Challenger Index Plus Fund

ARSN 616 423 520

General Purpose

Annual Financial Report for the year ended 30 June 2023

Contents to Annual Financial Report

Registered office

These financial statements cover Challenger Index Plus Fund as an individual entity.

The Responsible Entity of Challenger Index Plus Fund is Fidante Partners Services Limited (ABN 44 119 605 373). The Responsible Entity's registered office is as follows.

Level 2
5 Martin Place
Sydney NSW 2000

Directors' report

The Directors of Fidante Partners Services Limited, the Responsible Entity of Challenger Index Plus Fund (the Trust), present their report together with the financial statements of the Trust for the year ended 30 June 2023.

Directors

The following persons held office as Directors of Fidante Partners Services Limited during the financial year end and up to the date of this report. Directors were in office for this entire year unless otherwise stated.

A Bofinger	Director	
A Judin	Director	(Appointed: 13 July 2023)
J Coomer	Director	(Resigned: 26 June 2023)
J O'Keeffe	Director	
R Grimes	Director	(Resigned: 22 November 2022)
T Roxburgh	Director	(Appointed: 13 July 2023)
V Rodriguez	Director	(Appointed: 9 December 2022)
Y Sodhi	Director	(Resigned: 30 May 2023)

Principal activities and significant changes in the state of affairs

The principal activity of the Trust during the course of the financial year was to invest in a range of fixed income securities and manage risk through the use of derivatives in accordance with the provisions of the Trust Constitution. The aim of the Trust is to deliver the agreed index return and margin to the unitholders as required under the Trust Constitution.

The Trust operates under a total return swap. This is an agreement between two parties, Challenger Life Company Limited (CLC) and the Trust, that the Trust will swap total portfolio returns for various benchmark returns plus a margin, as defined by the Investment Management Deed.

There have been no other significant changes in the state of affairs of the Trust during the year.

Operating and financial review

During the year, the Trust continued to invest in accordance with target asset allocations as set out in the Investment Management Deed. The Trust maintained a strategy of investing in Australian and offshore investments consisting of physical securities with at least a BBB rating for long-term investments and at least an A rating for short-term investments.

Results

The performance of the Trust, as represented by the results of its operations, was as follows.

	30 June 2023 $'000	30 June 2022 $'000
Net profit/(loss) before finance costs attributable to unitholders	108,919	(48,178)
Distributions paid and payable	66,660	63,393
Distributions (cents per unit) - AusBond Bank Bill Class	650.85	25.10
Distributions (cents per unit) - AusBond Composite Class	8.08	—
Distributions (cents per unit) - AusBond Government Inflation Class	197.55	70.44
Distributions (cents per unit) - MSCI World ex Australia Net Return Class	1,319.79	1,120.43
Distributions (cents per unit) - RBA Cash Rate Class	384.00	—
Distributions (cents per unit) - MSCI ACWI ex Aust Net Return	448.47	—

Included in the total distributions paid and payable is a distribution of $66,660,000 which was declared as at 30 June 2023 (2022: $50,000 declared as at 30 June 2022). This was paid on 1 July 2023 (2022: 1 July 2022) and reinvested back into the Trust, in exchange for units, on the same date.

Significant events after the balance date

At the date of this financial report, no matter or circumstance has arisen that has affected, or may significantly affect the Trust's operations, the results of those operations or the Trust's state of affairs in future financial years, which has not already been reflected in this report.

Directors' report (continued)

Likely developments and expected results

The Trust will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Trust and in accordance with the provisions of the Trust's Constitution.

Further information on likely developments in the operations of the Trust and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Trust.

Indemnification and insurance of directors and officers

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to the officers of the Responsible Entity or former Responsible Entity. Provided the officers of the Responsible Entity act in accordance with the Trust's Constitution and the ***Corporations Act 2001,*** the officers remain indemnified out of the assets of the Trust against losses incurred whilst acting on behalf of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

Fees paid to and interests held in the Trust by the Responsible Entity or its related entities

There were no fees paid to the Responsible Entity or former Responsible Entity or their related entities out of Trust property during the year.

No fees were paid out of Trust property to the Directors of the Responsible Entity or former Responsible Entity during the year.

No interests in the Trust were held by the Responsible Entity, the former Responsible Entity and their related entities.

Interests in the Trust

The movement in units on issue in the Trust during the year is disclosed in Note 2 of the financial statements.

