Challenger IM Multi-Sector Private Lending Fund

Monthly Report January 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)	0.85	1.53	3.89	4.35	8.28	7.44	-	7.31
Benchmark Index	0.38	1.12	2.25	2.63	4.48	3.32	-	2.66
Excess Return	0.46	0.40	1.64	1.72	3.79	4.11	-	4.65

*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 0.85% in January, an excess return of 0.46% over the Benchmark. Since inception in February 2020, the Fund has returned 7.31% per annum, 4.65% per annum over the Benchmark.

Over that same period the Credit Suisse Leveraged Loan index hedged to AUD has returned 4.78% per annum, around 2.75% per annum below the return of the Fund demonstrating the value of illiquidity over a medium-term investment horizon.

As at the end of January the Fund had 98 issuer exposures with a running yield of 8.3%.

Fund Positioning:

The Fund has a cash balance of 12% with additional liquid investments which can be rotated into private loans as opportunities emerge. Post pipeline the Fund is expected to be generating a return of just under 5% over bank bills, roughly equivalent to a yield to maturity of 9% per annum over the circa 2 year credit duration.

Fund Details

Portfolio Value ($Million)	$1,066.3
Buy/Sell Spread	+0.5%/-0.0%
Distribution Frequency	Quarterly
Redemption Terms	Quarterly with best endeavours

Key Statistics

Number of Issuers	98
Running yield (%) p.a	8.3
Modified duration (yrs)	0.12
Portfolio Credit Spread Duration (yrs)	1.9
Non-AUD Denominated	9%

Pipeline

Cash & Cash Substitutes	12%
Committed Not Funded	11%
In Due Diligence	3%
Pipeline	17%

There has been a building pipeline of new transactions to review across all key sectors we follow. The Fund is likely to approach full investment at some point during the first quarter of 2025 or early in the second quarter. As we've highlighted previously the Fund is adding to non-construction CRE lending but at a steady pace. Currently CRE exposures are only 11% of the Fund and are expected to increase to around 14% once pipeline is deployed and expected repayments occur.

Over the past 12 months, the Fund has also reduced exposure to asset backed markets based on relative value considerations rather than risk concerns. Currently, exposure is 14% and with a building pipeline we don't expect further meaningful declines, particularly with a building pipeline of attractive private market asset backed opportunities.

Our corporate and financial exposure is over 60%, a level we expect to be maintained over the coming months. Asset quality within or corporate allocation has been more mixed with several names on our watchlist, contrasting with the strong performance elsewhere in the portfolio

Currently the Fund has 1.8% exposure to borrowers rated below B-. All are corporates, spread across environmental and facilities services, broadline retail and healthcare. The average price on these exposures is 70 cents.

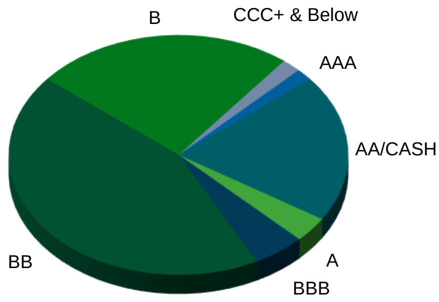
Market Conditions:

Global markets maintained their positive trajectory in January. Yields increased through mid-January, at one point rising 45 basis points from the mid December lows before settling broadly unchanged for the month. Australian and US equities performed strongly with forecast earnings multiples settling at around 20 and 25, respectively. Both are the highest levels since COVID and prior to that the GFC for Australia and the tech bubble of the late 1990s for the United States.

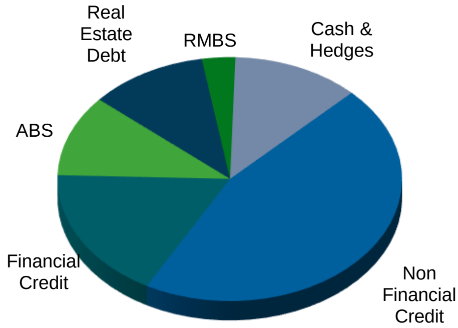
Credit markets also tightened in January with high yield spreads touching the tightest levels since 2007. Investment grade spreads remain wider than 2021 levels appearing cheap to high yield credit on a relative basis.

Securitised markets also continue to tighten across the capital stack with domestic mezzanine spreads roughly 10 basis points tighter and senior spreads around 5 basis points tighter on the month. Collateralised loan obligations (CLOs) which have long appeared cheap to other securitised products on a relative basis have also caught a bid. BBB-rated tranches tightened by close to 40 basis points in January before retracing around 10 basis points of that move in early February.

