

# Challenger Howard Mortgage Fund Challenger Howard Wholesale Mortgage Fund Challenger Mortgage Plus Trust

## ASIC Benchmark Report – 30 June 2010

This ASIC Benchmark Report provides specific information in relation to the following funds issued by Challenger Managed Investments Limited (ABN 94 002 835 592) (AFSL 234668):

- Challenger Howard Mortgage Fund (ARSN 090 464 074)
- Challenger Howard Wholesale Mortgage Fund (ARSN 093 720 159)
- Challenger Mortgage Plus Trust (ARSN 091 029 248)

(collectively 'the Funds').

We recommend that you read this ASIC Benchmark Report in conjunction with the relevant Product Disclosure Statement (PDS) for each fund (if applicable<sup>1</sup>) before making an investment decision. The information contained in this ASIC Benchmark Report is as at 30 June 2010 and will be updated periodically (usually quarterly). A paper copy of any updated ASIC Benchmark Report will be given to you, without charge, on request by calling our Investor Services team. There have been no material changes to the information provided by the Funds against each benchmark since the ASIC Benchmark Report for the previous quarter dated 31 March 2010.

### Challenger Howard Wholesale Mortgage Fund and Challenger Mortgage Plus Trust

The Challenger Howard Wholesale Mortgage Fund (**Howard Wholesale**) and the Challenger Mortgage Plus Trust (**Mortgage Plus**) gain exposure to their investments by investing in the Challenger Howard Mortgage Fund. All distribution income and withdrawal amounts are sourced from the Challenger Howard Mortgage Fund.

Unless otherwise specified, the information contained in this report relates to the Challenger Howard Mortgage Fund, but will also apply on a 'look-through' basis to both Howard Wholesale and Mortgage Plus. References to '**the Fund**' are to the Challenger Howard Mortgage Fund.

### ASIC Benchmarks

Some features of unlisted mortgage funds can create risks for investors. The Australian Securities and Investments Commission (**ASIC**) has introduced eight benchmarks for mortgage funds to disclose against. These benchmarks are aimed at assisting investors understand the risks of investing and determining whether such investments are suitable for them.

The ASIC Benchmarks and relevant information covered in this Report are as follows:

ASIC Benchmark	Page	ASIC Benchmark	Page
ASIC Benchmark 1: Liquidity	2	ASIC Benchmark 5: Valuation policy	8
ASIC Benchmark 2: Scheme borrowing	3	ASIC Benchmark 6: Lending principles	9
ASIC Benchmark 3: Portfolio diversification	3	ASIC Benchmark 7: Distribution practices	9
ASIC Benchmark 4: Transactions with related parties	8	ASIC Benchmark 8: Withdrawal arrangements	10

<sup>1</sup> The Challenger Mortgage Plus Trust is closed to new investors and therefore a PDS is not available for this fund.

## **Benchmark 1: Liquidity**

This Benchmark addresses the Fund's ability to satisfy withdrawal requests and other operational commitments.

Currently, investors are only able to withdraw from the Fund if we make an offer of withdrawal. Whilst there is no obligation for us to make a withdrawal offer, we continue to offer a withdrawal amount with the aim of ensuring that, subsequent to the withdrawal payments, the Fund will continue to retain sufficient liquidity to manage the portfolio effectively, pay out distributions and maintain our ability to make future withdrawal offers where appropriate.

The Funds meet certain aspects of Benchmark 1 as outlined below. In terms of the current ability to meet future cash flow over the next three months, as at the issue date of this ASIC Benchmark Report, the Funds do not meet Benchmark 1. Refer to 'Fund's current ability to meet future cash flow needs' for further information.

### **Maintaining estimates of future cash flow needs**

We maintain estimates of future cash flows in and out of the Fund over three month periods. When determining the Fund's estimated future cash flows we use the following information relating to cash inflows and outflows over the preceding three months as a guide for the following three months:

- net applications and redemptions from investors;
- levels of Fund distributions that are re-invested;
- distributions that have been paid;
- amounts of new loans written;
- amounts of undrawn loan commitments;
- amounts expected to be received from maturing loans;
- amounts expected to be received from mortgage discharges;
- interest payments to be made on loans (including penalty interest where payments are in arrears); and
- returns expected to be generated on non-loan assets of the Fund.