Value of assets

The value of the Trust's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in Note 1.2 to the financial statements.

Environmental regulation and performance

The operations of the Trust are not subject to any particular significant environmental regulations under a Commonwealth, State or Territory law.

Rounding

The monetary amounts contained in this financial report have been rounded to the nearest $1,000, unless otherwise stated, under the option available to the Trust under Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the ***Corporations Act 2001*** is set out on page 3.

Authorisation

Signed in accordance with a resolution of the Directors of the Responsible Entity of Challenger Index Plus Fund.

A Judin

Director

Sydney

15 September 2023

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Auditor's independence declaration to the directors of Fidante Partners Services Limited

As lead auditor for the audit of the financial report of Challenger Index Plus Fund for the financial year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

Ernst & Young

Rita Da Silva
Partner
15 September 2023

Statement of comprehensive income

For the year ended 30 June	Note	2023 $'000	2022 $'000
Interest on financial assets at fair value through profit or loss		24,618	3,617
Fees and commission income		10	(15)
Net gains/(losses) on financial instruments at fair value through profit or loss		84,291	(51,780)
Total income/(expense)		**108,919**	**(48,178)**
Net profit/(loss) before finance costs attributable to unitholders		**108,919**	**(48,178)**
Finance costs attributable to unitholders			
Distribution to unitholders	2	(66,660)	(63,393)
Movement in net assets attributable to unitholders	6	(42,259)	111,571
Net profit/(loss) after finance costs for the year attributable to unitholders		**—**	—
Other comprehensive income/(loss) for the year		—	—
Total comprehensive income/(loss) for the year attributable to unitholders		**—**	—

The statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June	Note	2023 $'000	2022 $'000
Assets			
Cash and cash equivalents	8	1,276	368
Receivables	3	607,054	—
Financial assets at fair value through profit or loss	4	118,065	757,669
Total assets		**726,395**	**758,037**
Liabilities			
Distributions payable	2	66,660	50
Payables	5	—	4,132
Total liabilities (excluding net assets attributable to unitholders)		**66,660**	**4,182**
Net assets attributable to unitholders - Liability	6	**659,735**	**753,855**

The statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in net assets attributable to unitholders

For the year ended 30 June	Note	2023 $'000	2022 $'000
At 1 July - opening - liability		**753,855**	**653,596**
Application for units		145,050	371,498
Redemption of units		(281,429)	(159,668)
Movement in net assets attributable to unitholders		42,259	(111,571)
At 30 June - closing - liability	6	**659,735**	**753,855**

The statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June	Note	2023 $'000	2022 $'000
Operating activities			
Annuity income received		24,148	4,344
Net cash inflows/(outflows) from operating activities	8	**24,148**	**4,344**
Investing activities			
Proceeds from sale of investments		5,708,172	8,798,865
Payments for purchase of investments		(5,595,033)	(8,904,633)
Net cash inflows/(outflows) from investing activities		**113,139**	**(105,768)**
Financing activities			
Proceeds from applications by unitholders		145,050	371,498
Payments of redemptions to unitholders		(281,429)	(159,668)
Distributions paid		—	(110,311)
Net cash inflows/(outflows) from financing activities		**(136,379)**	**101,519**
Net increase/(decrease) in cash and cash equivalents		**908**	**95**
Cash and cash equivalents at the beginning of the year		368	273
Cash and cash equivalents at the end of the year	8	**1,276**	**368**

The statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Basis of preparation and overarching significant accounting policies

The financial report of Challenger Index Plus Fund (the Trust) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors of Fidante Partners Services Limited (the Responsible Entity) on 15 September 2023.

1.1. Basis of preparation

These financial statements cover the Trust as an individual entity. The Trust is an Australian registered managed investment scheme and was constituted on 9 December 2016. The Trust will terminate on 8 December 2096 unless terminated earlier in accordance with the provisions of the Trust's Constitution.

These general purpose financial statements have been prepared in accordance with the Trust's Constitution, Australian Accounting Standards and the ***Corporations Act 2001.***

The Trust is a for-profit entity for the purposes of preparing financial statements.

The financial statements are presented in Australian dollars and have been prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

All balances are expected to be recovered or settled within twelve months, except for investments in financial instruments and net assets attributable to unitholders. The amounts expected to be recovered or settled beyond twelve months after the end of each reporting year cannot be reliably determined.

