

Challenger Infrastructure Fund

Investment in Southern Water

9 October 2007



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Agenda

- 1. Transaction Summary**
2. Southern Water
3. Impact on CIF
4. Acquisition Funding
5. Q&A

CIF has acquired a 27% interest in Southern Water

- CIF is part of a consortium that has entered into an agreement for the purchase of Southern Water for an enterprise value of £4.2 billion (A\$9.7 billion)¹
 - EBITDA multiple of 9.2x and RCV multiple of 1.27x for year ending March 2008
 - CIF has contributed £300m (A\$690m)¹ to the consortium for a 26.6% investment
 - Financial close is expected to occur on 11 October 2007
- The acquisition meets CIF's investment objectives
 - High quality asset
 - Complementary to existing portfolio
 - Industry leading growth profile
- CIF's contribution will be funded through
 - CIF acquisition facility A\$494m
 - Issue of redeemable preference securities (RPS) to Challenger A\$225m
- CIF maintains considerable flexibility with respect to the management of its long term capital structure
- CIF reaffirms its FY08 DPS guidance of 34.0cps and medium term distribution growth guidance of 5.0% p.a.
 - Tax deferred component at least 65%, no change

Southern Water is one of the fastest growing WaSCs in the UK

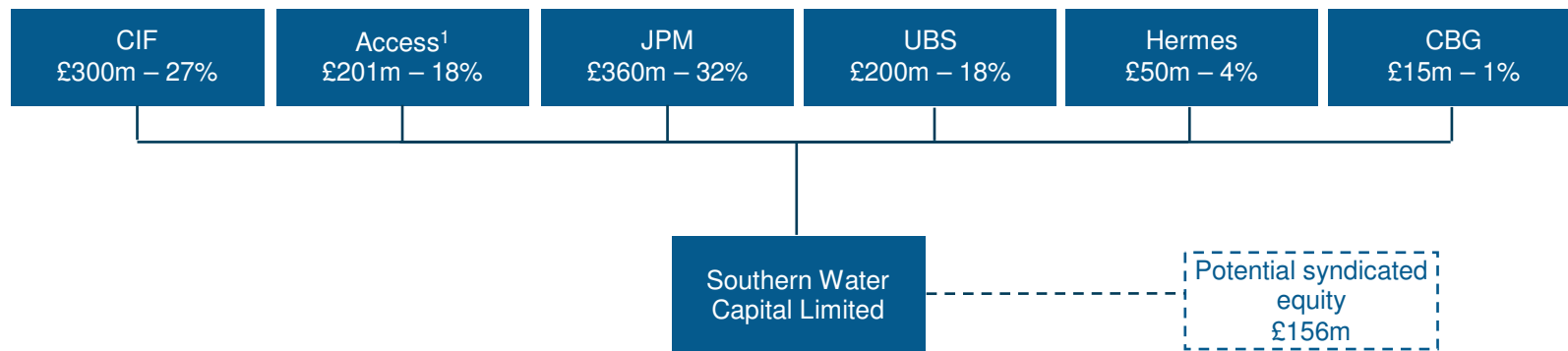
- Southern Water is the fastest growing UK water and wastewater company
 - Located in the SE of England, the region with the highest population growth in the UK
 - Highest Regulated Capital Value (RCV) growth in the sector in current regulatory period
 - Expectation of continued significant capital growth in next regulatory period
 - On track to deliver capital program in current regulatory period
 - Low volume risk and threat from competition
- Strong management team with extensive experience in the utilities sector
- Continued support from Challenger
 - Increased exposure to CIF through the issue of £97.9 million (A\$225 million) RPS

The acquisition meets all of CIF's strategic objectives

- ✓ **CIF is a diversified global portfolio** of high quality infrastructure and utility assets
 - Southern Water introduces a new asset class into CIF's portfolio – water and sewerage
 - Southern Water adds to CIF's scale and diversity
- ✓ **CIF's investment criteria** is set to identify high quality assets that have long-term, predictable cash-flows with the potential for capital growth
 - Southern Water delivers a growing stable regulated income stream
- ✓ **CIF's investment goal** is to deliver a combination of attractive and growing distributions alongside increasing asset values
 - Southern Water's high RCV growth of 31% directly correlates to increased asset value and increased returns
- ✓ **CIF's disciplined approach** to acquisitions combined with its investment criteria supports the maximisation of long term value for securityholders
 - Southern Water represents a high quality investment within a consortium of experienced and like minded investors and demonstrates the relationship CIF enjoys with the Challenger Group
- ✓ **CIF has a core focus** on maximising the value of securityholder returns through optimal capital management
 - Acquisition fund structure demonstrates CIF's flexibility with respect to capital management and the support of its major shareholder

CIF is part of a strong consortium of infrastructure investors

- CIF has invested alongside long term strategic partners for a 27% investment
 - Further potential exists to syndicate £156m of equity within the next 12 months
 - CIF will maintain significant exposure to the asset (23%)
- Equity investment provides
 - Board representation
 - Meaningful influence over key consortium decisions including
 - CIF has veto rights on amendment of dividend policy
 - Other significant veto rights such as divestiture of assets, entering into borrowing agreements



