kinetic
INVESTMENT PARTNERS

Kinetic Wholesale Emerging Companies Fund

for IDPS investors

Product Disclosure Statement

Dated 23 January 2007

Responsible Entity
Challenger Managed Investments Limited
(ABN 94 002 835 592)
(AFSL 234668)

About this Product Disclosure Statement (PDS)

This document provides information to help investors and their advisers to assess the merits of investing in the wholesale class of units in the Kinetic Emerging Companies Fund (ARSN 123 209 218) (**Fund**). References in this PDS to the **Kinetic Wholesale Emerging Companies Fund** are to the wholesale class of units of the Fund. This PDS should be used to compare this Fund with other investment opportunities on offer. We strongly encourage you to read this document in full before making an investment decision.

In preparing this PDS we did not take into account your particular investment objectives, financial situation or needs. As investors' needs and aspirations differ, you should consider whether investing in the Fund is appropriate for you in light of your particular needs, objectives and financial circumstances. You may also wish to obtain independent advice, particularly about such individual matters as taxation, retirement planning and investment risk tolerance.

Updated information

The information in this PDS is up to date at the time of preparation. However, some information and terms (see below) can change from time to time. If a change is considered materially adverse we will issue a supplementary or replacement PDS.

For updated or other information about the Fund (such as performance), please consult your IDPS operator (as defined on page 5), your financial planner or visit our website, www.challenger.com.au. We will also send unitholders a copy of the updated information free of charge upon request.

Important notices

This PDS relating to the wholesale class of units in the Fund is dated 23 January 2007 and is issued by Challenger Managed Investments Limited (ABN 94 002 835 592) (AFSL 234668) (**CMIL**). No other class of units in the Fund is offered in this PDS.

The Fund is managed by CMIL. CMIL is the responsible entity of the Fund and issuer of this PDS. CMIL's ultimate parent is Challenger Financial Services Group Limited (ABN 85 106 842 371) (**Challenger** or the **Challenger Group**). CMIL has appointed Kinetic Investment Partners Limited (ABN 28 009 568 496) (AFSL 234674) (referred to as **Kinetic** or the **investment manager**) as the investment manager of the Fund.

CMIL authorises the use of this PDS as disclosure to investors and potential investors who wish to access the Fund through an IDPS operator (**indirect investors**). This PDS may also be used for direct investment by IDPS operators (**direct investors** or **unitholders**).

Neither CMIL or any other member of the Challenger group of companies nor Kinetic guarantees the repayment of your capital or the performance of your investment.

By investing in the Fund you confirm you have received a copy of the current PDS to which this investment relates, that you have read it and agree to the terms contained in it, and that you agree to be bound by the terms of the relevant current PDS and current constitution (each as amended from time to time).

The offer or invitation to subscribe for units in the Fund under this PDS is only available to persons receiving this PDS in Australia and is subject to the terms and conditions described in this PDS. CMIL reserves the right to change these terms and conditions with, in the case of an increase in fees, 30 days notice, otherwise notice will be provided before or as soon as practicable after the change occurs. We reserve the right to withdraw the offer or invitation to subscribe for units and withdraw this PDS.

All fees and costs quoted in this PDS, unless otherwise stated, are quoted inclusive of any Goods and Services Tax (**GST**) and reduced input tax credits of 75% of GST paid, which effectively reduces the GST payable from 10% to 2.5%.

Consent

Kinetic has provided its consent to statements about Kinetic in the form and context in which they are included, and has not withdrawn its consent before the date of this PDS. Kinetic was not involved in the preparation and distribution of this PDS and is not responsible for the issue of this PDS, nor is it responsible for any particular part of this PDS, other than those parts that refer to it.

Contact details

For any enquiries please contact your financial planner or IDPS operator. Our direct contact details are listed on the inside back cover of this PDS.

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Glossary

In this PDS we refer to	As
Kinetic Emerging Companies Fund	the Fund
wholesale class of units of the Kinetic Emerging Companies Fund (the class offered in this PDS)	Kinetic Wholesale Emerging Companies Fund
Challenger Financial Services Group	Challenger or the Challenger Group
Challenger Managed Investments Limited	we, us, our, CMIL or the responsible entity
Kinetic Investment Partners Limited	Kinetic or the investment manager

About Kinetic

Kinetic is a boutique style investment management business dedicated to the analysis of and investment in small companies in Australia. Kinetic was formed following the acquisition of HSBC Asset Management (Australia) Limited (HSBC) by Challenger in 2005. At the time of the acquisition, Richard Sharp and Jonathan Findlay, who were the managers for HSBC smaller companies portfolios, elected to establish Kinetic. Whilst Kinetic is a new company it has a proven investment team who continue to build upon their successful investment process.

Kinetic has outsourced various business operational functions, including investment services, distribution and administration to Challenger and this will assist Kinetic in focusing its efforts on running its investment portfolios. Challenger is a minority shareholder in Kinetic.

For more information on Kinetic you can visit their website, www.kineticip.com.au

CMIL is the responsible entity and issuer of this PDS. All correspondence pertaining to your investment will be issued by CMIL and you should contact CMIL with any queries regarding your investment.