Furthermore, the financial statements have been prepared on a going concern basis as the Trust is expected to generate sufficient funds to enable it to pay its debts as and when they fall due.

Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Accounting standards and interpretations issued and effective from 1 July 2022

All new accounting standards that are applicable to the Trust for the 30 June 2023 reporting year have been adopted and do not have a material impact on the financial statements.

There are no new accounting standards and interpretations that have been issued, but not yet effective, that are material to the financial statements or have been early adopted for the 30 June 2023 reporting year.

Changes in accounting policies or disclosures

There were no changes in accounting policies applied during the year.

Foreign currency

Both the presentation currency and the functional currency of the Trust are Australian dollars.

Transactions in foreign currency are translated into the Trust's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Australian dollars at the foreign exchange rate ruling at the statement of financial position date.

Comparatives

Where necessary, comparative figures have been reclassified to conform to any changes in presentation made in this financial report.

Rounding of amounts

Unless otherwise stated, monetary amounts contained in this financial report have been rounded to the nearest $1,000 under Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191.

1.2. Summary of significant accounting policies

a) Financial instruments

i) Classification

Assets

The Trust classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Trust’s portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Trust’s documented investment strategy. All investments are measured at fair value through profit or loss.

1. Basis of preparation and overarching significant accounting policies (continued)

ii) Recognition/derecognition

The Trust recognises fair value of financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Trust has transferred substantially all risks and rewards of ownership.

iii) Measurement

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in the fair value recognised in the statement of comprehensive income.

- Fair value in an active market

  The fair value of financial assets and liabilities traded in active markets are based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices at the reporting date, while financial liabilities are priced at current offer prices.

- Fair value in an inactive or unquoted market

  The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of other substantially similar instruments, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

  Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting year.

b) Net assets attributable to unitholders

Units are redeemable at the unitholders' option prior to maturity date, which is subject to notice, payment of a break fee and the Trust's capital risk management detailed in Note 6, and are classified as financial liabilities. Units can be redeemed by the unitholders at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the reporting date if unitholders exercised their right to redeem units in the Trust.

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial Instruments: Presentation* (AASB 132):

- the puttable financial instrument entitles the holder to a pro rata share of net assets in the event of the Trust's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Trust, and it is not a contract settled in the Trust's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss and cannot be guaranteed.

At 30 June 2023, unitholder funds have not been classified as equity as they did not satisfy all of the criteria under AASB 132.

c) Cash and cash equivalents

Cash and cash equivalents are financial assets with fixed or determinable payments and comprise of cash at bank and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are recognised at fair value.

Payments and receipts relating to the purchase and sale of investment securities at fair value are classified as cash flows from investing activities, as movements in the fair value of these securities represent the Trust's investment activity.

d) Investment income

Interest earned on financial instruments classified at fair value through profit or loss is recognised in interest income according to the terms of the contract. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 1.2(a).

1. Basis of preparation and overarching significant accounting policies (continued)

e) Expenses

All expenses, including Responsible Entity's fees, are paid for by Challenger Life Company Limited (CLC).

f) Taxes

The Trust has elected to be an Attribution Managed Investment Trust and is not subject to income tax as all the taxable income, if any, of the Trust has been fully attributed to its members.

Financial instruments held by the Trust are measured on a fair value basis for determining taxable income.

The benefit of imputation credits and foreign tax paid, if any, are passed on to unitholders.

The Trust may incur withholding tax on investment income imposed by certain countries. Such income is recorded gross of withholding tax in the statement of comprehensive income.

Goods and services tax (GST)

As the Trust does not currently incur any expenses, there are no GST implications for the Trust.

g) Distributions

In accordance with the Trust's Constitution, the Trust distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

h) Changes in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders.

i) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in Note 1(d) above. Amounts are generally received within 30 days of being recorded as receivables.

The Trust measures expected credit losses using a lifetime expected loss allowance. Given the nature of the Trust’s receivables there has been no allowance for expected credit losses recorded.

j) Payables

Payables include liabilities and accrued expenses owing by the Trust which are unpaid as at the reporting date.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the reporting date are included in payables.

The distribution amount payable to unitholders as at the reporting date is recognised separately in the statement of financial position when the right for unitholders to receive payment is established.

k) Applications and redemptions

Applications received for units in the Trust are recorded net of any entry fees payable prior to the issue of units in the Trust. Redemptions from the Trust are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined by reference to the net assets of the Trust divided by the number of units on issue.