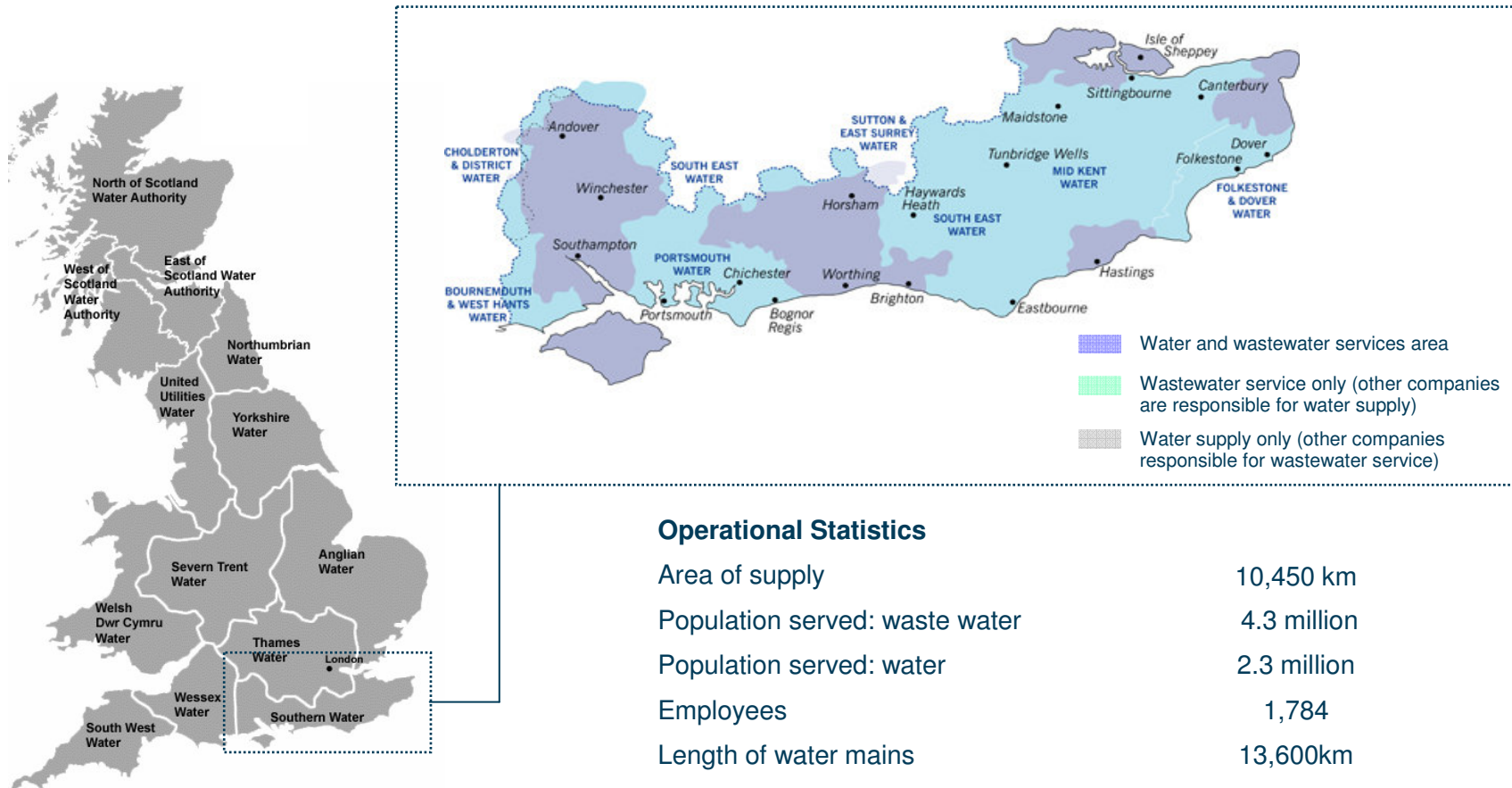
Notes:

1. Includes seven Australasian superannuation funds advised by Access Capital Advisers.

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Southern Water's RCV is forecast to be £3.2bn at March 2008, making it the 7th largest WaSC



Operational Statistics

Area of supply	10,450 km
Population served: waste water	4.3 million
Population served: water	2.3 million
Employees	1,784
Length of water mains	13,600km
Length of sewers	21,500 km
Water supply works	100
Sewage treatment works	370

Source: Southern Water Information Memorandum

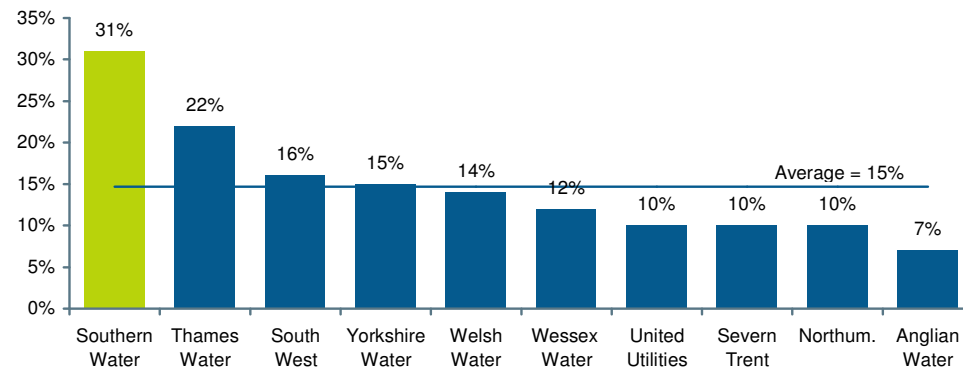
A high quality infrastructure asset with a growth profile

