Investor newsletter

CHALLENGER KENEDIX JAPAN TRUST
NEWSLETTER – OCTOBER 2008

Solid result in FY08; FY09 distribution guidance of 17.2cpu re-affirmed

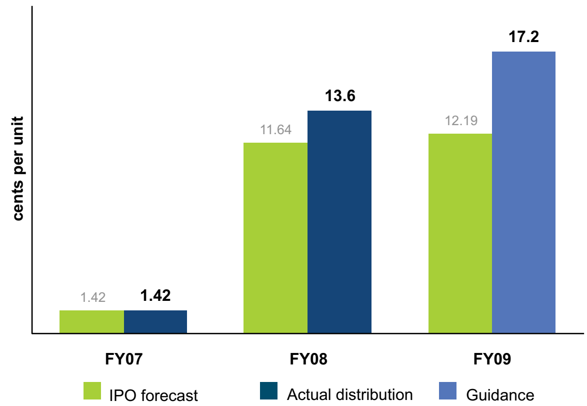
Challenger Kenedix Japan Trust (CKT) recently announced profit from operating activities of $21.7 million and net profit after tax of $18.0 million for the twelve months ended 30 June 2008 (FY08). CKT also re-affirmed FY09 distribution guidance of 17.2 cents per unit, underpinned by strong underlying portfolio performance and accretive acquisitions made since IPO in April 2007.

Fund Manager Brett McCarthy commented: 'This is a pleasing result for CKT in our first full year of operations. It highlights the strength of CKT's portfolio, with properties well located in good catchments with long-term leases in place to established tenants who predominantly focus on meeting the non-discretionary needs of local consumers. Despite challenging global market conditions, we have exceeded IPO expectations and have delivered distributions in line with guidance.'

Highlights for the year included:

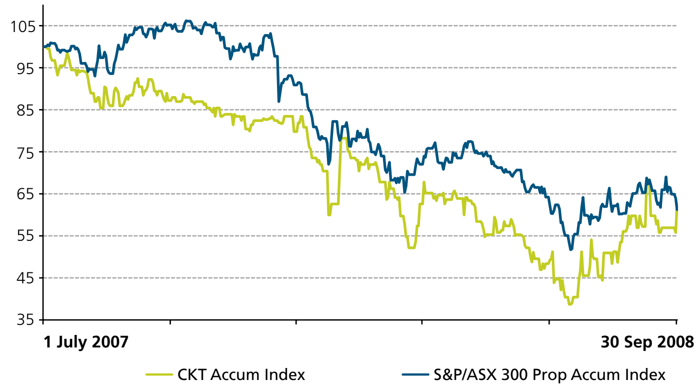
- Net property income of $26.2 million. Profit from operating activities of $21.7 million and NPAT attributable to unitholders of $17.0 million
- FY08 distribution of 13.6 cents per unit. FY09 distribution guidance of 17.2 cents per unit
- Net Tangible Assets attributable to unitholders (NTA) of $1.91 per unit
- Quality portfolio of 20 properties (eight properties added in FY08). 100% occupancy[1] and 16.3 years WALE[2]
- Gearing[3] at 49.3%; Interest cover[4] at 4.3 times; and no debt expiry until April 2012
- All properties independently valued in FY08 resulting in a book value gain of $7.8 million.

Full details of CKT's FY08 results are available from:
www.challenger.com.au/ckt



- FY09 guidance assumes no further acquisitions

CKT Accumulation Index relative to S&P/ASX300 Property Accumulation Index (1 July 2007 to 30 Sep 2008)



[1] By income. [2] Weighted average lease term to expiry by income. Assumes tenants do not terminate leases prior to specified lease term; some leases can be terminated at the tenant's option prior to the end of the specified lease term. [3] Debt to total assets; as at 30 June 2008. [4] EBIT/Financing costs (including cross currency interest income).

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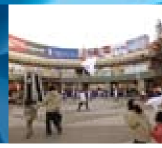


Meet the fund manager

Brett McCarthy BA (Hons), GDipBus
Fund Manager, CKT

Brett McCarthy joined Challenger in September 2006 in the role of Fund Manager. Brett has specific responsibility for the ongoing management of CKT. This includes responsibility for strategy, financial and investment performance and transaction evaluation and execution.

Prior to joining Challenger, Brett was a Director at UBS Investment Bank in Japan and Australia, holding roles over a seven year period including structuring and marketing of Japanese real estate investment trusts, global real estate securities market analysis and Australian listed property trust analysis.