We periodically stress test these assumptions.

### **Balancing maturity of assets and liabilities**

During normal market conditions the Fund aims to maintain a cash balance to meet future cash needs including withdrawal needs. The Fund maintains the cash balance by managing prudent exposures to cash and other short-term investments and managing cash flows from distributions reinvested, applications into the Fund and mortgage discharges.

### **Fund's current ability to meet future cash flow needs**

While investment markets generally have experienced improvements in recent times, the availability of credit for commercial loans remains highly restricted, which has limited the ability of Challenger to liquidate the existing loans or for certain borrowers to obtain alternative funding.

Given these restrictions, the Funds' assets generally remain illiquid. Therefore we continue to operate the Funds with the amended withdrawal process whereby withdrawals are only permitted if and when we make an offer of withdrawal based on our assessment of the available liquidity in the Fund. This withdrawal process has been designed to protect the interests of all investors and ensure that investors are treated equally. Further information about the withdrawal procedures is outlined in 'Benchmark 8: Withdrawal arrangements'.

Given the prolonged nature of these conditions and our desire to provide greater certainty to our investors, we have been seeking an alternative approach with the aim of releasing greater liquidity whilst continuing to protect the best interests of all investors.

We expect to announce these further developments within the next quarter and in the interim we believe it is appropriate to provide a further withdrawal opportunity to investors consistent with the previous quarterly withdrawals.

## Benchmark 2: Scheme borrowing

This Benchmark addresses the Fund's policy on borrowing.

The Funds meet Benchmark 2: Scheme borrowing with the following procedures.

### The Funds use of borrowings

The Funds' constitutions allow for borrowing. We will generally not borrow on behalf of the Funds, except from time to time to cover short-term cash flow needs or if emergency or extraordinary situations arise, and in such circumstances borrowings may be used to partially fund withdrawals. The Funds may utilise borrowings in these circumstances if we consider it to be in the best interests of investors to do so. Borrowings will not be used to pay distributions or to fund new loans.

If we decide to enter into a borrowing facility in the future, the availability and terms of such borrowings would be subject to the market for borrowings (including market conditions in debt and other markets) and as such borrowings may not always be available. Lenders may refuse to provide borrowings, renew an existing borrowing facility or refuse to renew the facility on terms which are commercially acceptable to us. This may be for reasons specific to the Fund or due to market-wide events. Borrowings may be from a variety of sources, including companies associated with the Challenger Group. Where funds are borrowed from companies associated with the Challenger Group, the terms are set on a commercial and arm's length basis.

The Funds currently do not borrow and it is not our current intention for the Funds to use borrowings.

## Benchmark 3: Portfolio diversification

This Benchmark addresses the Fund's lending practices and portfolio risk.

The Funds meet Benchmark 3: Portfolio diversification with the following information provided on the next pages:

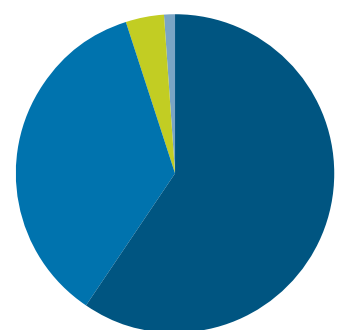
- A. The Fund's assets
- B. The Fund's lending policy

### A. The Fund's assets

Fund investment profile	
Asset allocation	\$ value
Mortgage loans	\$1,360m
Mortgage backed securities	\$20m
Corporate paper	\$812m
Cash	\$86m
Total net asset value of Fund	\$2,278m

Mortgage portfolio profile	
Number of mortgages	1,525
Number of mortgagors	1,472
Number of securities	1,916
Average loan to value ratio	63.2%
Average loan size	\$0.891m
Undrawn loan commitments <sup>1</sup>	\$27.4m
Average term to maturity <sup>2</sup>	18.4 months

