

Challenger Hybrid Property Fund¹ Challenger Wholesale Hybrid Property Fund¹

Quarterly fund report and commentary – 31 December 2011

Performance ²						
	Quarter (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Challenger Hybrid Property Fund	2.86	-0.92	1.27	-4.76	3.56	6.50
Growth return	1.79	-7.28	-3.12	-9.85	-4.36	-1.35
Distribution return	1.07	6.36	4.40	5.10	7.92	7.84
Mercer/S&P Property Composite Index ³	3.20	3.94	3.08	-4.59	5.20	7.50
Challenger Wholesale Hybrid Property Fund	2.47	1.23	2.60	-3.64	4.72	8.04
Growth return	1.26	-6.95	-3.05	-9.81	-4.23	-0.99
Distribution return	1.21	8.18	5.65	6.17	8.95	9.04
Mercer/S&P Property Composite Index ³	3.20	3.94	3.08	-4.59	5.20	7.46

Past performance is not a reliable indicator of future performance.

¹ The Fund is closed to new investments, including initial and additional applications and is also closed to withdrawals.

² Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

³ For the period to 1 July 2007 the benchmark for the Fund was the InTech Property Composite Index with a 50% weighting to the InTech Weighted Direct Property Index and a 50% weighting to the S&P/ASX 200 Property Trust Accumulation Index.

Investment objective

The Fund aims to outperform its benchmark over rolling three-year periods, while providing capital growth and some income over the medium to long-term (at least five years).

The benchmark is a 50% weighting to Mercer's Australian Unlisted Property Index and a 50% weighting to the S&P/ASX 300 A-REIT Accumulation Index

Investment manager

Challenger Managed Investments Limited manages the direct property assets of the Fund. SG Hiscock & Company Limited manages the listed property security assets of the Fund.

Investment strategy

The investment strategy is to identify the major trends in the economy, and look at how these trends will influence financial and property markets. By analysing both global and domestic economic prospects, we aim to position investment portfolios to take advantage of future economic developments.

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

Asset allocation		
	As at 31 December 2011 (%)	Range (%)
Listed property trusts	42	30 -100
Direct property ¹ /unlisted trusts	31	0 -70
Cash	27	N/A

¹ Direct property assets may, but generally will not comprise more than 60%.

Fund facts	
Challenger Hybrid Property Fund	
Inception date	30/09/1994
Fund size (\$M)	15.9
APIR code	HBC0002AU
Challenger Wholesale Hybrid Property Fund	
Inception date	31/10/1994
Fund size (\$M)	58.6
APIR code	HBC0013AU

Fees	
Challenger Hybrid Property Fund	
Entry fee	Closed to investments
2010/11 ICR	1.75%
Management fee	1.75% p.a.
Normal operating expenses	Recovered from the Fund
Buy/sell spread	+0.87%/-0.87%
Challenger Wholesale Hybrid Property Fund	
Entry fee	Closed to investments
2010/11 ICR	0.82%
Management fee	0.768% p.a.
Normal operating expenses	Recovered from the Fund
Buy/sell spread	+0.87%/-0.87%

Direct property holdings as at 31 December 2011

	State	Building type	NLA (m ²)	Current book value (\$ million)	Occupancy (%)
Kings Cross Centre	NSW	Retail	4,443	25.0	100.00

Top five listed positions as at 31 December 2011

	Fund weight (%)
Westfield Group	10.0
Stockland	5.8
Westfield Retail	4.2
Dexus	3.8
Mirvac Group	3.6

Commentary

The S&P/ASX 300 Property Accumulation Index was up 3.8% over the December quarter, outperforming the broader market as measured by the S&P/ASX 300 Accumulation Index, which was up 2.1%.

Corporate activity came to the fore during the quarter. Centro Retail Fund was established following positive voting outcomes. Charter Hall Office took another step towards de-listing, with the Independent Directors approving an upwardly revised \$2.49 per unit bid for the Australian portfolio. This is still a circa 5% discount to net tangible asset (NTA).

The Australian residential market continues to be in the spotlight, with Stockland and Australand taking the opportunity to conduct tours of their land-bank during the quarter, both of which we attended. Stockland combined their tour with a quarterly update of the Group and it was well received, despite the fact no specific figures were released. Statements focused on improving sentiment and enquiries while guidance remained unchanged.

The 0.50% cut in official interest rates during the quarter has further improved the spread between the Australian real estate investment trust (AREIT) sector yield and debt funding costs, which only recently started to turn in favour of Australian-based potential acquirers. Since the global financial crisis, the overseas-based acquirers have taken advantage of their lower cost of debt sourced from offshore to accretively acquire Australian assets. Unfortunately for the AREITs, still trading at a significant discount to NTA, the overall high cost of capital is limiting their ability to make such acquisitions feasible.

During the quarter, Westfield Retail announced to the market details of its new debt facility due to expire in 2012.

Compared to the problems overseas, the domestic economic data during the quarter was more positive. The major data point for the quarter was the core consumer price index (CPI) figure coming in at 2.5%, within the Reserve Bank of Australia's (RBA) 2% to 3% range, which eventually provided the RBA with the necessary comfort to commence dropping official interest rates. The unemployment rate improved for most of the period (surprisingly), but it deteriorated marginally by the end of the quarter. Business confidence, retail sales and private credit all continued to deliver positive figures. Construction work and capital expenditure investment also rose. On the negative side, housing starts fell once more.

Direct property exposure

Kings Cross Centre, Sydney, NSW

Retail – The property is located approximately 1.5 kilometres east of the Sydney Central Business District (CBD) and has exposure to William Street which is a link between Sydney's west, CBD, and the eastern suburbs. The Centre was refurbished in 2007 and comprises approximately 23 speciality shops located on the Ground level and a two level Coles supermarket located on lower ground levels 1 and 2. The gross let-able area of the Centre is approximately 4,443m², with the major tenant, Coles, occupying approximately 58% of the floor area. The lease to Coles expires in 2022. The property was independently valued as at 30 June 2011 at \$25m.

Commercial – The commercial lot was sold on 16 December 2011 for a price of \$9.15m, following an on market sales campaign. The sale price achieved at market was in line with expectations for book value had the property been held to the end of the reporting period.

The Challenger Hybrid Property Fund (ARSN 090 850 294) and the Challenger Wholesale Hybrid Property Fund (ARSN 090 790 962) gain exposure to their investments by investing in the Challenger Premier Hybrid Property Fund (ARSN 089 988 536). Unless otherwise specified, references to the 'Fund' and information contained in this report relates to the Challenger Premier Hybrid Property Fund, but will also apply on a 'look-through' basis to the Challenger Hybrid Property Fund and the Challenger Wholesale Hybrid Property Fund. Unless otherwise specified, any information contained in this publication is current as at the date of this report, and is provided by Challenger Managed Investments Limited (ABN 94 002 835 592, AFSL 234668) the issuer of the Challenger Hybrid Property Fund and the Challenger Wholesale Hybrid Property Fund (**Funds**). Challenger Managed Investments Limited is the investment manager of the direct property assets of the Funds and SG Hiscock & Company Limited (ABN 51 097 263 628, AFSL 240679) is the investment manager of the listed property security assets of the Funds. It should be regarded as general information only rather than advice. It has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. If you acquire or hold one of our products, we will receive fees and other benefits, which are disclosed in the product disclosure statement for that product (if applicable). We and our employees do not receive any specific remuneration for any advice provided to you. However, financial advisers may receive fees or commissions if they provide advice to you or arrange for you to invest with us. Some or all of the Challenger Limited companies and their directors may benefit from fees, commissions and other benefits received by another Challenger Limited company.