

MEDIA RELEASE

CHALLENGER FURTHERS BOUTIQUE STRATEGY WITH GLOBAL FIXED INTEREST BUSINESS - KAPSTREAM CAPITAL -

11 October 2006, Sydney - Challenger Financial Services Group Limited today announced it has taken a 25 per cent holding in a global fixed interest boutique, Kapstream Capital, to be launched in 2007 and run by Kumar Palghat, the former co-head of Pimco Australia.

Kapstream will focus on global and regional funds, but operate outside the space traditionally dominated by fixed interest and hedge funds by providing target returns for clients more tailored to their future liability stream. The firm expects to appoint four additional employees by the end of 2006 and be operational by the end of the first quarter of 2007.

In addition to its cornerstone investment, Challenger will provide Kapstream Capital with administration services and have sole global distribution rights.

While Kapstream's primary focus will be on institutional mandates, Challenger will also launch a fund for the platform and retail market.

Kapstream Capital founder, Kumar Palghat said: "I was attracted by Challenger's ability to provide the infrastructure and backing that would allow us to concentrate on managing assets and producing returns for clients. I am looking forward to establishing a high quality team in a high quality business and providing innovative, contemporary exposures for our clients.

"A key differentiator will be our ability to tailor to individual client needs, and deliver stable income and alpha generation – we are excited about the future ahead of us," he concluded.

Challenger's Chief Executive, Funds Management Rob Adams said: "The alliance with Kapstream Capital marks Challenger's fourth boutique alliance and continues the successful execution of our strategy to establish and partner with high quality investment professionals.

"We are delighted to partner with someone of the calibre of Kumar Palghat, who is a leading global fixed interest investor, with a unique bank of experience. We are extremely positive about this partnership and look forward to delivering to Kapstream and helping them grow over time," Mr Adams said.

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