Reinvested distributions are included in applications of units in the statement of changes in net assets in attributable to unitholders.

l) Use of estimates

For the majority of the Trust's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel on behalf of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

m) Unit prices

Unit prices are determined in accordance with the Trust's Constitution and are calculated as the net assets attributable to unitholders of the Trust, less estimated costs, divided by the number of units on issue, on a forward pricing basis, as determined by the Responsible Entity.

1. Basis of preparation and overarching significant accounting policies (continued)

n) Terms and conditions on units

Each unit issued confers upon the unitholder an equal interest in the Trust, and is of equal value per class. A unit does not confer any interest in any particular asset or investment of the Trust. Unitholders have various rights under the Constitution and the *Corporations Act 2001*, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Trust.

The rights, obligations and restrictions attached to each class of units are identical in all respects.

1.3. Significant accounting judgements, estimates and assumptions

The carrying values of amounts recognised in the statement of financial position are often based on estimates and assumptions of future events. There are no key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting year.

2. Distributions to unitholders

Timing of distributions

The distributions for the year and associated cents per unit (CPU) were as follows.

Distributions	**30 June 2023**	**30 June 2023**	**30 June 2022**	**30 June 2022**
AusBond Bank Bill Class	**$'000**	**CPU**	**$'000**	**CPU**
Distributions paid - September	—	—	45	5.21
Distributions paid - December	—	—	59	7.28
Distributions paid - March	—	—	66	7.15
Distributions payable - June	6,112	650.85	50	5.46
	6,112	**650.85**	**220**	**25.10**
AusBond Composite Class				
Distributions payable - June	132	8.08	—	—
	132	**8.08**	**—**	**—**
AusBond Government Inflation Class				
Distributions paid - December	—	—	568	70.44
Distributions payable - June	894	197.55	—	—
	894	**197.55**	**568**	**70.44**
MSCI World ex Australia Net Return Class				
Distributions paid - September	—	—	22,197	431.00
Distributions paid - December	—	—	40,408	689.43
Distributions payable - June	59,522	1,319.79	—	—
	59,522	**1,319.79**	**62,605**	**1,120.43**
RBA Cash Rate Class				
Distributions payable - June	—	383.93	—	—
	—	**384.00**	**—**	**—**

2. Distributions to unitholders (continued)

Distributions **MSCI ACWI ex Aust Net Return**	**30 June 2023** **$'000**	**30 June 2023** **CPU**	**30 June 2022** **$'000**	**30 June 2022** **CPU**
Distributions paid - June	—	448.47	—	—
	—	**448.47**	**—**	

Total distributions paid to unitholders	**30 June 2023** **$'000**	**30 June 2022** **$'000**
Distributions paid - September	—	22,242
Distributions paid - December	—	41,035
Distributions paid - March	—	66
Distributions payable - June	66,660	50
Total distributions for the reporting year	**66,660**	**63,393**

The component of the final distribution for the year which was unpaid at the reporting date is shown in the statement of financial position.

3. Receivables

	30 June 2023 **$'000**	**30 June 2022** **$'000**
Accrued income	301	—
Outstanding trade settlements	606,753	—
Total	**607,054**	**—**

4. Financial assets at fair value through profit or loss

	30 June 2023 **$'000**	**30 June 2022** **$'000**
Government bonds	53,379	113,076
Floating rate notes and corporate bonds	64,686	644,593
Total	**118,065**	**757,669**

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in Notes 9 and 10 respectively.

5. Payables

	30 June 2023 **$'000**	**30 June 2022** **$'000**
Accrued income	—	(169)
Outstanding trade settlements	—	(3,963)
Total	**—**	**(4,132)**

6. Net assets attributable to unitholders

As stipulated within the Trust's Constitution, each unit represents a right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust.

Movements in the number of units and net assets attributable to unitholders during the year were as follows.

