively sourcing new opportunities, engaging with borrowers and arrangers directly and having a disciplined approach to understanding and quantifying credit, liquidity, and complexity risk premia.

Alignment of Purpose and Values with clients

CIM is a funds management business which provides investment solutions, including advice and execution, across fixed income. The investment needs of its institutional client base are at the heart of what it does, with a focus on creating long term value for clients. For non-discretionary business, CIM relies on collaborating with clients as a trusted advisor and implementing recommendations where clients believe they meet their needs and objectives.

Fee structures are adopted that appropriately align the remuneration of the manager with the investment strategy of the client and the delivery of superior investment performance.

In addition, CIM adopts the Challenger Group's remuneration policies and practices that attract and retain employees, executives and directors who will create value for shareholders and investors.

Ownership, Management and Governance Structures

CIPL is a wholly owned subsidiary of Challenger Limited, an ASX listed company and form part of Challenger's Funds Management division, overseen by the Chief Executive, Funds Management. It has adopted the Challenger Group principles, frameworks, and policies.

The CIPL Board consists of Executive Directors appointed due to their relevant skills and expertise and meet quarterly.

Key Management and Investment Personnel

Victor Rodriguez, Chief Executive, Funds Management

Victor was appointed Chief Executive, Funds Management in August 2022 after joining CIM in April 2017. Prior to his appointment, he was Head of Asia Pacific Fixed Income at Aberdeen Asset Management based in Singapore from 2014 to 2017. There he led a team of more than 30 investment professionals across the region, including Singapore, Indonesia, Thailand, Malaysia and Australia.

¹ Challenger Investment Management (CIM) is the registered business name and proposed trademark owned by Challenger Investment Partners Limited ABN 29 092 382 842, AFSL 234678.

Pete Robinson, Head of Investment Strategy

Pete is responsible for its multi-strategy credit portfolios. Pete has been with the Challenger group since 2005, joining CIM in 2010, and has over 20 years of investment experience across public and private credit markets in Australia, the United States, and Europe. During the Global Financial Crisis, he was an assistant portfolio manager in London at WyeTree Asset Management, part of the Challenger group, where he focused on credit opportunities in residential real estate markets.

Stephen Martin, Head of ABS

Stephen is Head of ABS responsible for the CIM's Asset Backed Securities portfolios globally, joining in 2008 as an Analyst in the asset and liquidity management team. Since 2011, Stephen has been a member of the Fixed Income team focusing on asset backed structuring and investing. Stephen is a member of the Australian Securitisation Forum National Committee and the Chair of the Investor Subcommittee.

Gerard Hargraves, Head of Real Estate Lending

Gerard is responsible for CIM's Institutional Real Estate lending portfolios, joining CIM in 2010, and has overseen the origination and management of >A\$3.5b in commercial real estate loans. Prior to joining CIM, Gerard spent four years at Fortress Investment Group, after property banking roles at NM Rothschild & Sons (Australia) Limited and Commonwealth Bank of Australia. He also spent 8 years in property development, most of this time with Bovis Lend Lease.

Sid Kumar, Head of Acquisition Finance

Sid is responsible for origination, structuring, execution and portfolio management for acquisition finance deals. Sid joined CIM in 2017 has over 15 years' experience in high yield credit across investment banking and asset management. Prior to joining, Sid spent 7 years in investment banking with Barclays Capital where he worked across Leveraged Finance structuring & underwriting, Debt Advisory, High Yield Bonds, Equity-Linked Financing and Corporate & Acquisition financing across ANZ and Asia.

Andy Armstrong, Head of Whole Loans

Andy is responsible for CIM's residential mortgage and consumer loan acquisitions. Andy joined CIM in 2022 and has over 20 years' experience in structured credit and private debt markets. Prior to joining, Andy ran the private credit & speciality finance investing strategy at East Lodge Capital, a \$2bn asset manager based in London and held various senior roles prior to this with Castlake LP, Goldman Sachs, Merrill Lynch and Bear Stearns.

Investment Strategies and Conflicts of Interest

CIM has appropriate arrangements in place to ensure that client assets are managed in accordance with their investment strategies, including Investment Committees where appropriate, pre-trade compliance restrictions within the trading system and post-trade compliance monitoring.