Investment style

Kinetic believes that inefficiencies exist in the small company sector of the market, and these inefficiencies predominately occur at the stock level. In particular, Kinetic believes these inefficiencies arise from two sources:

- The large number of companies in this sector combined with the relative lack of attention from the investment community means there are often good investment opportunities that can be discovered from conducting widespread fundamental research;
- The methods often used to value small companies do not always pay enough attention to the specific risk and return profile of this sector, leading to mis-pricing.

Kinetic uses cash flow analysis to identify companies that they believe have been undervalued/undiscovered by the market. Companies create shareholder wealth by increasing their return on assets and by investing capital in a way that generates returns above the cost of capital. By focusing on cash flow Kinetic minimises their exposure to accounting manipulations and changes in accounting standards.

Kinetic does not target a specific investment style. Kinetic's investment approach seeks companies undervalued on a cash flow return on investment (CFROI) methodology.

About the Fund

Investment manager	Kinetic Investment Partners Limited
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Investment objective	The Fund aims to outperform its benchmark over rolling five-year periods.
Investment strategy	Kinetic believes that inefficiencies exist in the small company sector of the market, and these inefficiencies predominately occur at the stock level. In particular, Kinetic believes these inefficiencies arise from two sources: • The large number of companies in this sector combined with the relative lack of attention from the investment community means there are often good investment opportunities that can be discovered from conducting widespread fundamental research; • The methods often used to value small companies do not always pay enough attention to the specific risk and return profile of this sector, leading to mis-pricing. Kinetic uses cash flow analysis to identify companies that they believe have been undervalued / undiscovered by the market. Companies create shareholder wealth by increasing their return on assets and by investing capital in a way that generates returns above the cost of capital. By focusing on cash flow, Kinetic minimises their exposure to accounting manipulations and changes in accounting standards. Kinetic does not target a specific investment style. Kinetic's investment approach seeks companies undervalued on a cash flow return on investment (CFROI) methodology.
Investment approach	Investment opportunities are exploited by a disciplined research and valuation process. Kinetic focuses on a company's ability to create shareholder wealth by generating a cash flow return on investment in excess of the firm's cost of capital. A careful assessment of both quantitative and qualitative information on a company's business environment and strategies enables us to understand the key drivers of a company. We model the company using our CFROI methodology to determine whether the market is correctly valuing the company. However, on occasion, a discounted cash flow methodology is more appropriate (such as for toll road investments).
Investment universe	The Fund's investment universe consists of small companies that are listed (or expected to be listed within six months) on the Australian Stock Exchange. Small companies are defined as those companies lying outside the S&P/ASX100 Index with a market capitalisation of generally greater than $25 million. This universe currently consists of 800-plus companies.
Portfolio construction	Stock selection is determined by Kinetic's bottom up research process. Stock weights are largely a function of fundamental research, risk/return trade off, liquidity, market capitalisation and risk management. Portfolio construction guidelines limit the portfolio's exposure to any one stock or sector.
Asset allocation ranges	Securities 90 – 100% Cash 0 – 10%

Summary of significant risks of investing in the Fund	**See pages 6 to 7**
Minimum transaction and balance requirements	You need to comply with any minimum transaction and balance requirements of your IDPS operator.
Fees and other costs[1]	**See pages 8 to 11**
Contribution fee	Nil
Management fee	1.15% p.a. of the Fund's net asset value.
Withdrawal fee	Nil
Performance fee	20% of the Fund's after management fee return above the benchmark (see page 9).
Expense recoveries	In addition to the management fee, we may recover certain fund-related expenses as allowed by the Fund constitution from the Fund, however, we will pay these expenses from our management fee. We may, however, recover any abnormal expenses from the Fund, such as the cost of unitholder meetings.
Transaction costs (buy/sell spread)	+0.40% on entry and –0.40% on exit. These amounts may change if the estimate of the underlying transaction costs changes (see page 10).
Distribution payments	**See page 14**
Frequency	Yearly as at 30 June. However, there may be periods in which no distributions are made.
Payment methods	Distributions will be paid as soon as practicable after 30 June.
Valuations and pricing	**See page 14**
Valuing the Fund's assets	The Fund's assets are usually valued each NSW business day.
Unit pricing	Unit prices are usually calculated each NSW business day.

[1] For certain Wholesale clients (as defined in the Corporations Act) we may, at our discretion, negotiate, rebate or waive all or part of our fees.

Fund performance, actual asset allocation and size

You can obtain up-to-date information for the Fund by contacting your IDPS operator, financial planner or visiting our website, www.challenger.com.au. A paper copy of updated information will be given to you without charge on your request.

Making investments directly or indirectly

The Fund may make investments directly, or indirectly by investing in other funds (including funds related to or managed by Kinetic or a member of the Challenger Group) that have investment objectives and authorised investments that are consistent with the Fund. This structure helps to minimise transaction costs and can enhance diversification.

Who may invest?