Mortgage loans	59.7%
Corporate paper	35.7%
Cash	3.8%
Mortgage backed securities	0.9%



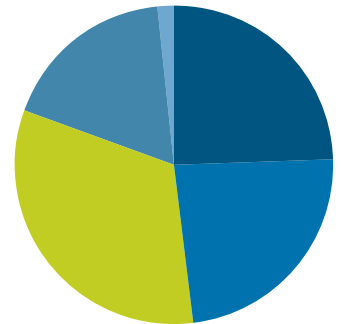
<sup>1</sup> Undrawn loan commitments are taken into consideration when we are estimating our future cash flow needs (refer to 'Benchmark 1: Liquidity'). There are currently no loans approved that are yet to be advanced.

<sup>2</sup> Excludes loans past maturity.

## Loans<sup>1,2</sup> by class of activity

Activity	No. loans	Amount (\$)
Residential	483	\$335m
Industrial	616	\$320m
Commercial	596	\$442m
Retail	195	\$242m
Vacant land	26	\$20m

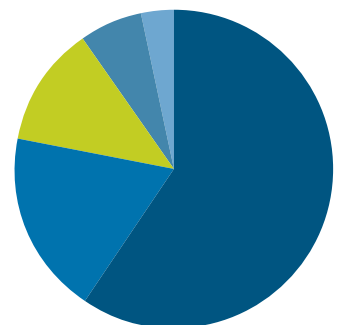
Residential	24.7%
Industrial	23.5%
Commercial	32.5%
Retail	17.8%
Vacant land	1.5%



## Loans<sup>1,2</sup> by geographic regions

Region	No. loans	Amount (\$)
NSW	977	\$814m
VIC	518	\$253m
QLD	211	\$168m
WA	83	\$86m
SA, NT, ACT, TAS	127	\$39m

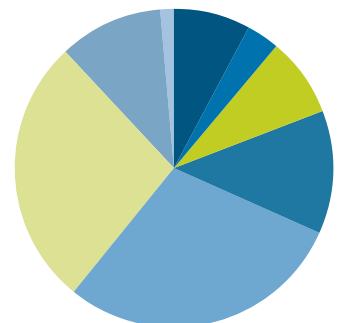
NSW	59.9%
VIC	18.6%
QLD	12.3%
WA	6.3%
SA, NT, ACT, TAS	2.9%



## Loan to value ratios (LVR)

LVR	No. loans	Amount (\$)
0-50%	233	\$109m
50-55%	77	\$45m
55-60%	95	\$110m
60-65%	147	\$167m
65-70%	300	\$399m
70-75%	466	\$370m
75-80%	198	\$144m
80-100%	9	\$16m

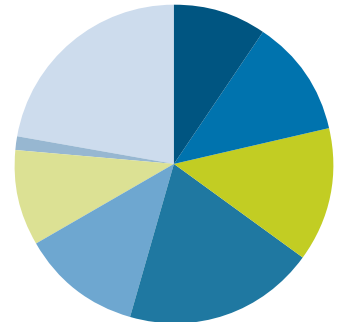
0-50%	8.0%
50-55%	3.3%
55-60%	8.1%
60-65%	12.3%
65-70%	29.3%
70-75%	27.2%
75-80%	10.6%
80-100%	1.2%



## Maturity profile of loans

Maturity profile	No. loans	Amount (\$)
0-6 months	178	\$131m
6-12 months	177	\$163m
12-18 months	253	\$183m
18-24 months	287	\$265m
24-30 months	264	\$166m
30-36 months	166	\$134m
36+ months	29	\$19m
Loans past maturity	171	\$299m <sup>3</sup>

0-6 months	9.6%
6-12 months	12.0%
12-18 months	13.5%
18-24 months	19.5%
24-30 months	12.2%
30-36 months	9.9%
36+ months	1.4%
Loans past maturity	22.0%