- **Strong growth profile**
 - Fastest growing regulated capital value (“RCV”) of all the UK WaSC’s: 31%¹ over 2005-2010
 - Second highest real allowed average price increase of 5.6% over 2005-2010
- **Expectation of significant capital expenditure funded in the next regulatory period and onwards**
 - Highest population growth in the UK, excluding London
 - Environmental compliance with new EU coastline directives (mainly environmental)
- **Current capital program delivery on track**
 - One of only two WaSCs in the sector on track to deliver its 2005-2010 capital program
 - Successful outsourcing arrangements in place and strong relations with contractors
- **Cash flow certainty**
 - Southern Water is a focused, pure-play regulated asset (99% of its EBITDA comes from its regulated business)
 - Strong EBITDA margins consistently over 60%
 - Low volume risk
- **Stable and transparent regulatory regime**
 - The regulatory regime for UK WaSCs is transparent and well established and has been in place since privatisation in 1989
 - 5 year price reviews provide low risk cash flows and stable dividend yield potential
- **Experienced management**
 - Extensive industry experience with strong capital program delivery track record in the 2005-2010 regulatory period
 - CEO (Les Dawson) has significant experience with gas, electricity and water utilities

1. 31% includes Brighton & Hove (B&H) project which will be deferred to next regulatory period. Excluding this project results in 24% growth over the current regulatory period.

Southern Water is the fastest growing WaSCs in the current regulatory period

Real growth in RCV as a percentage of RCV (2005-2010)



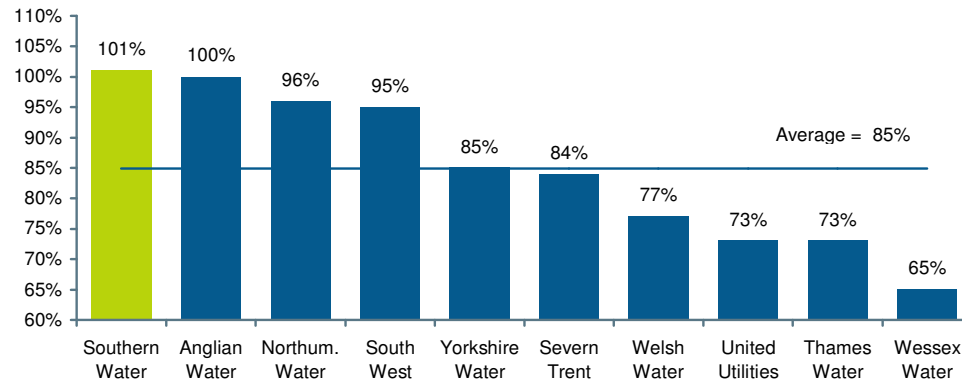
Source: Ofwat Final Determination, Southern Water Information Memorandum

- Southern Water has the fastest growing RCV of all the UK WaSCs from 2005-2010
 - Estimated RCV of £3.2bn as at 31 March 2008
 - RCV growth of 31% in real terms over 2005-2010 is significantly higher than the sector average of 15%
- Capital investment for Southern Water and the wider water industry driven by
 - Continuing population growth in the UK
 - Ageing asset base and maintenance requirements
 - Requirements of EU Directives
- The investment will continue to drive RCV growth and return on invested capital

Note: 31% includes Brighton & Hove (B&H) project. Excluding B&H results in 24% growth over the current regulatory period.

Management have been effective in implementing the current capex program

Proportion of capital expenditure program completed to March 2007

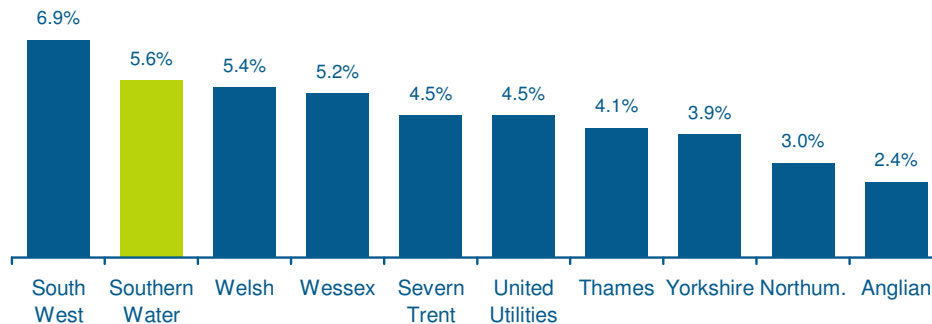


Source: Ofwat Final Determination, Southern Water Information Memorandum

- **Management is focused on delivering and outperforming the regulatory allowed capex**
 - One of only two WaSCs in the sector on track to deliver its current capital expenditure program
 - Brighton & Hove Sewerage Works has been delayed due to planning permission and is expected to form part of the next regulatory period capex allowance
 - Management are on track to deliver the capital program and deliver efficiencies
 - Provides stronger positioning with the regulator for the next regulatory review
- **Majority of capital expenditure is de-risked through outsourcing**
 - Provides certainty on costs, favourable pricing terms, limited price escalators and pain-gain sharing mechanisms