Only IDPS operators can invest directly in the Fund through this PDS. In this PDS we refer to investors who invest in the Fund through an investor-directed portfolio service (IDPS), an IDPS-like scheme, master trust or wrap account service as indirect investors and we refer to the operators of these products and services as IDPS operators.

To invest, simply complete the documentation which your IDPS operator requires. In addition to reading this PDS, you should read the disclosure document that explains your IDPS.

Indirect investors do not become unitholders in the Fund. Your enquiries and complaints should be directed to your financial planner or IDPS operator, not to us. Usually, IDPS operators pool their investors' money and make a single investment in the Fund that is held in the name of a custodian. Accordingly, it is the IDPS operator or custodian, not the indirect investor, who acquires the unitholder rights and it is the IDPS operator or custodian, not the indirect investor, to whom we have reporting obligations. Fund reports and other information will be sent directly to your IDPS operator, who will use this information to provide you with regular reporting.

Labour standards or environmental, social or ethical considerations

In buying, retaining or selling underlying investments neither we nor the investment manager take into account labour standards or environmental, social or ethical considerations. However, to the extent that we or the investment manager believe those matters may affect the value or performance of an underlying investment they may be considered. Neither we nor the investment manager have a predetermined view as to what constitutes a labour standard or environmental, social or ethical consideration as these will be determined on a case-by-case basis.

Borrowings

Although the Fund's constitution allows for borrowing, we will generally not borrow on behalf of the Fund, except from time to time to cover short-term cash flow needs or if emergency or extraordinary situations arise.

Derivatives

The term 'derivative' is used to describe any financial product that has a value that is derived from another security, liability or index. Kinetic do not make extensive use of derivatives within the Fund. The Fund's constitution permits it to use derivatives, such as futures or options, to reduce risk or gain exposure to other types of investments. Kinetic do not intend to gear the Fund through the use of derivatives.

Changes to investment policy

The Fund's constitution permits a wide range of investments and gives us as responsible entity, broad investment powers. We may vary the investment objectives, strategies and processes set out in this PDS, provided that we give unitholders written notice of any material variation we believe they would not have reasonably expected.

Understanding the risks of investing

What are the risks of investing?

A degree of risk applies to all types of investments – including investments in the Fund.

As investing in the Fund involves exposing your investment to a range of risks it is important that you understand:

- the risks involved in investing in the Fund;
- how these risks compare with the risks of other investments;
- how comfortable you are in exposing your investment to risk; and
- the extent to which the Fund fits into your overall financial plan.

Risk can mean different things to different people. It can mean the risk that your investment may fail to achieve the returns that you expect. This includes situations in which your investment may suffer substantial declines in value. It also includes situations in which your investment goals will not be met because the type of investments you chose did not provide the potential for adequate returns.

Risk is also often defined to mean investment volatility. That means the extent to which an investment varies in value over a given period. Often investments offering higher levels of return also exhibit higher levels of short-term volatility. When making your investment decision, you should consider that investments in growth assets, such as shares and property, provide the potential for higher returns in the long term than investments in income-producing assets such as fixed interest and cash. However, growth types of investments tend to produce more variability of returns in the short term.

Diversifying your investments across different asset classes can help you to smooth your returns. Ensuring you select an investment that matches your investment timeframe can also help you manage risk. Your financial planner can help you with these considerations and in understanding and managing the risks of investing.

Types of risks

To help you consider the risks of investing in the Fund, the significant risks associated with investing in the Fund are as follows.

Market risk

Investment returns are influenced by market factors. These factors include changes in the economic (e.g. changes in interest rates), legislative and political environment, as well as changes in investor sentiment.

Equity risk

The risk that shares will fall in value over short or extended periods of time. Historically, shares have outperformed other traditional asset classes over the long term. Share markets tend to move in cycles, and individual share prices may fluctuate and underperform other asset classes over extended periods of time.

Investment manager risk

The investment style of an investment manager can have a substantial impact on the investment returns of a fund. No single investment style performs better than all other investment styles in all market conditions. Investment performance will also depend on the skill of the investment manager in selecting, combining and implementing investment decisions. Changes in the personnel of the investment manager may also have an impact on investment returns of a fund.

Company risk

When a security in a company is purchased, the investor is exposed to many of the risks to which the individual company is itself exposed. These risks may impact the value of a security in the company. They include such factors as changes in management, actions of competitors and regulators in regard to the company, changes in technology and market trends.

Sector risk

Companies in the same or similar industries are said to be in the same market 'sector'. While small companies are not all in the same sector (that is, industry sector), all small companies may from time to time generally be similarly impacted as a whole by market or economic events. For example, shock events (world turmoil for example) may lead to investors moving investments from smaller companies to certain larger companies (which are generally less volatile). As this Fund invests in small companies, the Fund is particularly subject to this risk. The value of securities in companies in the same sector may be similarly affected by market or economic events.