CIM adopts a Conflicts of Interest Policy, which is designed to ensure that: it provides financial services in a manner consistent with the interests of clients whilst meeting fiduciary and regulatory obligations; and actual and potential conflicts of interest between the companies and clients are managed effectively in a timely and consistent manner.

2. Internal Governance

Ethical Conduct and Professional Practice

CIM is committed to doing the right thing by all stakeholders and, in particular, its customers. CIM approach incorporates the values and behaviours of its people, as well as its standards, policies and procedures.

It is a requirement that all CIM employees comply with the Challenger Limited Code of Conduct (**Our Code**). Our Code sets the expectations for how CIM acts, solves problems, and makes fair and balanced decisions. It brings together our corporate I ACT values and our policies and statements. It sits across all areas of the CIM business and applies to everyone irrespective of their role, seniority or whether they are permanent or temporary employees, contractors, or consultants. Everyone is encouraged to use Our Code to guide their actions and to speak-up if they see something that isn't right or breaches Our Code.

Personal Trading

As a participant in the Financial Services Industry, CIM is required to have robust processes in place to ensure that employees do not trade in Securities unlawfully or to the detriment of clients or the Challenger Group. A Staff Trading Policy is designed to establish principles and procedures for employees to conduct personal trading lawfully and in a manner that avoids insider trading, is in compliance with s1043A of the *Corporations Act 2001 (Cth)* (**Corporations Act**) and appropriately manages any conflicts of interest.

Management of Conflicts of Interest

CIM has adopted processes to manage conflicts of interest and allow for the promotion of:

- Confident and informed decision making by clients;
- Fairness, honesty and professionalism in the financial services that CIM provides; and
- A fair, orderly and transparent financial product market in which they participate.

All financial services transactions and activities undertaken by CIM are required to be assessed for conflicts of interest by the appropriate member of the senior management team or their delegated accountable person. Areas for consideration include but are not limited to related party transactions, any individual gain or benefit by virtue of employment, licence authorisations and outsourced activities.

CIM has also adopted the Challenger Limited Gifts, Benefits and Entertainment Policy, which provides employees with guidance on the types of gifts and entertainment they may accept or provide and the process for approving and recording the gifts, benefits or entertainment accepted or provided.

Risk Management and Compliance

Operational Risk

The objective of CIM's operational risk framework is to reduce unexpected performance or value variations due to operational risk events to the point where stakeholders are not materially impacted.

Operational Risk Management Responsibilities:

- The Challenger Limited Board and Directors – bear the ultimate responsibility for corporate governance and operational risk management. The Group Risk Committee (GRC) has been established to assist them discharge these responsibilities.
- Audit Function – Internal Audit perform targeted reviews on Operational Risk Management frameworks including the effectiveness of their implementation and the governance arrangements in place. Aspects

of the overall effectiveness of Operational Risk Management may also be covered in the External Audit review cycle and recommendations included in the annual audit reports.

- The Risk & Compliance team – are responsible for the development of operational risk frameworks, procedures and tools. The Risk & Compliance team ensure clear risk and control ownership and help risk owners define and manage a robust control set. They also coordinate regular reviews of the risk register and related controls, aggregate information and report results to the GRC.
- Risk and Control Owners – are responsible for the ongoing identification and management of operational risks and to ensure that all of the control activities are adequate. Risk Owners are also required to assess their risks through periodic Risk and Control Self Assessments (RCSA's).

Compliance

The objective of CIM's compliance framework is to deliver and continually improve upon the organisation's commitment to maintaining a culture of integrity and compliance, ensuring that the overall strategy and the way it conducts its business accords with its obligations to meet relevant laws, regulatory requirements, industry codes and standards, as well as community and client expectations as to governance, ethics and conduct.

Error Correction Policy

CIM's approach to error correction is contained in the Challenger Limited Incident Management Policy, which is designed to provide a consistent process for the escalation, management, recording and reporting of Incidents and Near Misses.