Robust financials underpinned by regulated cash flows

Real average annual price increases (2005-2010)



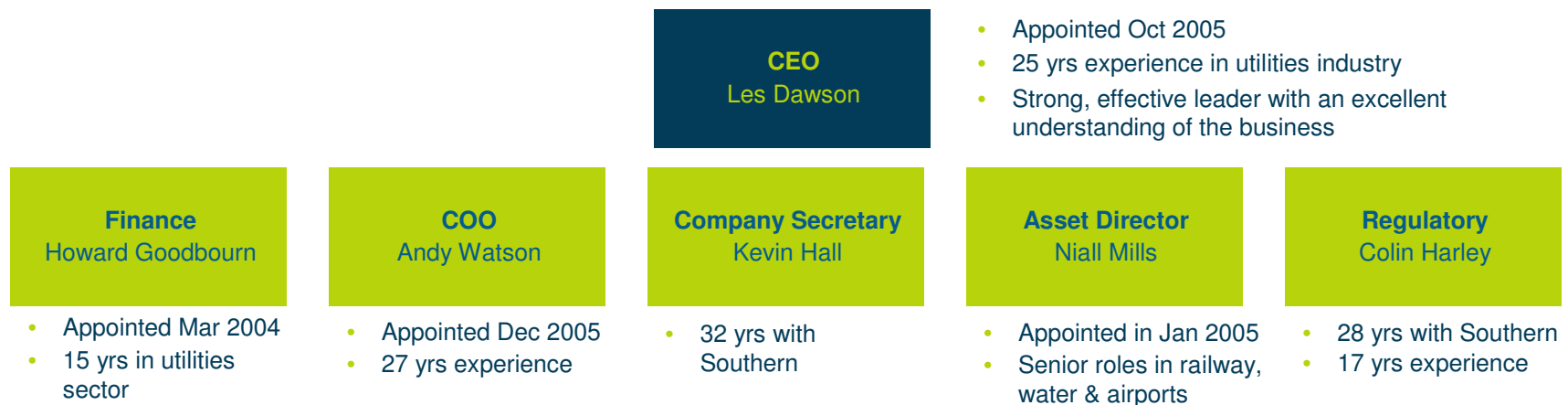
- Southern Water has one of the highest allowable real average price increases over the regulatory period 2005-2010

31 March YE	2005A	2006A	2007A	2008F
Revenue	475	542	576	625
<i>Revenue growth (%)</i>		14.1	6.3	8.5
EBITDA	301	368	421	456
<i>EBITDA growth (%)</i>		22.3	14.4	8.3
<i>EBITDA margin (%)</i>	63.4	67.9	73.1	73.0

Source: Ofwat Final Determination, Southern Water Information Memorandum

Management has extensive experience in regulated utilities

- Strong and disciplined management team with extensive utility and water industry experience
- All members of the senior management team well regarded in the industry
- Incentives are tied to delivery of the business plan
- Management has implemented a number of efficiency initiatives



Southern Water represents a significant strategic investment for CIF

CIF investment criteria	SW	Commentary
Regulated industry or near monopoly market position	✓	<ul style="list-style-type: none"> • Clear and transparent regulatory framework established by Ofwat which has been successfully implemented for the last 17 years • Ofwat has an obligation to ensure that companies are able to finance the proper carrying out of their functions
High barriers to entry	✓	<ul style="list-style-type: none"> • Exclusive supply licence within appointed areas with 25 year notice period • Large capital investment and practical limitations and costs of shipping water long distances
Strong cash generation	✓	<ul style="list-style-type: none"> • Improving earnings profile with FY2008 EBITDA of £456m reflecting high operational performance and steady EBITDA margins
Long-term predictability of cash flow	✓	<ul style="list-style-type: none"> • Established regulatory decision until 2010 generating 99% of EBITDA • 5 year periodic reviews provide predictable low risk cash flows
Growth potential	✓	<ul style="list-style-type: none"> • Services one of England's fastest growing areas (by population) • Significant capex program expected to increase RCV leading to growth in allowable revenue
First class management teams	✓	<ul style="list-style-type: none"> • Average of over 20 years experience in the utilities sector • One of only two WaSCs in the sector on track to deliver its current capital program • Lowest leakage level of all WaSCs
Ownership level	✓	<ul style="list-style-type: none"> • Board representation • Consortium of like-minded experienced infrastructure investors

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Southern Water is to be funding with a senior debt acquisition facility and RPS

Sources	£m	A\$m	Uses	£m	A\$m
CIF Acquisition Facility	215	494	CIF Equity Investment	300	690
Redeemable Preference Shares (RPS) ¹	98	225	Transaction/financing costs	13	29
Total	313	719	Total	313	719

- CIF has utilised its senior debt acquisition facility, provided by CBA, BOS and RBS
 - Two tranches with total facility amount of A\$540 million
- Southern Water capital structure
 - Existing Southern Water debt remains in place
 - Substantially fixed rate, long term bonds
 - New acquisition debt is fully underwritten and hedged

Notes:

1 See terms of issue on next page

RPS provides an inexpensive source of funding

Feature	Term
Type of securities	Redeemable Preference Securities (“RPS”)
Ranking	Unsecured, subordinated notes issued by a sub-trust of CIF
Issue size	£97.9 million (A\$225 million)
Term	2.5 years
Maturity	April 2010
Cash coupon	5.3% p.a., payable semi-annually in arrears ¹
Coupon deferability	Coupons only deferrable if CIF does not pay a distribution – deferred coupons are cumulative on a semi-annual basis at the yield to maturity
Yield to maturity	8.3%
Redemption price	\$4.47
Redemption settlement	Cash or CIF securities – at the discretion of issuer

Notes:

1 PIK component of 3%.

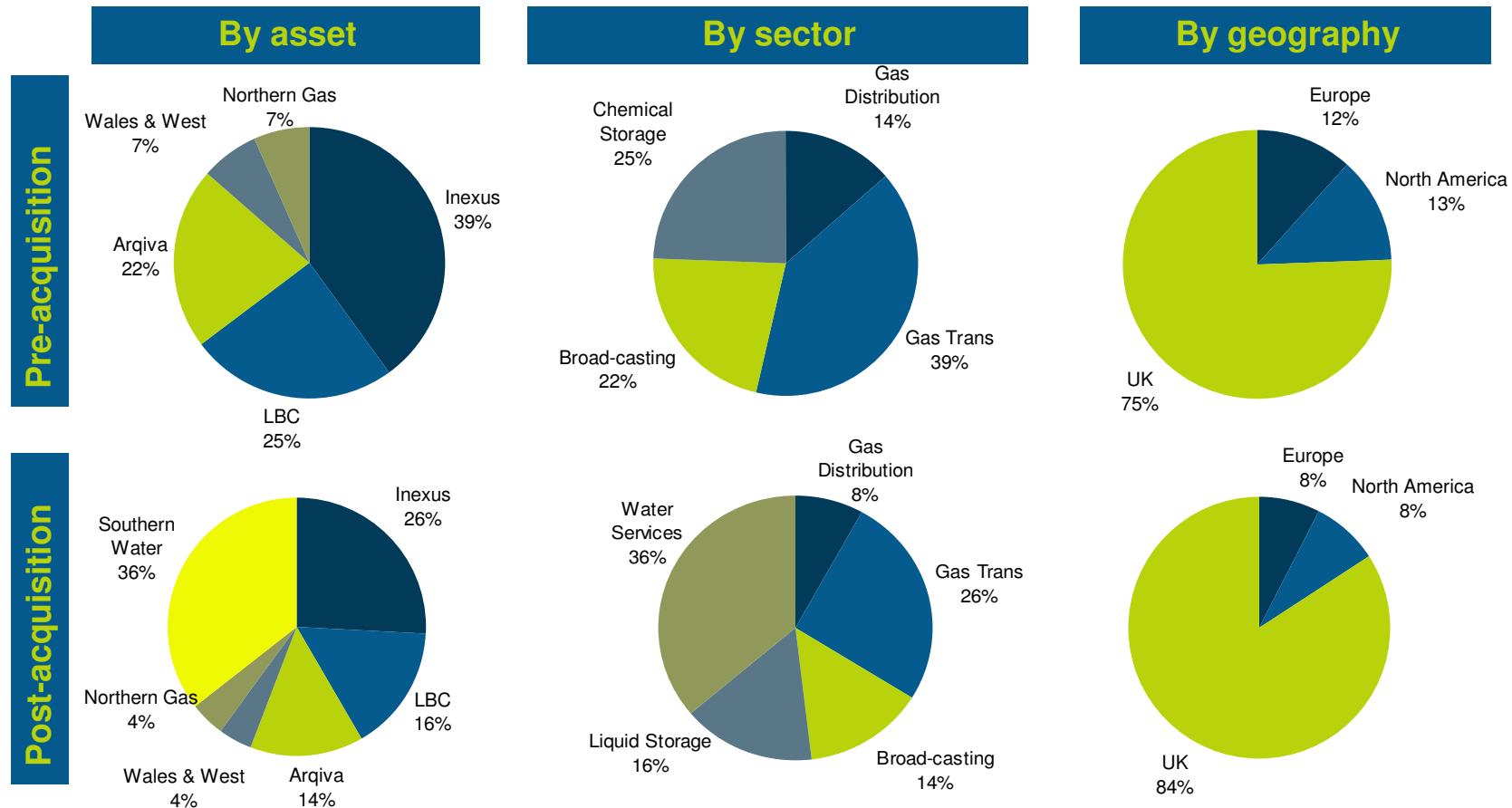
Optimising capital structure

- CIF intends to continue to actively manage its gearing levels and has a strategy to optimise its capital structure to maximise value of security holder returns
- CIF maintains significant flexibility with respect to the long term management of its capital structure. Options include:
 - CIF Senior term debt
 - Active portfolio management
 - Potential equity/hybrid raisings
 - Distribution reinvestment plan/security purchase plan
- From time to time CIF will review its actual and target gearing levels in light of:
 - Scale of its portfolio
 - Mix of growth versus mature assets
 - Returns from minority assets
 - Preference to preserve capacity in its acquisition facility
 - Optimising returns to security holders