Liquidity risk

The Fund invests in small companies which have a less liquid market than larger companies so the Fund's investments are particularly subject to liquidity risk. Further, if an investor in the Fund or a number of investors in the Fund seek to make large withdrawals from the Fund, subject to the trustee's ability to suspend withdrawals from the Fund in the interests of investors as a whole, large withdrawals involve a higher potential liquidity risk on the Fund and may lead to the Fund having to sell investments in shares in a manner which has a detrimental effect on the price obtained by the Fund for those shares. While this risk applies to any small company held by the Fund, the risk is exacerbated in the case of 'forced' sales consequent upon large withdrawals from the Fund.

If a security is not actively traded it may not be readily bought or sold without some adverse impact on the price paid or obtained. Kinetic aim to manage this through their investment process and by carefully managing the sale and purchase of the Fund's assets.

Fund risk

Risks particular to the Fund include that it could terminate and the fees and expenses could change. We could close the Fund to further investments if we consider it appropriate given the investment objective and investment strategy of the Fund. We may terminate the Fund by notice to unitholders. Your investment is governed by the terms of the constitution and PDS each as amended from time to time. There is also a risk that investing in the Fund may give different results from holding the underlying assets directly because of:

- income or capital gains accrued in the Fund at the time of investing; and
- the consequences of investment and withdrawal decisions made by other investors in the Fund, for example, a large level of withdrawals from the Fund may lead to the need to sell underlying assets which would potentially realise capital gains.

We aim to manage these risks by monitoring the Fund and acting in investors' interests.

Concentration risk

The risk associated with any fund that concentrates its investments in a small number of securities. The value of a concentrated fund tend to be more volatile than the value of a more diversified fund (for example, which invests in other asset classes besides shares) because a concentrated fund's value is affected by a greater extent by the performance of the smaller number of securities invested in by the concentrated fund.

Concentration risk is managed by ensuring that the investments are spread across a diversified range of industries and companies.

Regulatory risk

The risk that the value of some investments may be adversely affected by changes in government policies, regulations and laws.

Derivative risk

Risks associated with using derivatives might include the value of the derivative failing to move in line with that of the underlying asset, potential illiquidity of the derivative, the Fund may not be able to meet payment obligations as they arise, and counterparty risk (where the counterparty to the derivative contract cannot meet its obligations under the contract).

The Fund aims to keep derivative risk to a minimum by constantly monitoring the use of derivatives, by making sure the Fund can meet all its obligations with respect to its derivative contracts, and by entering into derivative contracts with reputable counterparties.

Conversion risk

The risk that hybrid securities that convert to ordinary shares cannot be readily converted into an equivalent value of cash.

Fees and other costs

Consumer advisory warning

Did you know?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from $100,000 to $80,000). You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs. You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (www.fido.asic.gov.au) has a managed investment fee calculator to help you check out different fee options.

Because you are investing in this Fund via an IDPS, you will need to consider the fees and other costs of the IDPS when calculating the total cost of your investment. This table shows fees and other costs that you may be charged in the Fund. These fees and costs may be deducted from your money, from the returns on your investment or from the Fund assets as a whole.

You should read all the information about fees and costs because it is important to understand their impact on your investment. 'Taxation considerations' are set out on page 15.

Type of fee or cost	Amount	How and when paid
Fees when your money moves in or out of the fund **Establishment fee** The fee to open your investment.	Nil	Not applicable
Contribution fee The fee on each amount contributed to your investment.	Nil	Not applicable
Withdrawal fee The fee on each amount you take out of your investment.	Nil	Not applicable
Termination fee The fee to close your investment.	Nil	Not applicable
Management costs The fees and costs for managing your investment. • Management fee • Estimated performance fee • **Total management costs**	 1.15% p.a.[1] 0.00% p.a.[2] **1.15% p.a.**	The management cost is your management fee and performance fee, expressed as a percentage of the total net assets of the Fund. This amount does not include any abnormal expenses. The management fee is deducted from the Fund's assets, accrued daily and is paid monthly in arrears. Performance fees are deducted from the Fund's assets and calculated according to a particular methodology (see pages 9-10).
Service fees **Investment switching fee** The fee for changing investment options.	Nil	Not applicable

[1] For certain Wholesale clients (as defined in the Corporations Act) we may, at our discretion, negotiate, rebate or waive all of part of our fees. See 'Can fees change?' on page 10.

[2] The estimated performance fee is zero as there is no performance history for this Fund. This estimated performance fee is not an indication or guarantee of future performance. The actual performance fee and therefore the actual management cost will vary, depending on the Fund's actual return.

Additional explanation of fees and costs

Management costs

Management costs comprise the additional fees or costs that an investor incurs by investing in the Fund rather than investing directly in the underlying assets.

Management costs include the management fee and performance fee, normal operating expenses, investment expenses and abnormal expenses. Management costs do not include transaction costs or other costs that an investor would ordinarily incur when investing directly in the underlying assets.

Management costs are payable from the Fund's assets and are not paid directly from your account. For details of the maximum fees permitted under the constitution see 'Can fees change?' on page 10.

The management costs for the Fund are based on current financial information.