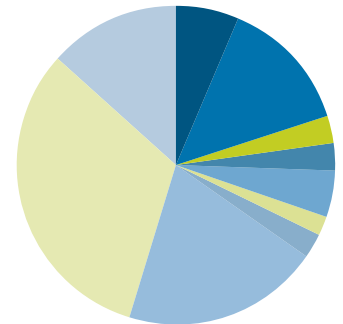
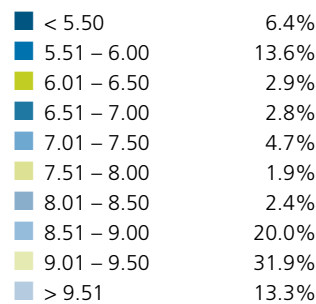
Percentages shown are the percentage (by dollar amount) of the mortgage portfolio. Amounts and percentages may differ or may not add up to 100% due to rounding.

<sup>1</sup> Refers to the nature of the secured property in respect of the loan.

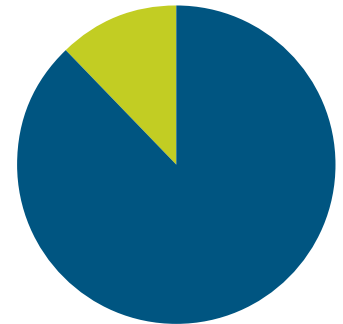
<sup>2</sup> Each loan is secured by a first registered mortgage over real property. We do not take security over specialised properties or development projects, nor do we write construction loans or have loans that are supported by second mortgages only.

<sup>3</sup> Includes approximately \$142.7m of loans in arrears and loans in default (refer to the information under 'Loans in arrears' on page 5).

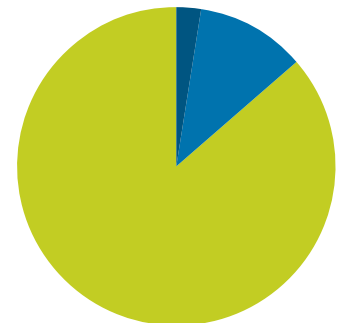
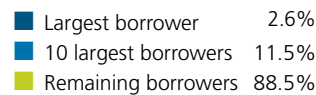
Loans split by interest rate		
Interest rate (%)	No. loans	Amount (\$)
<5.50	3	\$88m
5.51-6.00	107	\$185m
6.01-6.50	31	\$39m
6.51-7.00	8	\$38m
7.01-7.50	12	\$64m
7.51-8.00	10	\$26m
8.01-8.50	28	\$33m
8.51-9.00	147	\$273m
9.01-9.50	925	\$433m
>9.51	254	\$181m



Fixed/variable interest rate split		
Interest rate	No. loans	Amount (\$)
Variable	1,489	\$1,193m
Fixed	36	\$166m



Portion of mortgage portfolio lent to largest borrowers	
Borrowers	Amount (\$)
Largest borrower	\$58m
10 largest borrowers	\$262m



Loans in arrears			
Days in arrears	No. loans	Amount (\$)	% of total portfolio
61-90 days	12	\$11m	0.5%
91+ days	45	\$120m	5.3%

The figures are based on principal and outstanding interest. Interest is not capitalised unless a loan is in arrears. Loans are in arrears when interest payments are outstanding after 60 days.

Recovery action is initiated immediately once a loan is in arrears longer than 60 days. It is the Fund's policy to provide for potential losses on loans in default from within the Fund's investment return.

## B. The Fund's lending policy

### Requirements under the Fund's lending policy

Mortgage loans are only made or acquired where they meet requirements under our lending policy, which include, but are not limited to:

- the maximum loan amount for any one borrower is 2.5% of the total value of funds under management at the date of the loan approval;
- in addition, the maximum loan amount for a Lite Verified Loan (see below) is \$2m. The Fund's lending policy for those loans is set out below. We have no current intention of accepting further Lite Verified Loans within the portfolio however we have a current exposure of approximately 5% of the total Fund to loans of this type;
- the pool of loans is diversified to ensure it comprises a broad range of loan sizes, rather than a small number of large loan sizes;
- in accordance with our documented credit policy, each loan is assessed on the basis of the borrower's capacity to meet the loan repayments. For example, when assessing most borrowers' ability to service a loan we take into account factors including:
  - History of employment, salary and residential stability (applicable to individual applicants), as advised by the applicant.
  - Details of assets and liabilities (applicable to individuals, companies and directors of companies acting as guarantors), as advised by the applicant.
  - Details of earnings and outgoings (applicable to companies and self-employed borrowers), as advised by the applicant.
  - Acceptable conduct of a loan account with another financial institution, where applicable, for a minimum period of six months.
  - Acceptable credit report.
  - In some cases (Lite Verified Loans), a self-employed borrower may not be able to provide financial statements or taxation returns at the time of their loan application. In those cases, the Fund would have accepted the borrower's declaration of financial position and income, supported by their accountant's declaration as to whether the information in the borrower's declaration is correct. Also, the Fund reviewed the applicant's conduct of another loan account (if applicable) and a credit report on the applicant. The Fund imposed lower loan amount limits and loan to value ratios (LVRs) for security properties in respect of Lite Verified Loans.

A calculation must be completed to demonstrate that the borrower will have sufficient free cash flow available to meet the scheduled loan repayments. Generally, it will be necessary to demonstrate that the borrower has capacity to meet 120% of the expected periodic repayments. However, this requirement may be varied where repayments will be subject to planned special circumstances, such as interest paid in advance, or a lump-sum repayment from the sale proceeds of another identified asset. In the case of loans with an LVR in excess of 70%, and for Lite Verified Loans, we require that the borrower be able to demonstrate its capacity to meet 150% of the expected periodic repayments.

The capacity test includes an outgoing to reflect the monthly repayment due on the loan, based on the full value of the facility being considered in the loan application. The repayment amount is calculated as the actual monthly repayment due, based on the actual interest rate to be charged, plus an additional uplift of 2.0% p.a. (i.e. current interest rate plus 2.0% p.a.). The purpose of the uplift is to add a hypothetical buffer, or in-built 'stress test' in assessing the borrower's loan servicing capacity.

- each loan is secured by a first registered mortgage over real property;
- at the time the loan is initially approved, the loan must not exceed 75% of the value of the mortgaged property or, in the case of Lite Verified loans, the loan must not exceed 70% of the value of the mortgaged property;
- a valuation for new loans is not more than three months old at the time the loan is settled;
- if a loan is being rolled over into a new loan, our revaluation process is met (refer to information about revaluing mortgaged property, appearing under Benchmark 5 on page 9);
- all valuations are carried out by a qualified and independent valuer.

#### **Additional information on lending practices**

- Mortgages may be at either fixed or variable rates of interest, however, we expect that the majority will be at variable rates of interest.
- We do not require security properties to be income producing.
- We do not take security over specialised properties or development projects, nor do we write construction loans or have loans that are supported by second mortgages only.

#### **Arrears and collection management policy**

The Fund has a documented arrears and collections management policy that operates in the event that a borrower is in arrears in respect of their mortgage repayments or is in default for another reason. Under this policy a variety of measures may be employed in relation to accounts that are in arrears or default, including enforcing the mortgage and selling the mortgaged property. The Fund continuously monitors the level of mortgage loans that are in arrears or default.

#### **Use of derivatives**

The term 'derivative' is used to describe any financial product that has a value that is derived from another security, liability or index.

Each Fund's constitution permits it to use derivatives, such as futures, forwards or options. Derivatives can be used to implement investment decisions, including hedging and as a risk management tool. Derivatives can be used to gain exposure to assets and markets as part of implementing investment or asset allocation decisions. Derivatives may also be used to manage risk and the sensitivity of the Funds' value to changes in interest rates or credit risk. While the Funds' may use derivatives from time to time, we do not intend to gear the Funds through use of derivatives. Please note, Howard Wholesale and Mortgage Plus invest in the Challenger Howard Mortgage Fund which is managed in accordance with the ASIC Benchmarks outlined in this Report.