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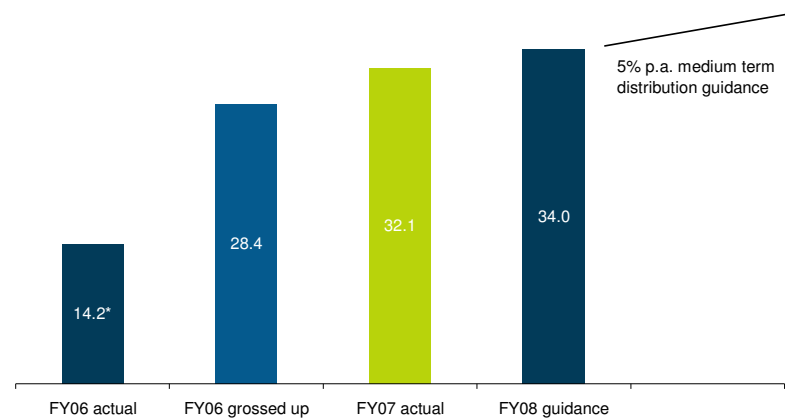
Southern Water provides CIF with further diversification through the water sector



Note: based on equity investment value as at 30 June 2006 except for LBC which is valued at date of acquisition

Impact on CIF distributions

- FY08 DPS guidance of 34.0 cps reaffirmed
- Medium term distribution growth of 5% p.a. reaffirmed
- The first full year of distributions from Southern Water will occur in FY09



Notes:

FY06 actual represents partly paid basis. Grossed up represents fully paid basis

Southern Water enhances CIF's portfolio

- Assets performing in line with expectations underpinning distribution growth
 - **Inexus**: maintains leading market position in new gas and electricity connections and moving into water and sewerage connections
 - **LBC**: capital expenditure program in line with previous market guidance
 - **Arqiva**: digital switchover continues on time and on budget and the UK Competition Commission review of National Grid Wireless acquisition is expected in January 2008
 - **Gas distribution networks**: ongoing upgrade and expansion of regional gas networks
- Maintain disciplined acquisition approach focusing on growth orientated assets with
 - Quality infrastructure and utility asset
 - Long term predictable income streams
 - Potential for capital growth via organic growth opportunities and bolt on acquisitions

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Questions

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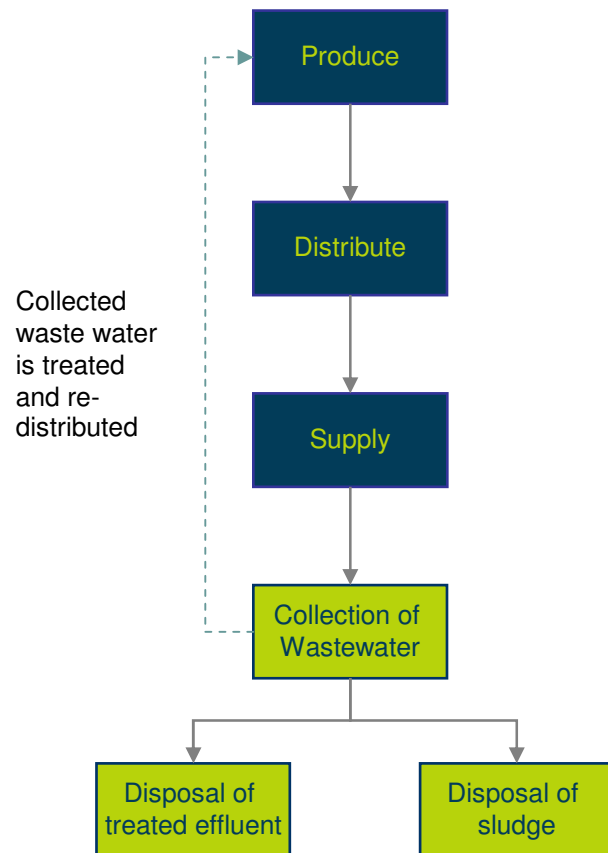
Appendix: Background Information



22 companies provide water and sewerage services in England & Wales

Issue	Description
Industry structure	<ul style="list-style-type: none">• Industry comprises 10 water and sewerage companies (WaSCs) and 12 water only companies (WOCs) in England and Wales• Scotland and Northern Ireland have different structure
Company structure	<ul style="list-style-type: none">• Companies are vertically integrated, owning water resources (boreholes / reservoirs), water treatment plants, distribution networks and supply activities (customer billing, etc) in the case of water and distribution networks and treatment plants for sewerage
Legal framework	<ul style="list-style-type: none">• Principal legislation is the Water Industry Act 1991 (as amended by Water Act 2003)• Each company has an instrument of appointment which contains the terms of its appointment as a water undertaker; this is a rolling 25-year licence
Economic regulatory framework	<ul style="list-style-type: none">• The economic regulator is the Water Services Regulation Authority (Ofwat)• Prices for the provision of water and sewerage services are determined by Ofwat at five yearly intervals according to an RPI +/- K formulation• Ofwat published its Final Determination for water companies in Dec 2004 for AMP4. This sets companies' allowed price limits for 2005-10
Other regulatory authorities	<ul style="list-style-type: none">• The Drinking Water Inspectorate (DWI) in respect of water quality standards• The Environmental Agency (EA) in respect of general environmental laws• Consumer Council for Water (CCW): a new consumer body with statutory powers• The Office of Fair Trading, the Competition Commission and the European Commission in respect of anti-trust issues