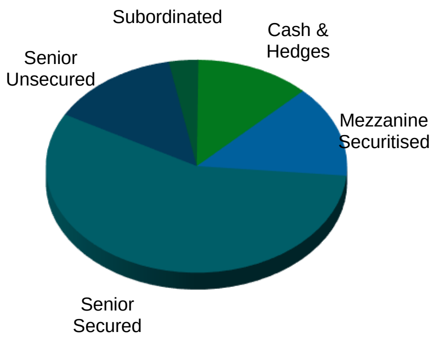
Fund Credit Quality



Fund Asset Allocation



Fund Ranking



The strength in markets came despite several tariff related announcements from the new Trump administration and the emergence of DeepSeek, a Chinese competitor to ChatGPT and other western artificial intelligence tools. The resilience in markets can seemingly be attributed to strong earnings momentum with a positive earnings surprise of 6.5% in the second half of 2024 with close to 80% of companies on the S&P500 reporting. Domestically bank earnings have shown that households and institutional borrowers have managed the higher interest rate environment exceptionally well with non-performing loan ratios declining over the quarter.

With public market valuations at such expensive levels, it is hardly surprising that private markets continue to attract attention from investors and borrowers alike. Activity has increased meaningfully with a strong pipeline across corporate, real estate backed and asset backed finance. Illiquidity premiums are wide, seemingly reflecting the fact that private credit funds have floors beneath which they cannot go below. Consider the growing ASX listed investment trust market with over $6 billion in assets and a minimum net return hurdle of the RBA cash rate plus 3.25% per annum implying gross target spreads of more than 400 basis points.

Even with private market valuations appearing cheaper than public markets there are several headwinds on the horizon. The private credit market in Australia has sizeable exposure to commercial real estate, most specifically residential development lending and land banking. In January there were a number of articles published referencing lenders enforcing on projects, significant restatements of performance and other points of stress on the horizon. Added to this are declining house prices in Victoria and New South Wales plus an upcoming review from ASIC on the governance practices of private credit funds. On the corporate side, the deteriorating financial position of the Star has distressed funds circling. We expect this dichotomy in performance (strong in the aggregate but weakness in individual names) to continue unless there is a sustained bout of volatility.

As always comments, questions and general feedback are welcome.

Warm regards,

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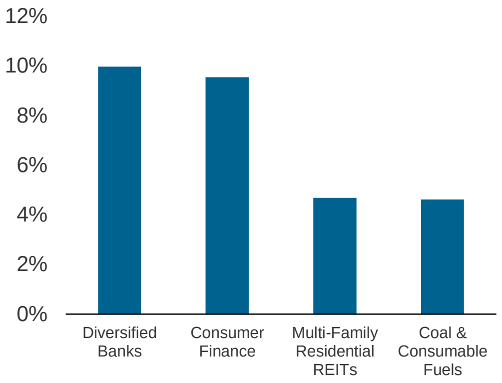
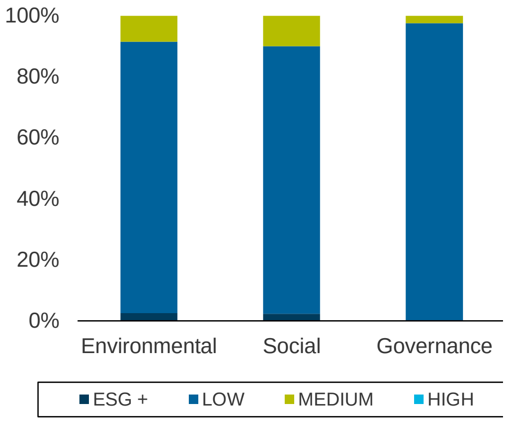
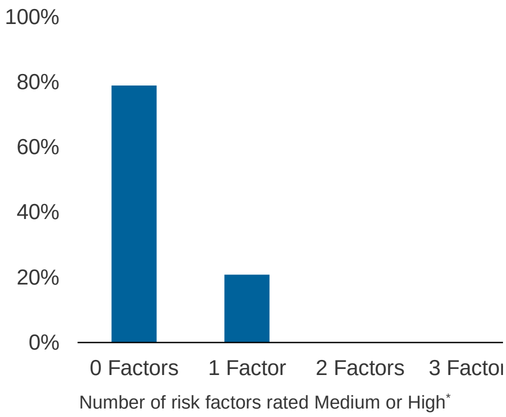
Top Industry Exposures



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.