The Risk & Compliance team will categorise incidents and near misses in accordance with the Incident Management Policy and create an incident database, which helps to identify control breakdowns and target improvement initiatives. An enhanced control environment significantly reduces the likelihood of incurring larger operational, financial or reputational impacts in the future. Timely identification and reporting of incidents and near misses assists CIM to:

- understand the underlying cause of an incident or near miss;
- implement appropriate actions to remedy the incident including consideration of measures designed to prevent, or reduce the likelihood of recurrence;
- identify potential risk management issues;
- meet commitments made to customers and mandate clients;
- continually improve the control environment and CIM policies;
- manage and consider potential reputational issues;
- ensure an ongoing focus on 'doing it right' and meeting customer expectations; and
- ensure CIM meets its regulatory obligations in relation to breach reporting.

For all incidents and near misses, an action plan must be documented. Action plans may include but are not limited to:

- refinement or development of controls, procedures and/or operating policies;
- training and/or coaching of employees;
- technology improvements (tactical and or strategic when commercially viable); and
- compensation to a scheme, fund, portfolio, client, adviser or third party which may include a refund or waiver of transaction costs such as brokerage, fees and/or interest to compensate for the time value of money.

Brokerage and Commissions

CIM adopts Brokerage Arrangements and Alternative Brokerage Arrangement principles detailed in the Challenger Limited Market Trading Rules Policy and Practice Note. Investment managers have a fiduciary and statutory duty to act in the best interests of their investors in respect of investment decisions made on their investors' behalf. Therefore, no client should expect to be disadvantaged by brokerage arrangements or alternative brokerage arrangements and should be informed of material aspects of such arrangements. Further:

- Any decisions made by the business must be made independently, irrespective of any existing or potential brokerage arrangements.
- Arrangements must not contain additional conditions or limitations interfering with CIM's ability to obtain best execution.
- In respect of all brokerage arrangements, brokerage derived from one group of investors must only result in the provision of research and/or other goods and services for the benefit of that particular group of investors.
- Consideration should be given as to whether the arrangement will result in a potential conflict of interest.

The following types of brokerage arrangements and alternative brokerage arrangements are generally considered to be acceptable. In all cases, the terms, conditions, and circumstances of the particular arrangement should be considered in accordance with the principles and obligations outlined in the Market Trading Rules Policy and Practice Note.

- Broker purchased and supplied goods and services directly linked with trades and trade advice. For example, arrangements that involve the allocation of brokerage towards the purchase of third party research and software that assists in pre-trade analysis.
- Prime brokerage arrangements that provide investment managers with the ability to borrow securities for long-short strategies.
- In certain circumstances, directed brokerage and commission recapture arrangements, whereby an investor directs that the trades for its account be executed through a specific broker.

Equitable Asset Valuation and Pricing

CIM adopts the Challenger Limited Securities Pricing Policy. The objective of this policy is to ensure that the valuations of all assets and liabilities recorded in the portfolio administration system appropriately and accurately reflect the purpose for which those valuations are determined, taking into account relevant accounting standards, industry standards and other applicable requirements. The policy considers timing, valuation sources, valuation type and the process for determining the valuation for all non-third party priced securities. The team responsible for maintaining these valuations is independent of the investment teams.

Best Execution and Trade Allocation

Best Execution

CIM has an obligation to seek best execution of client transactions. All reasonable steps are taken to obtain, when executing orders, the best, most timely and fairest possible result for clients, taking into account the execution factors, in addition to price of the trade. These factors may include the characteristics of the client, the client order, the financial products that are the subject of the order, and the execution venues to which the order can be directed.

Trade Allocations

The Challenger Investment Management Allocation of Debt Investments Practice Note provides guidelines for the Fixed Income team when allocating debt investments to one or more of the funds or portfolios that they control or manage. The practice note aims to ensure fair and equal treatment across mandates.

When a private investment complies with a mandate or fund's investment guidelines, the respective portfolio manager will determine that mandate or fund's maximum for that transaction in accordance with the protocols and pre-agreed maximums in each mandate. If required by a mandate, the portfolio manager will confirm with the investor(s) their participation in the transaction.