Management fee

This is the fee we charge for managing the investments, overseeing of the Fund's operations and providing access to the Fund. The management fee is calculated daily as a percentage of the net asset value of the Fund and payable monthly in arrears.

The management fee is 1.15% p.a. of the Fund's net asset value.

Normal operating expenses

We currently pay the normal fund related expenses from our management fee, and do not recover these from the Fund.

Abnormal expenses

We may recover abnormal expenses (such as costs of unitholder meetings, changes to the constitution and defending or pursuing legal proceedings) from the Fund. Whilst it is not possible to estimate such expenses with certainty, we anticipate that the events that give rise to such expenses will rarely occur. In circumstances where such events do occur, we may decide not to recover these abnormal expenses from the Fund.

Investment expenses

We currently pay the standard ongoing investment management costs of the Fund from our management fee.

Performance fee

This is a new Fund and does not have 12 months performance information available. Therefore, we can not estimate performance fees.

What is the performance fee and how is it calculated?

If the Fund exceeds its defined performance hurdle, a performance fee is payable to us.

Each business day, the performance fee is calculated as 20.0% of the difference between the Fund's gross return (before fees and expenses) and the performance hurdle. The Fund's gross return must exceed the performance hurdle in order for the performance fee to be paid.

The performance hurdle is the daily return of the S&P/ASX Small Ordinaries Accumulation Index plus the current management fee (i.e. 1.15% p.a).

Therefore, the Fund must outperform its benchmark on an after management fee basis (based on the current management fee), before the performance fee becomes payable.

When is the performance fee calculated and paid?

The performance fee is calculated on each business day. The daily performance fee can be a positive or negative amount depending on whether or not the performance hurdle has been exceeded.

The performance fee at the calculation date is the aggregate of the daily performance fees since a performance fee was last paid from the Fund.

If the aggregate of the performance fees is a positive amount, then this positive amount will be incorporated into the Fund's accounts and hence the unit price.

If the aggregate of the performance fees over the period is negative then no performance fee amount will be reflected in the unit price, but the negative amount will generally need to be offset by future positive performance fees before any performance fee becomes payable.

The performance fee is payable from the Fund for quarterly periods, ending 31 March, 30 June, 30 September and 31 December, where:

- the aggregate of the daily performance fee amounts for your class of units is positive; and
- the Fund's gross return is also positive.

If the aggregate performance fee is positive but the Fund's gross return is negative, the performance fee is carried forward to the next quarter. If the aggregate performance fee is negative at the end of a quarter then this negative amount will be carried forward to the next quarter and will need to be offset before any performance fee becomes payable.

Every three years we may determine not to carry forward this amount. We may determine this is appropriate if, for example, we appoint a new investment manager or change the investment approach. Should we decide this is appropriate we will provide you with 30 days prior notice. If the negative performance fee is not carried forward then a performance fee may be earned after this date even though we have not made up the prior negative performance fee.

Transaction costs – buy/sell spread

The buy/sell spread is stated as a percentage of the net asset value of the Fund. Investment prices and withdrawal prices reflect a spread (adjustment) of +0.40% (for the investment price) and –0.40% (for the withdrawal price) respectively around the unit price.

The buy/sell spread reflects our estimate of the transaction costs expected to be incurred in buying and selling the securities as a result of investments, withdrawals and switches made by investors. A different buy/sell spread may apply if we change our estimate.

We will notify unitholders if the buy/sell spread increases. Types of transaction costs can include brokerage, stamp duty and other government taxes or charges. The purpose of the buy/sell spread is to ensure that only those investors transacting in the Fund's units at a particular time bear the Fund's costs of buying and selling the Fund's assets as a consequence of their transaction. Our estimate of transaction costs may take into account factors such as (but not limited to) historical transaction costs and anticipated levels of investments and withdrawals.

It is expected that brokerage will make up the vast majority of transaction costs.

Please note that the buy/sell spread is not a fee paid to us. It is paid to the Fund and is reflected in the unit price. The buy/sell spread, however, is an additional cost to you.

Transaction costs example: If you make a $50,000 investment or withdrawal from the Fund, you will pay +/–0.40% included in the unit price which is equal to a transaction cost of $200.

Investing in underlying funds

The Fund may gain investment exposure through funds operated by CMIL, Challenger or entities outside the Challenger Group. The management costs in this section also include the management costs in any underlying funds through which the Fund invests.

Can fees change?

All fees can change. The reasons for this might include changing economic conditions and changes in regulation. We will give unitholders 30 days written notice of any proposed increase. We cannot charge more than the Fund's constitution allows. If we wished to raise fees above the amounts allowed for in the Fund's constitution, we would need the approval of unitholders.

The current fees are set out on page 8. Under the constitution of the Fund we are presently entitled to charge the following maximum fees (GST can be added to all these fees if applicable).

Fee	Maximum amount
• Contribution fee (currently not charged)	5.00% of the contribution.
• Management fee	3.00%p.a. of the Fund's gross asset value.
• Withdrawal fee (currently not charged)	5.00% of the withdrawal amount.
• Performance fee	20% of the Fund's gross return above its benchmark.
• Switching fee (not currently charged)	the contribution fee plus $50 (CPI adjusted each year) for each switch.