Net assets attributable to unitholders **AusBond Bank Bill Class**	**30 June 2023** **No. '000**	**30 June 2022** **No. '000**	**30 June 2023** **$'000**	**30 June 2022** **$'000**
Opening balance	923	554	88,301	52,958
Applications	230	369	22,050	35,243
Redemptions	(214)	—	(21,008)	—
Movement in net assets attributable to unitholders	—	—	(2,837)	100
Closing balance	**939**	**923**	**86,506**	**88,301**
AusBond Composite Class				
Opening balance	1,031	648	89,716	60,827
Applications	602	383	52,000	35,661
Redemptions	—	—	—	—
Movement in net assets attributable to unitholders	—	—	(2,342)	(6,772)
Closing balance	**1,633**	**1,031**	**139,374**	**89,716**
AusBond Government Inflation Class				
Opening balance	588	450	49,809	43,158
Applications	189	138	17,000	13,111
Redemptions	(324)	—	(30,000)	—
Movement in net assets attributable to unitholders	—	—	3,129	(6,460)
Closing balance	**453**	**588**	**39,938**	**49,809**
MSCI World ex Australia Net Return Class				
Opening balance	6,472	5,105	526,029	496,653
Applications	604	2,966	54,000	287,483
Redemptions	(2,567)	(1,599)	(230,421)	(159,668)
Movement in net assets attributable to unitholders	—	—	44,309	(98,439)
Closing balance	**4,509**	**6,472**	**393,917**	**526,029**

Total all classes	**30 June 2023** **No. '000**	**30 June 2022** **No. '000**	**30 June 2023** **$'000**	**30 June 2022** **$'000**
Opening balance	9,014	6,757	753,855	653,596
Applications	1,625	3,856	145,050	371,498
Redemptions	(3,105)	(1,599)	(281,429)	(159,668)
Movement in net assets attributable to unitholders	—	—	42,259	(111,571)
Closing balance	**7,534**	**9,014**	**659,735**	**753,855**

Total net assets attributable to the other four classes (excluding the AusBond Government Class, RBA Cash Rate Class, AusBond Treasury Class and MSCI ACWI ex Aust Net Return) at 30 June 2023 is less than $1,000 (30 June 2022: less than $1,000) and is included in the Total all classes table above.

6. Net assets attributable to unitholders (continued)

Capital risk management

Applications and redemptions are reviewed relative to the liquidity of the Trust's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Trust's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

Sufficient liquid assets are maintained within the Trust, which include cash and cash equivalents.

7. Derivative financial instruments

In the normal course of business, the Trust enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Trust's portfolio management. Derivatives are not managed in isolation and form part of the Trust's strategy in managing cash flows.

The Trust holds the following derivative instruments.

Swaps

The total return swap is an agreement between two parties to swap the actual return of the Trust for the index return plus a margin on the portfolio.

The fair value of the total return swap is calculated as the difference between the actual return and the index return depending on the class of units (AusBond Bank Bill, RBA Cash Rate, AusBond Government, AusBond Treasury, AusBond Government Inflation, AusBond Composite and MSCI World ex Australia Net Return) plus a margin, as defined by the investment mandate, on the underlying portfolio of assets.

The Trust’s exposure to derivative financial instruments as at 30 June 2023 is nil (2022: nil) due to daily settlement.

8. Reconciliation of profit to net cash flow from operating activities

Reconciliation of profit to net cash flow from operating activities	**30 June 2023**	**30 June 2022**
	$'000	**$'000**
Net profit/(loss) before finance costs	108,919	(48,178)
Net (gains)/losses on financial instruments at fair value through profit or loss	(84,291)	51,780
Net change in receivables	(480)	742
Net cash inflows/(outflows) from operating activities	**24,148**	**4,344**

Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the statement of financial position as follows.

	30 June 2023	**30 June 2022**
	$'000	**$'000**
Cash at bank	1,276	368
Cash and cash equivalents	**1,276**	**368**

9. Financial risk management

The Trust's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk.

The Trust's overall risk management program focuses on ensuring compliance with the Trust's Investment Management Deed and seeks to maximise the returns derived for the level of risk to which the Trust is exposed. The Trust may use derivatives including exchange traded derivatives, to manage exposures resulting from changes in index prices, equity risks and exposures arising from forecast transactions. The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The allocation of assets between the various types of financial instruments is determined by the Trust's Portfolio Manager, CLC, who manages the Trust's assets to achieve the Trust's investment objectives.

Divergence from target allocations and the composition of the assets is monitored on a regular basis.

9. Financial risk management (continued)

The Responsible Entity of the Trust is aware of the risks associated with the business of investment management. A financial risk management framework has been established to ensure that procedures and controls adequately manage the risks arising from current business activities. Central controls include (but are not limited to):

- clear policies and procedures covering operations;
- post trade investment compliance monitoring;
- an independent service provider for the valuation of securities;
- segregation of the dealing and investment management function from the administration and settlement function; and
- a compliance function with a separate reporting line from the investment management function.