Brett has 17 years' experience in the property industry, and has worked in commercial property valuation and sales positions in Knight Frank, Richard Ellis and Raine & Horne Commercial. Brett has lived for nine years in Japan, and speaks and reads Japanese fluently.

Life Kema acquired March 2008

Life Kema is a 4,813 sqm land parcel located in Miyakojima Ward, Osaka. The land is leased to Life Corporation on a 20-year fixed-term land lease. A three-story steel-framed building and 89 car parking spaces have recently been constructed on the property by Life Corporation. Life Corporation is a major supermarket operator, listed on the Tokyo Stock Exchange, and has long-term leases on three existing CKT properties.

CKT and hedging

CKT invests in Japanese property with exposure to fluctuations in exchange rates potentially impacting property values and income derived. CKT uses hedging as a risk management tool to minimise this impact. Two types of foreign exchange hedges are used by CKT: (i) income hedges and (ii) capital hedges. Challenger has a professional treasury team managing hedging activities.

To assist investors in understanding CKT's hedging activities, we include below answers to questions often put to us by investors:

Q: Why is it necessary to hedge income?

A: Income hedging provides stability of income distributions, insulating unitholders against movements in exchange rates, both favourable and unfavourable. CKT's policy is to hedge 80-100% of estimated distributions for years 1 to 5 and then up to 90% of estimated distributions for years 6 to 10.

Q: Why is it necessary to hedge capital?

A: Capital hedging aims to lock in the AUD value of Japanese assets at a future time. CKT's debt (representing around half of its property investment) is denominated in JPY – providing a natural hedge for this amount. CKT's policy is to then hedge up to 50% of its net investment in Japanese assets (at 30 June 2008 the hedged level was around 40%) via cross currency swaps with staggered maturity dates. As at 30 June 2008 maturity dates extended from 2010 to 2014 with an average duration of 4.1 years.

Q: What will happen when the capital hedges mature?

A: At maturity of a swap there will be an exchange of principal amounts and depending on the spot rate at that time there will be a settlement amount paid or received. CKT can close out and extend the existing hedges at anytime before maturity. CKT closely manages these maturity dates against current exchange rates to limit exposure for unitholders.

Q: How is interest income on cross currency swaps (FY08: $4.9m) derived?

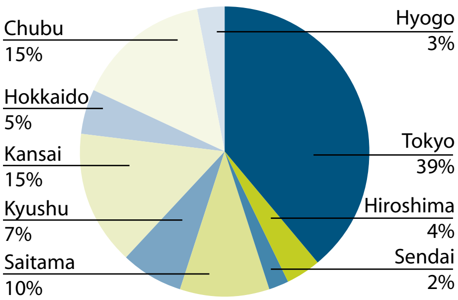
A: An interest rate differential exists between Japan and Australia. CKT receives the benefit of this interest rate differential on the hedged portion of its net investment (capital hedge).

Further information on CKT's hedging is contained in the FY08 presentation dated 22 Aug. 2008 available from **www.challenger.com.au/ckt**

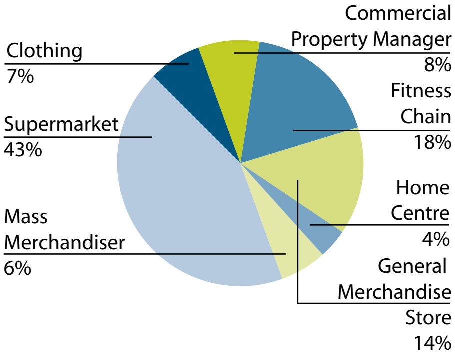
CKT snapshot

ASX code:	CKT
Units issued:	150.1m
Price:	$1.10[1]
Market capitalisation:	$165m
Total assets:	$687m[2]
Net assets:	$287m[2]
NTA per unit:	$1.91[3]
Price discount to NTA:	42%[1]
Distribution (FY09):	17.2 cents[4]
Distribution yield:	15.6%[5]
Financial year end	30 June

Geographic diversification[6]



Tenant type diversification[6]



[1] As at 30 September 2008.
[2] As at 30 June 2008.
[3] Attributable to unitholders as at 30 June 2008.
[4] FY09 guidance announced 14 February 2008.
[5] Yield = FY09 distribution guidance / price.
[6] By income, as at 30 June 2008.
[7] Assumes tenants do not terminate leases prior to specified lease terms.