Where an investment meets the investment guidelines of more than one client, allocations will be determined using the proportion of each participating mandate/fund's respective maximum investment size to the aggregate maximum investment size of all clients participating in the transaction.

Where a publicly offered (or traded) investment complies with a mandate or fund's investment guidelines, the respective portfolio manager will bid on an open basis into the transaction. Any scaling in respect to the purchase from the broker/counterparty will be passed through to the respective mandate/fund in proportion to the account's initial interest.

Should there be any circumstance where a conflict arises; the portfolio manager will refer it to the Chief Risk Officer to make a determination.

Remuneration Policy

Challenger Group has established a groupwide Remuneration Committee to assist the Challenger Board discharge its responsibilities by ensuring the Group:

- has coherent remuneration policies and practices that attract and retain employees, executives and directors who will create value for shareholders;
- fairly and responsibly rewards employees and executives having regard to the performance of the Group, performance of the employees and executives, the company's long-term financial soundness and risk management framework, the general pay environment and in a way that is aligned with prudent risk-taking and rewards long term sustainable growth.

Remuneration components comprise fixed and variable remuneration as summarised below:

Component	Overview	Link to remuneration strategy
Fixed remuneration	Base salary, employer superannuation contributions, salary-sacrificed benefits and applicable fringe benefits tax.	Positioned at market-competitive level, reflecting size and complexity of role, responsibilities, experience and skills.
Cash Short Term Incentive (STI)	Annual 'at risk' remuneration, rewarding Challenger, division and individual performance.	STI outcomes determined based on performance and contribution against annual KPIs which include financial measures, strategic objectives and application of and adherence to the risk management framework.

Component	Overview	Link to remuneration strategy
Deferred STI	For Challenger Leadership Team members, including the Chief Executive Funds management, 50% of STI awards are deferred and vest 30% after year 1, 30% after year 2, 20% after year 3 and 20% after year 4.	Balances risk management and governance considerations along with supporting shareholder alignment through the deferral of a significant portion of STI into shares.
	For all other employees 50% of any STI in excess of \$100k is deferred 50% for one year and 50% for two years.	
	Deferral is into Restricted Shares under the Challenger Performance Plan (CPP) and are subject to forfeiture and malus provisions.	
Long Term Incentive (LTI)	Long-term 'at-risk' remuneration. Awarded as Hurdled Performance Share Rights (HSPRs) made under the CPP. The awards are tested and can vest after four years. The awards are subject to continued employment and satisfying the absolute TSR performance target. To the extent that the awards do not vest in full at year four, any unvested rights are tested again at year five. Any unvested awards lapse at the end of the fifth anniversary following grant. Awards are subject to forfeiture and malus provisions under the CPP.	Balances risk management and governance considerations along with supporting shareholder alignment over the longer term. Aligns executives' interests with Challengers' long-term success and sustained shareholder returns.

Whistleblower Policy

The Challenger Limited Whistleblower Policy outlines the process and governance arrangements for ensuring employees and other eligible persons can raise issues or concerns regarding any unethical, illegal, corrupt, or other inappropriate conduct without being subject to victimisation, harassment, or discriminatory treatment. Challenger's whistleblowing program utilises a third-party service provider to facilitate anonymous reporting.

Training and Development

CIM is committed to supporting the career aspirations and ongoing development of employees. CIM believes the development of employees underpins the development of the organisation as a whole, and that continual learning is crucial to maintain market competitiveness. On the-job-training, coaching and approved external training are provided during the normal course of employment. In addition, CIM provides assistance to employees for education they undertake which is relevant to their position and/or potential career path and which contributes to the ongoing success of the business. CIM's Responsible Managers have ongoing training obligations.

CIM supports employees undertaking work-related studies by providing a range of benefits that:

- make study more feasible;
- reduce the financial burden of study;
- provide time off to study for and sit exams; and
- meet the business needs as defined in the employee's development plan.

Complaints and Dispute Resolution

CIM is committed to maintaining an effective complaint handling and dispute resolution system that meets the expectations of the Board, its customers and its regulatory obligations.

Effective management of complaints is key to ensuring that disputes are handled fairly, promptly, and consistently and the financial services offered by CIM are provided efficiently, honestly, and fairly.