The constitution of the Fund allows for the operating expenses (such as registry, audit, taxation advice, investment management and offer documents) to be paid directly from the Fund. The constitution does not place any limit on the amount of the operating expenses that can be paid from the Fund.

Units in lieu

We may elect to receive units in lieu of all or part of any management fee and performance fee (plus any applicable GST) for the Fund. Any such units will be issued at the applicable withdrawal price.

Can fees be different for different investors?

Yes, we may negotiate, rebate or waive fees for Wholesale clients (as defined by the Corporations Act). We do not negotiate fees with retail clients.

Government charges and GST

Government taxes such as stamp duty and GST may be applied as appropriate. Please refer to the section on 'Taxation considerations' on page 15.

Commissions and other payments

We may pay fees from our resources to some IDPS operators because they offer the Fund on their investment menus.

These fees may be rebated to you or retained by your IDPS operator and include:

- product access payments of up to $5,500p.a. per IDPS operator; and
- fund manager payments of up to 0.55%p.a. of the amount invested by the IDPS operator in a Challenger fund.

If we do pay fees, we will pay them from our own resources so that they are not an additional cost to the Fund or its investors. These amounts are current at the issue date of this PDS.

We may pay fees or provide other financial assistance (for seminars, client mailings, co-operative advertising, postage, etc) to other financial services intermediaries. If we do, we will make these payments from our own resources so that they are not an additional cost to the Fund or its investors. We maintain a register (in compliance with Industry Code of Practice on Alternative Forms of Remuneration) summarising alternative forms of remuneration that are paid or provided to certain advisers. If you would like to review this register please contact us.

Additional adviser fees

Although this is not paid from the Fund, you and your financial planner may agree that you will pay your financial planner an additional fee.

Example of annual fees and costs for the Fund

This table gives an example of how fees and costs in the Fund can affect your investment over a one-year period. You should use this table to compare this product with other managed investment products.

Example	Amount	Balance of $50,000 with a contribution of $5,000 during year
Contribution fees	0%	Nil
Plus Management costs Management fees **Plus** Estimated performance fee	 1.15% 0.00%	**And**, for every $50,000 you have in the Fund you will be charged $575 each year. Nil
Equals Cost of the Fund		If you had an investment of $50,000 at the beginning of the year and you put in an additional $5,000 during that year, you would be charged fees from: **$575 to $632.50**[1].

[1] An allowance for transaction costs will also apply for contributions and withdrawals from the Fund (please see 'Transaction costs – buy/sell spread' on page 10).

Please note that this is just an example. In practice, the actual investment balance of an investor will vary daily and the actual fees and expenses we charge are based on the value of the Fund, which also fluctuates daily, and the actual performance fee payable (which depends on the Fund's actual performance).

The estimated performance fee is zero as there is no performance history for this Fund. This estimated performance fee is not an indication or guarantee of future performance. The actual performance fee and therefore the management cost will vary, depending on the Fund's actual return.

Making, withdrawing and monitoring your investment

Making an investment

To invest please complete the documentation which your IDPS operator requires.

Cooling-off right

You should seek advice from your IDPS operator about the cooling-off rights (if any) that apply to your investment in or through your IDPS. If you have any questions about cooling-off rights, please contact your financial planner or IDPS operator.

Withdrawing your investment

To make a withdrawal simply complete the documentation your IDPS operator requires. Generally, you can withdraw some or all of your investment at any time, if requirements set by your IDPS operator are satisfied.

Withdrawals are normally processed within five business days of receiving a request from your IDPS operator.

We may determine that some or all of the withdrawal amount consists of income (which may include net capital gains), rather than capital of the Fund. We are required to advise a unitholder of any such determination as soon as practicable after the end of the financial year in which the withdrawal occurred.

We have the discretion to transfer assets of the Fund to unitholders (instead of cash) in payment (partly or fully) for the proceeds of a withdrawal request.

We can also change the withdrawal cut-off time. A withdrawal request, either in whole or in part, once received by us may not be withdrawn without our agreement. Where we give 30 days notice to affected unitholders we can compulsorily redeem investor units.

Suspending withdrawal requests

We may suspend withdrawal requests for up to 90 days where we consider it impracticable for us to calculate the net asset value (and hence unit prices), where we estimate that we must sell 5% or more of the Fund's assets to meet withdrawals, where we believe that the size of withdrawal requests is such that it would require us to realise a significant amount of the Fund rapidly and this may either place a disproportionate expenses or capital gains tax burden on remaining investors or impact negatively on the price we could achieve in selling Fund assets, where we reasonably consider it is in the interests of investors to do so, or where the law otherwise permits. Any withdrawal requests received during a period of suspension, or for which a unit price has not been calculated or confirmed prior to the commencement of a period of suspension, will be deemed to have been received immediately after the end of the suspension period.