UK water and sewerage companies are vertically integrated



Water abstraction, treatment, and storage

- 68% of water from ground water sources (predominantly chalk) with 27% from rivers and 5% from reservoirs
- Treatment: clarification, filtration, and disinfection process



Distribution of treated water

- Water is distributed from treatment plants through a network of pipes to the consumer



Supply of treated water

- Scope: household and business customers
- Billing for water / wastewater services
- Pricing and tariffs
- Payment handling and debt management
- Customer service (call centre)
- Water efficiency advice for consumers



The objective of UK water regulation is to protect the interests of all stakeholders

"No hidden agenda, no predetermined outcomes. Price limits will be what they need to be to enable efficient companies to finance their functions" (Ofwat, 2003)

The Guiding Principles

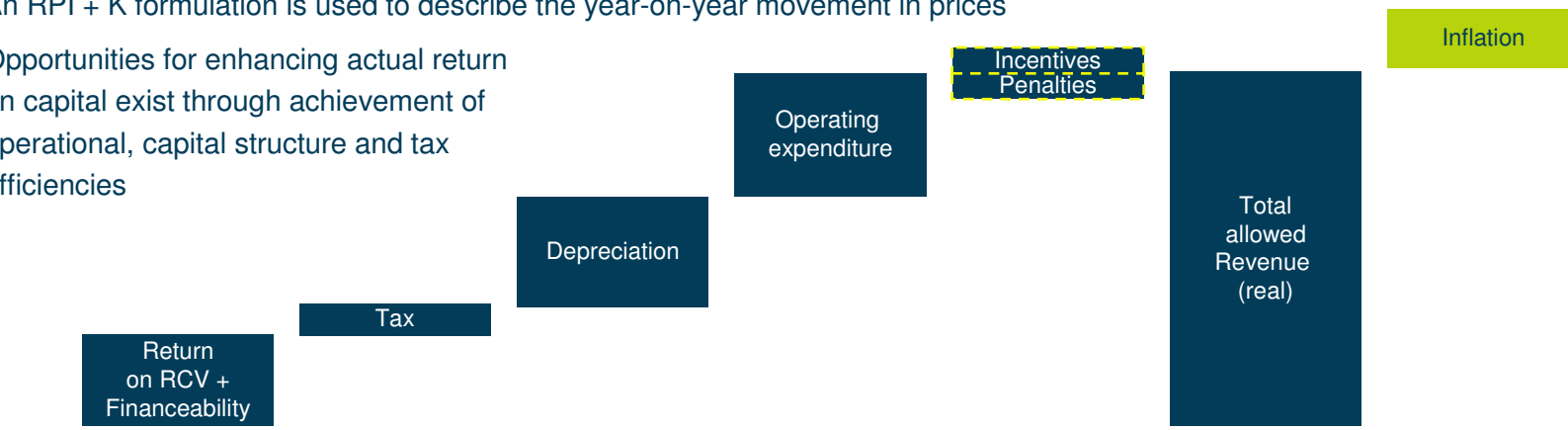
- Ofwat has a duty to ensure water companies remain financially viable and able to finance their operations and capital programmes
- Consumers' interests are protected and promoted
- *"These duties are, in practice, complementary because customers benefit if efficient companies remain financially viable" (Ofwat, 2002)*

A Transparent Process

- Ofwat is sensitive to the perception of regulatory risk and attempts to minimise this through a process of open consultation
- Draft determination of regulatory reviews are followed by submissions, discussions and then final determinations
- Interested parties are invited to make submissions
- It is not unusual for the Ofwat's position to change on the basis of these submissions
- The regulatory process includes consideration of a number of key aspects of the water companies' operations and financing

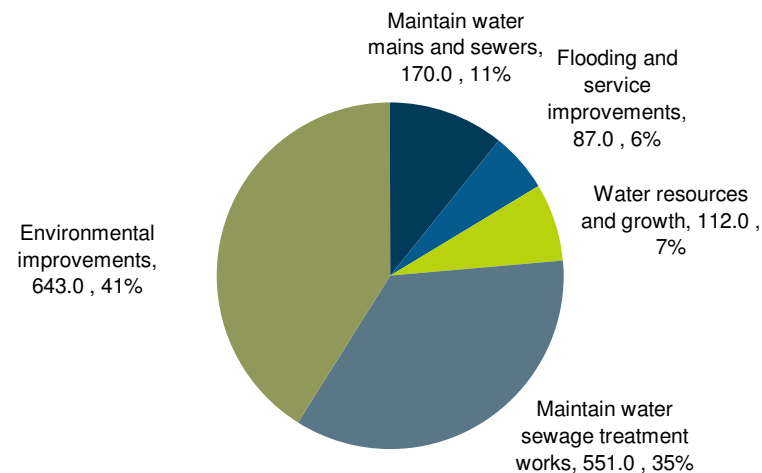
Allowed revenues are fixed each five years by agreement with Ofwat

- Yearly price increases for each five year AMP are agreed between the company and Ofwat
- A 'building blocks' approach is used to determine allowed revenues
- An RPI + K formulation is used to describe the year-on-year movement in prices
- Opportunities for enhancing actual return on capital exist through achievement of operational, capital structure and tax efficiencies