The Funds currently do not hold derivatives but may do so in the future.

The use of derivatives may expose the investment to certain risks. Please refer to 'Derivative risk' in the relevant PDS for more information.

#### **Benchmark 4: Transactions with related parties**

This Benchmark addresses the risks associated with related party lending, investments and transactions.

The Funds meet Benchmark 4: Transactions with related parties with the following procedures.

The Fund does not extend loans to related parties. However the Challenger Howard Wholesale Mortgage Fund and the Challenger Mortgage Plus Trust gain exposure to their investments by investing in the Challenger Howard Mortgage Fund.

We or the mortgage manager may enter into transactions with, and use the services of, any member of the Challenger Group of companies. It is our policy to ensure that such arrangements are on arm's length commercial terms. We or any member of the Challenger Group or any director or officer of any of them may invest in the Funds.

We have appointed Challenger Commercial Lending Limited to administer and manage the Fund's loan portfolio, and to originate mortgages. Mortgages may also be originated by, and mortgage broking services may be provided to borrowers by, related parties including Challenger Commercial Lending Limited. We have a policy in place to resolve conflicts in the unlikely event that a conflict of interest arises under these arrangements. This policy sets out our approach to the identification, assessment and evaluation, monitoring and review, and reporting of conflicts of interest. We also have a related party transaction policy which sets out protocols for negotiating and entering into transactions between a Challenger Group entity and a related party.

#### **Benchmark 5: Valuation policy**

This Benchmark, together with Benchmark 6: Lending principles, addresses the Fund's property related lending and valuation practices.

The Funds meet Benchmark 5: Valuation policy with the following procedures.

Properties are valued on an 'as is' basis (that is, on the basis of the property's current state without any further improvements). We have a panel of valuers who are registered or licensed as required by the jurisdiction in which they conduct business. We require all valuers to be members of the Australian Property Institute (API) and to comply with API guidelines. It is our policy that no one valuer conducts more than one third of the Fund's valuation work.

#### **Valuations of mortgaged property**

We have a documented policy that sets out the conditions under which property valuations must be obtained, the information required within valuations and information relating to maintaining our panel of valuers. We may conduct estimates on an 'as needs' basis which may be conducted by internal means and/or external valuers.

A valuation is required on proposed security properties for all new loan applications. A new valuation is required on a mortgaged property before the Fund approves an increase to an existing loan, unless the Fund already holds a valuation which is less than three months old at the date the new advance is to be made to the borrower.

#### **Revaluations of mortgaged property during the loan term**

Properties secured to support loans of greater than \$15m are revalued informally each year. Properties secured to support loans of between \$1m and \$15m and on which the LVR is greater than 60% are revalued informally once each three years.

Properties secured to support loans of less than \$1m and on which the LVR is greater than 60% are revalued informally once each five years. Also, each six months the Fund selects a number of mortgaged properties to be revalued informally.

### **Revaluing mortgaged property on rollover of a loan**

Formal valuations of mortgaged property may be required if a loan is rolling over into a new loan at maturity.

For residential properties, a new valuation is required if the current valuation is five or more years old for properties within the metropolitan areas of capital cities; or three or more years old for other properties.

For non-residential property, a new valuation is required where the valuation is three or more years old for properties with a value of \$2 million or greater; or five or more years old for properties with a value of less than \$2 million.

Also, for non-residential properties, a new valuation is generally required where the valuation is between three and five years old and the property has a value of less than \$2 million. We may not re-value those properties if each of the following is satisfied at the time the loan is due to roll over:

- the property is leased at arm's length to a third party we consider to be of high credit quality;
- the tenant has demonstrated an acceptable rent payment history over a period of at least 12 months; and
- the tenant is subject to a binding lease extending beyond the period of the proposed loan rollover term.

### **Benchmark 6: Lending principles**

This Benchmark, together with Benchmark 5: Valuation policy, addresses the Fund's property related lending and valuation practices. To meet Benchmark 6 the Fund needs to maintain a maximum loan-to-valuation ratio (LVR) of 80%.