Spreading withdrawal requests

We may spread a withdrawal request where:

- we receive a withdrawal request that represents 5% or more of the units on issue, or
- we receive on any day withdrawal requests that in total represent 10% or more of the units on issue, or
- there has been, or we anticipate that there will be, withdrawal requests for 10% or more of the units on issue in the Fund and we consider that if those requests are met rapidly this may either place a disproportionate expenses or capital gains tax burden on remaining investors or meeting the requests would impact negatively on the price we could achieve in selling Fund assets or otherwise disadvantage remaining investors.

When we spread withdrawals we may determine a withdrawal request is four separate requests, each for a quarter (or as close to a quarter as we determine) of the total number of units in the original withdrawal request. Each of the four (deemed) withdrawal requests will be deemed to be received by us on the same business day of the month (or next business day, if not a business day or if that day does not occur in that month) in each of the four succeeding months following the original withdrawal request.

If the Fund becomes illiquid

If the Fund becomes illiquid (as defined by the Corporations Act), unitholders will only be able to withdraw from the Fund if we make an offer of withdrawal. If we do make such an offer, unitholders may only be able to withdraw part of their investment. There is no obligation for us to make such an offer.

Under the Corporations Act, the Fund is regarded as liquid if liquid assets account for at least 80% of the value of the assets of the Fund. Liquid assets generally include money in an account or on deposit with a bank, bank-accepted bills, marketable securities and property of the kind prescribed under the Corporations Act. We do not expect the Fund to become illiquid.

Monitoring your investment

Fund reports and other information will be sent directly to your IDPS operator, who will use this information to provide you with regular reporting. You should consult your IDPS operator for any investor queries or complaints.

If the Fund is a 'disclosing entity' for purposes of the Corporations Act 2001 it will be subject to regular reporting and disclosure obligations. Unitholders may obtain from, or inspect at ASIC, copies of documents lodged by the Fund. They can also ask us for a copy of the Fund's most recent annual financial report lodged with ASIC, any subsequent continuous disclosure notices given before the date of this PDS and any half-yearly financial report lodged with ASIC before the date of this PDS.

Additional information

Unit prices

The calculation of both the investment unit price and the withdrawal unit price is based on the Net Asset Value (NAV) adjusted by the buy/sell spread (see page 10 for details). The NAV is the value of all the Fund's assets attributed to the wholesale class of units less the value of all the Fund's liabilities attributed to the wholesale class of units at the valuation time. When calculating the NAV we must use the most recent valuations of the Fund's assets and the most recent determination of its liabilities. Generally, listed securities are valued using the last sale price quoted on the relevant exchange and liabilities are valued at cost. Other assets are generally valued at the recoverable value.

Where we receive a valid transaction request before the relevant cut-off time, then the unit price will be generally determined at the next valuation time after that cut-off time.

The Fund's assets are usually valued and unit prices calculated each NSW business day.

We have a Unit Pricing Permitted Discretions Policy. The policy sets out how we will exercise any discretions in relation to unit pricing (such as, for example, how often we determine unit prices and valuation methodology). You can obtain a copy of this policy free of charge by calling our Investor Services team.

Distributions

Distributions will generally be paid to your IDPS operator as soon as practicable after the 30 June accrual period. There may be periods in which no distributions are made or we may make interim distributions. However, we do not guarantee any particular level of distributions.

You should check with your IDPS operator to see when they will pay distributions to you.

For direct investors the price of units issued on reinvestment of distributions is the investment price for units next determined after the close of business on the last day of the distribution period. There is no buy/sell spread reflected in this investment price.

The amount of each distribution may vary. A unitholder's share of any distribution depends on how many units are held at the end of the accrual period as a proportion of the total number of wholesale class units on issue at that time and the amount of net income of the Fund referable to those investors.

The amount of income distributed for the year ended 30 June will include net income and net realised capital gains.

As distributable amounts are a component of the unit price, unit prices normally fall by the distribution amount following a distribution. If you invest just prior to a distribution, you may receive some of your investment back immediately as income. Conversely, if you withdraw from the Fund just before a distribution, you might turn income into a capital gain or reduce your capital losses.

We have the discretion to transfer assets of the Fund to unitholders (instead of cash) in payment (partly or fully) of a distribution amount.

If any distribution payments are returned to us and remain outstanding for a period of one month, we may reinvest those distributions and amend your future distribution method to reinvest. If a unitholder's distribution cheque remains unpresented for three months, we may stop the cheque and reinvest the proceeds in the Fund and amend the unitholder's future distribution method to reinvest. Any reinvestment will be processed using the investment unit price current at the time of the reinvestment transaction.

Under the constitution we have the power to make reinvestment of distributions compulsory. At the date of this PDS, we have no current intention of introducing compulsory distribution reinvestment.

Taxation considerations

Any investment can have a substantial impact on your tax position from year to year.

Indirect investors should refer to tax information in their IDPS disclosure document. Tax statements will be sent by us to your IDPS operator after the end of the financial year.

The following information is a general summary of current legislation. We recommend that you obtain your own professional advice regarding your position as tax and social security laws are complex and subject to change, and investors' individual circumstances vary.