Current capex program focuses on wastewater and environmental compliance

Southern Water capital expenditure 2005-2010¹ (£m)



- Capital expenditure funding

- Southern Water has certainty of funding and headroom in existing capital facilities for the next five years
- UK debt markets are well educated on debt funding capital expenditure for WaSCs

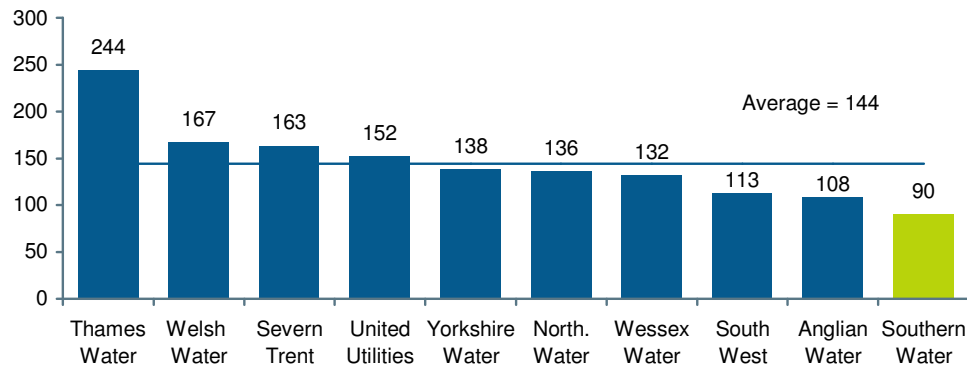
Source: Ofwat Final Determination, Southern Water Information Memorandum

Notes:

¹ In 2002/2003 prices

Southern Water has the lowest leakage levels

Total leakage comparison of WaSCs (litres/property/day)



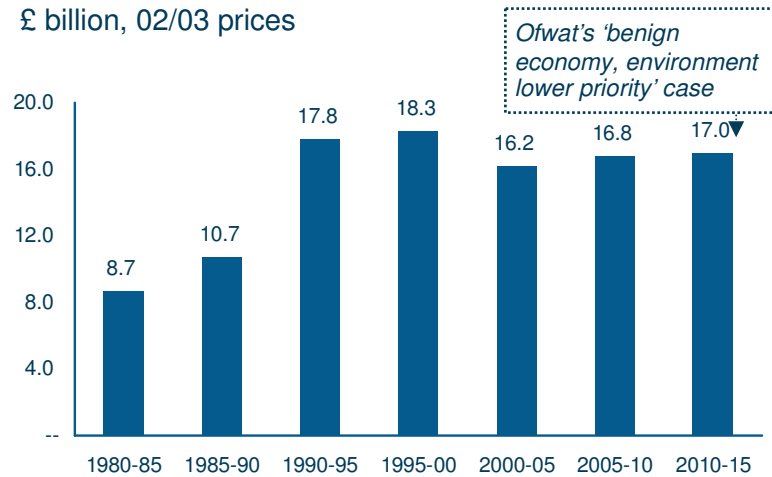
- In the year ended 31 March 2006 Southern Water had the lowest leakage rate per property of the ten WaSCs at 90 litres per property per day
- For the year ended 31 March 2007, Southern Water's performance had improved to 79 litres per property per day

Source: Ofwat 2005-2006 security of supply, leakage and water efficiency report

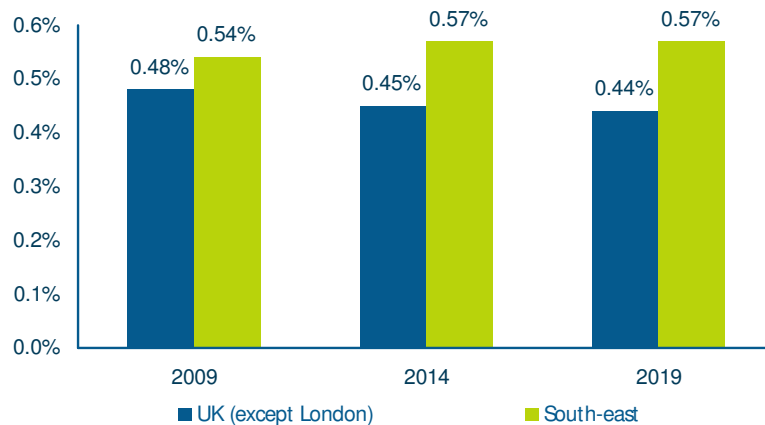
Notes: Excludes the WOC Essex & Suffolk Water, part of the WaSC Northumbrian Water

Southern's strong growth rate is expected to continue into the next regulatory period

Capital investment requirements in the UK water sector
£ billion, 02/03 prices



Population growth (forecast CAGR%)



Sources: Ofwat 2006 industry forward look; some possible views of the future; www.statistics.gov.uk

- Industry-wide capex requirements expected to continue into the next regulatory period
- Southern is well positioned for the next regulatory period driven by
 - Meeting demand growth in the SE (highest population growth outside of London)
 - Servicing new development
 - Increasing requirement for water resources
 - Increases in metering
 - Compliance with EU Directives, e.g. Water Framework Directive and Urban Wastewater Treatment Directive
 - Southern has a long coastline, making this particularly relevant
 - Maintaining asset serviceability
 - Reduce average life of ageing assets and replacement with new technologies