About Challenger Kenedix Japan Trust (CKT):	CKT listed in April 2007 and is classified by the ASX as an A-REIT (Australian Real Estate Investment Trust) allowing investors to purchase an interest in a diversified and professionally managed portfolio of real estate.
Investment objective:	CKT's investment objective is to provide investors with secure and sustainable income returns and the potential for capital growth through investments in, and active management of, a portfolio of quality Japanese retail properties sourced and managed by Kenedix – a leading Japanese real estate manager.
Investment strategy:	CKT invests in a portfolio of quality neighbourhood shopping centres located in urban and suburban areas of Japan. This sector exhibits attractive investment characteristics, with favourable risk-adjusted returns relative to other property investment classes, and with potential to create value for unitholders through the application of Kenedix's local market knowledge and property investment skills.
Investment portfolio:	CKT has 20 properties in a portfolio that is well diversified across a range of retailer types, tenants, cities and regions. The portfolio is 100% leased to established anchor tenants, primarily focused on supplying non discretionary goods to Japanese households and capable of producing steady income through economic cycles. Properties are leased on a long-term basis. The portfolio's weighted average lease term to expiry (WALE) is 16.3 years.[7] Full details of properties are available from CKT's website www.challenger.com.au/ckt.
Business model:	CKT generates revenue primarily from renting the portfolio assets (FY08: $26.2m). Interest income is also derived from cross currency swaps on capital hedges (FY08: $4.9). The major expense relates to interest costs on borrowings (FY08: $6.6m). Other expenses include Responsible Entity and Management fees (FY08: $1.6m), Japan asset manager fees (FY08: $1.4m) and other costs (FY08: $1.6m). Profit from operating activities for FY08 was $21.7m. After allowing for unrealised gains and losses and tax expenses, net profit after tax for FY08 was $18.0m. Distributions are paid from operating cash flows.
Challenger alignment:	The Responsibility Entity of CKT is Challenger Listed Investments Limited (CLIL). CLIL is a subsidiary of Challenger Financial Services Group Ltd and has a majority of independent directors. CLIL has engaged Challenger Management Services Limited (CMSL) to conduct the day-to-day management of CKT, as well as support services including finance, treasury, tax and legal.

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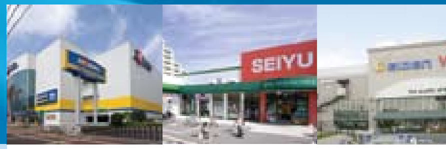

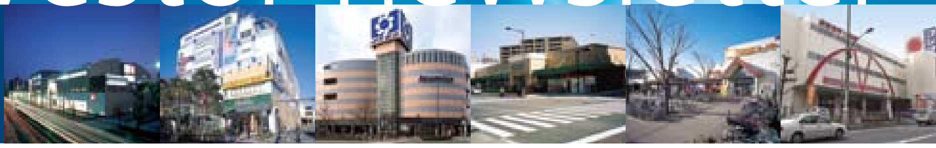

Management fees[1]:	A base management fee of 0.25% pa of gross assets is payable to CMSL. The Japan Asset Manager is also entitled to 0.25% pa. The Japan Investment Manager receives an annual fee of ¥6 million. A performance fee may also apply (capped at 0.5% pa of gross asset value). CLIL and the Japanese Asset Manager may also be entitled to additional fees for providing additional services to CKT. For further details of fees refer to the CKT Product Disclosure Statement (PDS) dated 19 March 2007 and available on CKT's website.
Management team:	CKT is managed by a specialised team of executives well-qualified in their field of expertise: Brett McCarthy, CKT's Fund Manager, has over 17 years experience in the property industry, and has worked in commercial property valuation, sales and investment banking. Brett lived in Japan for 9 years and speaks and reads Japanese fluently.

[1] In accordance with the Constitution

Further information

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Email: ckt@challenger.com.au
Share registry: Link Market Services Limited
1800 754 866

Key Events Calendar	
23 December 2008	Ex-date for 2009 financial year interim distribution
31 December 2008	Record date for 2009 financial year interim distribution
18 February 2009*	Half-year results announced
27 February 2009*	2009 financial year interim distribution paid

* dates are indicative

Financial highlights	FY08	FY07*
Net property income ($'000)	26,169	3,097
Profit from operating activities before tax ($'000)	21,747	3,032
Distribution (cpu)	13.60	1.42
Total assets ($m)	687.2	469.3
Net assets ($m)	296.3	222.0
Net cash from operating activities ($'000)	28,346	(2,911)

* CKT listed in April 2007

Substantial unitholders (as at 30 September 2008)	Date of notice	Units	%
APN Funds Management	23 Oct 07	21.5m	14.3
Commonwealth Bank Group	24 Jul 07	17.2m	11.4
Fidelity Management and Research	19 Sep 08	7.6m	5.1
Challenger Financial Services Group Limited	24 Apr 07	7.5m	5.0

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