As at 30 June 2010, 1,516 of the Fund's loans have an LVR of less than 80% which represents 98.8% of the mortgage portfolio that meets Benchmark 6.

As at 30 June 2010, nine loans have an LVR of greater than 80%, which represents 1.2% of the mortgage portfolio which does not meet Benchmark 6.

When the Fund approves a new loan, the LVR must not exceed 75% of the value of the security property or, in the case of Lite Verified loans, the loan does not exceed 70% of the value of the security property. The Fund does not take security over property developments.

During the life of the loans, revaluations may be required (for reasons such as defaults and re-financing). As such, there may be times when the portfolio holds loans with an LVR greater than 80%.

Please refer to 'The Funds lending policy' on page 6 for more detail regarding our process when making or acquiring mortgage loans.

### **Benchmark 7: Distribution practices**

This Benchmark addresses the transparency of the Fund's distribution practices.

The Funds meet Benchmark 7: Distribution practices with the following procedures.

Distributions are paid out of the Fund's income which includes, for example, fees relating to early repayment of loans, interest payments, penalty fees, early discharge fees, coupons from the fixed interest component of the Fund's investment portfolio and interest earned on the cash component of the Fund's investment portfolio.

For information on how we calculate the Fund's income and how and when distributions are generally paid, refer to the 'Distributions' section in the PDS for the Challenger Howard Mortgage Fund or Challenger Howard Wholesale Mortgage Fund as applicable.

For the Challenger Mortgage Plus Trust, the Fund generally pays income distributions monthly, and these may be either reinvested in additional units or paid directly into a nominated bank account. Distributions are calculated based on the number of days units have been held during the month. The monthly income which is received from the Fund can fluctuate as any increase or decrease in the value of the investments will be added to, or subtracted from income earned by the Fund. A reserve may be established to smooth the monthly income amounts.

### **Benchmark 8: Withdrawal arrangements**

This Benchmark addresses our approach to the withdrawal of investments.

The Funds meet Benchmark 8: Withdrawal arrangements with the following procedures which apply to all the Funds.

Additional information on withdrawals is contained in the PDS for the Challenger Howard Mortgage Fund and the Challenger Howard Wholesale Mortgage Fund (as applicable).

#### **Current withdrawal process**

On 21 October 2008, the withdrawal process for the Fund was amended. As a result, currently, investors are only able to withdraw from the Fund if we make an offer of withdrawal.

While there is no obligation for us to make a withdrawal offer, our current intention is to provide a further withdrawal opportunity to investors consistent with the previous quarterly withdrawals, the most recent being in July 2010. We will determine the amount available for withdrawals based on our estimate of the available liquidity in the Fund and the market conditions that prevail at the time.

At the time of making an offer, we will write to investors to explain the terms of the offer and the process for submitting their withdrawal request and to inform them of the total amount available for withdrawals. In the current withdrawal offer, investors who participate in the offer will receive a maximum of 5% of their unit holding paid out as a withdrawal subject to a minimum withdrawal payment.

We will notify investors as soon as our generally applicable withdrawal process recommences.

The current process for withdrawal offers in the Fund is governed by the Corporations Act and requires amongst other things:

- that any offer is made to all investors;
- that the withdrawal offer is open for at least 21 days after the offer is made;
- that the offer specifies the amount of money that will be available for withdrawal; and
- that the offer specifies the method for dealing with withdrawal requests where the total requested withdrawals exceeds the amount made available by the Fund.

#### **Suspending withdrawal requests**

We may suspend withdrawal requests for up to 60 days where:

- we consider it impracticable to calculate the net asset value;
- we estimate that we must sell 5% or more of the Fund's assets to meet withdrawals;

- 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 expense or capital gains tax burden on remaining investors or impact negatively on the price we would achieve in selling the Fund's assets;
- we reasonably consider it to be in the best interests of investors to do so; or
- 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.