The Fund will generally not be liable for income tax as the income is distributed to investors. Australian residents will have to include in their taxable income for the year the share of investment income of the Fund (including net capital gains) distributed, even if they reinvest distributions or if payment is not received in that year. In the case of non-residents, Australian tax may be deducted from distributions.

There are other relevant tax considerations that may be applicable to the Fund's investments and your tax position. For example, entitlement to franking credits, capital gains tax, tax deferred income and taxation of foreign source income.

Some of the income distributed to investors may be classified as tax deferred income. Generally, tax-deferred income is not taxable in the year it is received, but may increase the capital gain or reduce the capital loss upon disposal of an investor's units.

Where foreign tax has been paid by the Fund in respect of overseas investments, the Fund will generally pass on to investors the corresponding foreign tax credits. Investors may be able to utilise these credits to offset against the Australian tax payable on the foreign component of their distributions. In order to claim the foreign tax credits, investors must first include the amount of the credits in their assessable income.

The disposal of units (for instance by redemption or transfer) may give rise to a capital gains tax liability or a capital loss. For some investors, if units are held for more than 12 months, they may be entitled to a capital gains tax discount.

GST is not payable on the issue, withdrawal or transfer of units in the Fund, as these are input-taxed financial supplies for GST purposes. However, GST will generally be incurred on various acquisitions made by the Fund, including the investment management services supplied by the responsible entity. In specified circumstances, the Fund may be entitled to reduced input tax credits of 75% of GST paid, which effectively reduces the GST payable from 10% to 2.5%.

Complaints

For indirect investors, your first point of contact should be your IDPS operator. If any issues remain unresolved, then you can contact the complaints scheme of which they are a member.

Privacy and personal information

We do not normally receive any personal information about you when you invest in the Fund through an IDPS operator. For details on the collection, storage and use of personal information you should contact your IDPS operator.

The information we collect and store from IDPS operators is used to establish and administer their investments. If we do receive any personal information we will deal with it in accordance with our privacy policy. A copy of our privacy policy is available by visiting our website, www.challenger.com.au or on request from our Investor Services team.

Legal relationships

The Fund is a registered managed investment scheme that is an unlisted Australian unit trust and is governed by a constitution.

Interests in unit trusts, which are called units, represent a share in the trust's collective asset pool. Certain rights are attached to units and these rights are exercisable by the investors who own these units.

Subject to the law, the Fund's constitution and the terms on which units are held, unitholders can apply for or redeem their units at any time.

The Fund's constitution together with the Corporations Act and some other laws govern the way in which the Fund operates and the rights and responsibilities and duties of the responsible entity and unitholders. The constitution contains the rules relating to a number of issues including:

- unitholder rights;
- the process by which units are issued and redeemed;
- the calculation and distribution of income;
- the investment powers of the responsible entity;
- the responsible entity's right to claim indemnity from the Fund and charge fees and expenses to the Fund; and
- the termination of the Fund.

It is generally thought that unitholders' liabilities are limited to the value of their holding in the Fund. It is not expected that a unitholder would be under any obligation if a deficiency in the value of the Fund were to occur. However, this view has not been fully tested at law.

Unitholders can inspect a copy of the constitution at our head office or we will provide them with a copy free of charge.

We may alter the constitution if we reasonably consider the amendments will not adversely affect unitholders' rights. Otherwise (subject to any exemption under the law) we must obtain unitholder approval at a meeting of unitholders.

We may retire or be required to retire as responsible entity (if unitholders vote for our removal).

Termination

The constitution of the Fund, together with the Corporations Act, governs how and when the Fund may be terminated. We may terminate the Fund at any time by written notice to unitholders. On termination a unitholder is entitled to a share of the net proceeds of our realisation of the assets in proportion to the number of units they hold in that class.

Unitholder meetings

The conduct of unitholder meetings and unitholders' rights to requisition, attend and vote at those meetings are subject to the Corporations Act and (to the extent applicable) the Fund's constitution.

Compliance plan and compliance committee

We have lodged the Fund's compliance plan with ASIC and established a compliance committee with a majority of external members.

The Fund's compliance plan sets out how we will ensure compliance with both the Corporations Act and the Fund's constitution.

The compliance committee's role is to monitor compliance with the compliance plan. It must also regularly assess the adequacy of the compliance plan and report any breaches of the Corporations Act or the Fund's constitution to us. If we do not take appropriate action to deal with the breach, the compliance committee must report the breach to ASIC.

Audit

The Fund and its compliance plan are required to be audited annually.

Other parties

We have engaged an independent custodian to hold the assets of the Fund. The custodian has no independent discretion with respect to the holding of assets and is subject to performance standards.

The Fund has a registered company auditor. The auditor's role is to provide an audit of the financial statements of the Fund each year as well as performing a half-yearly review (if required), and to provide an opinion on the financial statements.

Related parties

We or the investment manager may enter into transactions with, and use the services of, any member of the Challenger group of companies. Such arrangements will be based on arm's length commercial terms. The investment manager, us or any member of the Challenger group of companies or any director or officer of any of them may invest in the Fund.

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