

Challenger Hybrid Property Fund

Fund report and commentary – 31 December 2009

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%) p.a.
Challenger Hybrid Property Fund	-2.27%	0.87%	-8.70%	0.44%	5.80%	7.17%
Growth return	-2.59%	-0.91%	-13.43%	-6.51%	-2.78%	-0.97%
Distribution return	0.32%	1.78%	4.73%	6.94%	8.58%	8.14%
Mercer/S&P Property Composite Index ¹	-2.25%	1.15%	-9.95%	1.06%	6.98%	7.96%
Challenger Wholesale Hybrid Property Fund	-2.06%	1.68%	-7.86%	1.54%	6.84%	8.72%
Growth return	-2.60%	-0.97%	-13.44%	-6.43%	-2.82%	-0.58%
Distribution return	0.54%	2.65%	5.57%	7.97%	9.66%	9.30%
Mercer/S&P Property Composite Index ¹	-2.25%	1.15%	-9.95%	1.06%	6.98%	7.91%

Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

¹For 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, a 50% weighting to Mercer's Australian Unlisted Property Index and a 50% weighting to the S&P/ASX 300 A-REIT Accumulation Index (formerly known as the S&P/ASX 300 Property Accumulation Index), over rolling three-year periods, while providing capital growth and some income over the medium to long term (at least five years).

Investment manager

Challenger Managed Investments Limited

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.

The Fund uses an investment mix of direct property and listed property securities. Macroeconomic analysis assists in determining the weighting of the portfolio to listed property securities and direct property. It also assists in identifying sectors that have the potential to deliver superior performance. For property securities we employ a 'top-down' macroeconomic and 'bottom-up' company specific research and analysis approach.

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

Asset allocation

	Current (\$M)	Current (%)	Range (%)
Listed property	141	49	30-100
Direct/unlisted property	136	48	0-70
Cash	8	3	N/A

Top five listed positions as at 30 November 2009

	Fund weight (%)
Westfield Group	18.85
Stockland Trust Group	7.28
CFS Retail Property Trust	4.37
DEXUS Property Group	3.46
Mirvac Group	3.18

Fund facts

	Hybrid Property Fund	Wholesale Hybrid Property Fund
Inception date	30/09/1994	31/10/1994
Fund size (\$M)	32.1	161.3
APIR code	HBC0002AU	HBC0013AU

Fees

	Hybrid Property Fund	Wholesale Hybrid Property Fund
Entry fee	Up to 4%	Nil
2008/09 ICR	1.75%	0.82%
Management fee	1.75% p.a.	0.768% p.a.
Performance fee	Nil	Nil
Buy/sell spread	+0.87%/-0.87%	+0.87%/-0.87%

Important note: The Challenger Hybrid Property Fund and the Challenger Wholesale Hybrid Property Fund have been temporarily closed for withdrawals and investments, including the reinvestment of distributions.

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Direct property holdings as at 31 December 2009

	State	Building type	NLA (m2)	Current book value (\$ million)	Occupancy (%)
330 Collins Street	VIC	Commercial	18,653	94.5	98.4%
Kings Cross Centre - Retail	NSW	Retail	4,119	25.7	96.5%
Kings Cross Centre - Commercial	NSW	Commercial	2,543	10.2	100.0%

Update on temporary closure

The Fund continues to be closed to withdrawals and investments. Until there is a significant improvement in liquidity in the direct property market and further asset sales are completed we expect the Fund to remain closed to investments and withdrawals. We believe the Fund's closure continues to be the best course of action to preserve unitholder value in the current market environment.

Commentary

Despite the Australian Real Estate Investment Trust (REIT) market finishing lower for the December quarter, there was an improvement in overall investor confidence in both listed and direct property markets. The Fund has continued to maintain its asset allocation close to the benchmark weightings of 50% listed property securities and 50% unlisted property assets/direct real property during the period.

The Australian REIT market finished down 4.99% (S&P/ASX 300 A-REIT Accumulation Index), underperforming the broader market during the quarter. Merger and acquisition activity was renewed in the sector with Mirvac Group's acquisition of Mirvac Real Estate Investment Trust and Lend Lease's proposal for its troubled property fund Lend Lease Prime Life. While capital raisings have slowed somewhat since ING Industrial Fund's A\$700 million rights issue in October, transaction activity in the direct property market has increased on the back of stabilising direct property fundamentals and increased risk appetite. Dexu Property Group, Commonwealth Property Office Fund and GPT Group all completed significant asset transactions during the period. However, initial public offering (IPO) activity in the sector has remained dormant after a proposed Investa IPO was abandoned in November. At a sub-sector level the Office sector delivered the best relative performance followed by the Diversified, Industrial and Retail sectors.

Direct property exposure

330 Collins Street, Melbourne, VIC

The property was valued in December 2009 at \$94.5 million. It is located on the corner of Collins Street and Elizabeth Street within the Melbourne CBD. A major refurbishment was completed in 2003. Accommodation comprises basement level car parking and storage, ground floor retail and entrance foyer and 16 upper levels of office space. The property has an average lease duration of approximately 4.3 years. The major tenants include National Australia Bank (occupying approximately 38% of building area), Legal Services Board and Chubb Insurance. A modernisation of all lifts is due to commence in January 2010. The program will take approximately 18 months and will result in a new lift control system, refurbished car interiors and improved lift response times.

Kings Cross Centre, Sydney, NSW

Commercial lot - This property was valued in December 2009 at \$10.2 million. The commercial lot is located over floors 2 – 4 and is fully occupied by Fitness First gym. The lease to Fitness First expires in 2022.

Retail lot - The property was valued in December 2009 at \$25.65 million. It is located approximately 1.5 kilometres east of the Sydney Central Business District 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 lettable area of the Centre is about 4,443m², with the major tenant, Coles, occupying approximately 58% of the floor area. The lease to Coles expires in 2022. The property has average lease duration of approximately 6.8 years.

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