### **Other important information on withdrawals**

In extraordinary circumstances, withdrawals may be funded by borrowings. For information about borrowing facilities, refer to 'Benchmark 2: Scheme borrowing' on page 3.

### **Challenger Howard Mortgage Fund unit price**

The withdrawal price of units in the Fund is \$1.00. For a withdrawal from the Fund, you will receive \$1.00 for each unit redeemed, adjusted by adding any accrued (but unpaid) income entitlement or deducting any accrued income deficiency, and less any applicable withdrawal fee (refer to page 11 of the Challenger Howard Mortgage Fund PDS dated 30 November 2008).

The income of the Fund, including additional interest, is shared among the unitholders in the same proportion as the number of units held by each of them versus the total number of units on issue on that day. If, at the end of a distribution period, there is a negative balance of income entitlement (for example, if losses on the Fund's loans exceeded all interest and other income earned by the Fund over the relevant period), then each unitholder is to be treated as having withdrawn from the Fund (for nil consideration) the number of units corresponding to the number of dollars of the negative balance that is apportioned to that unit holding. In effect, if losses exceeded the Fund's income over the relevant period, unitholders could suffer a loss equivalent to the difference, as units would be treated as having been withdrawn for nil consideration in respect of the difference.

For more information on withdrawals, including transaction cut-off times and how to make a withdrawal request, refer to 'Withdrawing your investment' section of the PDS.

### **Challenger Mortgage Plus Trust (Mortgage Plus) unit price**

For a withdrawal from Mortgage Plus, you will generally receive \$1.00 for each unit redeemed, adjusted by adding any accrued (but unpaid) income entitlement. The withdrawal price of \$1.00, prior to the adjustments mentioned above, could be less than \$1.00 where the value of Mortgage Plus' assets fall. As the underlying investments of Mortgage Plus include long-term mortgages and fixed interest securities, short-term volatility in interest rates could cause losses if these investments are realised, or if in the case of a loan default, the value realised for a mortgaged property is less than the loan amount outstanding. All such capital losses, and/or capital gains, are deducted from or added to monthly income distributions but may also reduce the unit price if realised losses are significant.

The income of Mortgage Plus, including additional interest, is shared among the unitholders in the same proportion as the number of units held by each of them bears to the total number of units on issue on that day.

### **Challenger Howard Wholesale Mortgage Fund (Howard Wholesale) unit price**

Howard Wholesale does not have a fixed unit price of \$1.00. The unit price for Howard Wholesale is based on the net asset value of Howard Wholesale. Please refer to the current Challenger Howard Wholesale Mortgage Fund PDS dated 30 November 2008 for further information on how the unit price for Howard Wholesale is calculated.

## Additional information

### Senior management of the Fund and Fund Servicer

#### Rob Stewart – Head of Howard Mortgage Fund

Rob joined Challenger in December 2003 and has over 17 years' experience in the financial services industry where he has been responsible for risk control, asset allocation and rebalancing of portfolios. Rob is responsible for the overall strategy for the Fund, risk management and analysis, budget determination and pricing. As Head of the Challenger Howard Mortgage Fund the role also encompasses liaising with internal sales staff, researchers, industry bodies, advisers and investors.

#### Stuart Terry – Head of Credit

Stuart, who joined Challenger Financial Services Group in May 2005, has over 18 years' experience in financial services. He was previously Senior Vice President Zurich Capital Markets (ZCM) in New York primarily working on hedge fund leverage and other structured finance transactions. He has also held the role of Associate Director in the Risk Management Division at Macquarie Bank in Sydney working across the full spectrum of debt capital markets, leveraged debt, property, offshore and derivatives exposures, and prior to that was Vice President at BT working in a similar capacity.

Issued by Challenger Managed Investments Limited (ABN 94 002 835 592) (AFSL 234668)

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

#### Consents

Challenger Commercial Lending Limited has provided its consent to the statements about them in the form and context in which they were included. It is not responsible for the issue of this Report, nor is it responsible for any particular part of this Report, other than the parts that refer to it. They have not withdrawn their consent before the date of this Report.