A complaint is defined as: 'an expression of dissatisfaction made to an organisation, related to its products, or the complaints-handling process itself, where a response or resolution is explicitly or implicitly expected.' CIM has substantially adopted the AS 10002-2022 as the standard to apply to its business.

CIM accepts all complaints made orally or in writing, formally or informally. Irrespective of the method by which a complaint is made, complaints are required to be treated in accordance with the Challenger Limited Complaint and Dispute Resolution Policy and Practice Note.

3. Asset Stewardship

Monitoring of Company Performance on financial and non-financial matters

The Fixed Income team's investment philosophy is that taking a private approach to lending leads to better risk/return outcomes for clients across private and public markets. A private approach means underwriting credit risk as though you will own it, not to trade it. It means having discipline in understanding and quantifying credit, liquidity, and complexity risk premia. It also means engaging with borrowers and arrangers directly to effect structural changes to transactions in order to mitigate downside risks as well as access better quality information. In addition, consideration of ESG factors is integrated into the investment process and embedded into the Fixed Income investment philosophy which emphasises strong engagement. The team believes that 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.

Engagement with company management and the board and escalation of issues

CIM adopts Challenger Group's governance framework, which is designed to assist it to meet its responsibilities under various laws, regulations, and industry standards in taking an active role in the corporate governance process in relation to those companies in whom they invest on behalf of investors. CIM acknowledges it may be in a position to influence the corporate governance of companies through discussions with management and / or the Board of directors.

Where appropriate, CIM believes in having direct communication with directors and senior management of companies where securities are held in fixed income portfolios. This allows CIM to have a better appreciation of the company's objectives, its potential problems, and the quality of its management. It also allows companies to understand the fixed income team's expectations and concerns.

Approach to considering Environmental, Social and Governance factors

CIM recognises the responsibilities it has as a company in relation to sustainability and the environment, its people, and the community in which it operates.

CIM considers environmental, social and governance (ESG) factors in investment decision making and ownership practices. CIM has adopted an integrated investment management approach to deliver responsible investment outcomes and believes there are links between long-term sustainable returns and the quality of an organisation's ESG practices.

The Fixed Income team has a systematic approach to incorporating ESG considerations into its investment process, and its specialty in private lending markets provides a greater opportunity for active engagement. The team manages investment portfolios to ensure its investors are compensated for ESG risks as it regards these risks as being inherently linked to the sustainability of the businesses to which it lends, to their ability to refinance and ultimately the risk of default.

The Fixed Income team's investment philosophy is heavily influenced by its heritage in private lending markets. For over a decade, the team has approached credit markets as a lender as well as an investor. As an investor, the team applies a relative value approach, integrating ESG risk factors into its pricing and valuation considerations. As a lender the team prioritises direct engagement to mitigate ESG risk factors through incentivising more sustainable business practices.

Proxy voting

As investors in fixed income, CIM does not hold voting rights over their investee companies and are therefore unable to participate in proxy voting activities.

Collaborative engagement with other investors including involvement with industry groups and associations

Given the nature of the asset classes in which the CIM teams invest in, collaborative engagement with other investors is not applicable.

Challenger Limited is a member of the UN Principles for Responsible Investment (UNPRI), the Financial Services Council and the Property Council of Australia.

Principles used for policy advocacy including participation with industry groups and associations

CIM engages with industry organisations and other asset management firms to discuss and share insights on relevant market developments and corporate governance. The fixed income team often has direct access to company management teams, with whom it actively engages as outlined above. When desired outcomes can be more readily achieved through wider collaboration with other investors, CIM will engage with such groups in order to improve client outcomes.

Client engagement, education and communication regarding asset stewardship

CIM has significant experience in managing fixed income assets for third party mandate clients, including large institutional clients and sovereign wealth funds, and are, therefore, acutely aware of relevant issues when managing investments on behalf of clients, including governance, confidentiality, best practice, and investor requirements for these matters.

CIM focuses on building deep long-term relationships with a select group of investors. Client engagement and communication occurs through both formal regular reporting requirements and portfolio overviews together with frequent informal communication.