As part of the risk management framework, the Responsible Entity is subject to regular reporting and committee meetings regarding risk and compliance issues. The purpose is to facilitate a flow of information between the Trust and the Responsible Entity's Board and Committees. Any material matters identified are promptly investigated and reported.

There are no changes in the strategies used to manage the financial risks from the previous reporting year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk includes (amongst others) three types of risk: interest rate risk (due to fluctuations in interest rates), currency risk (due to fluctuations in foreign exchange rates), and equity price risk (due to fluctuations in market prices). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Trust is exposed to market risks influencing investment valuations. The Trust may utilise derivatives to manage this risk.

Under the terms of the total return swap agreement between CLC and the Trust, CLC guarantees an index return plus a margin on the assets of the Trust (see Note 7 Derivative financial instruments for further details on the total return swap). If the assets of the Trust fall in value due to a change in one or more of the below noted market variables, CLC will fund any shortfall below the index return plus a margin, effectively eliminating any risk of not achieving the required return.

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Trust's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Summarised sensitivity analysis

The total return swap effectively reduces the exposure to interest rate movements to the various index returns plus a margin as defined by the Investment Management Deed to nil. On this basis, no sensitivity analysis is performed.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation.

With respect to credit risk arising from the financial assets of the Trust , other than derivatives, the Trust's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Any outstanding balance under the total return swap is settled regularly. CLC is an APRA regulated life insurance company, which has a Standard & Poor's credit rating of 'A' at 30 June 2023 (unchanged from prior year).

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Trust holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for terms having been renegotiated.

The credit quality of financial assets is managed by the Trust using the Standard & Poor's rating categories and publically or internally calculated credit ratings, in accordance with the investment mandate of the Trust. The Trust's exposure in each grade is monitored on a regular basis. This review process allows the Responsible Entity to assess the potential loss as a result of risks and take corrective action.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of the financial assets by rating is set out in the table below.

9. Financial risk management (continued)

30 June 2023	AAA $'000	AA $'000	A $'000	Total $'000
Cash and cash equivalents	1,276	—	—	1,276
Receivables	607,054	—	—	607,054
Financial instruments at fair value through profit or loss	53,379	64,686	—	118,065
Total	**661,709**	**64,686**	**—**	**726,395**

30 June 2022	AAA $'000	AA $'000	A $'000	Total $'000
Cash and cash equivalents	368	—	—	368
Financial instruments at fair value through profit or loss	113,076	644,593	—	757,669
Total	**113,444**	**644,593**	**—**	**758,037**

All transactions in financial instruments are cash settled upon delivery using approved intermediaries. The risk of default is considered minimal, as delivery of securities sold is only made once the intermediary has received payment. Payment is made on purchase once the securities have been received by the intermediary. The trade will fail if either party fails to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Trust will encounter difficulty in raising funds to meet cash commitments. This may result from either the inability to sell financial assets at their fair values, a counterparty failing on repayment of a contractual obligation, or the inability to generate cash inflows as anticipated.

This risk is controlled through the Trust's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition the Trust maintains sufficient cash and cash equivalents to meet normal operating requirements.

The investment management process includes the consideration of liquidity, both in terms of market quality and cash flow. In asset construction, securities/investments (including derivatives) are only purchased that meet investment criteria and this includes the assessment of saleability in different market conditions. Before entering into a transaction, consideration is given to (among others):

- whether the purpose of the investment is consistent with the investment strategy of the Trust;
- the ease of selling the security should market conditions change unfavourably;
- whether there are sufficient assets to cover the underlying liabilities of that transaction; and
- the overall liquidity level for the Trust.

Under the terms of its Constitution, the Trust has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

Maturity analysis for financial liabilities

Financial liabilities of the Trust comprise trade and other payables, distributions payable and net assets attributable to unitholders. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days.

Net assets attributable to unitholders are typically payable on demand.

10. Fair value measurement

Fair value estimation

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

The Trust values its investments in accordance with the accounting policies set out in Note 1. For the majority of its investments, the Trust relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Trust is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Trust holds derivatives with offsetting market risks, it uses bid prices as a basis for establishing fair value for the offsetting risk positions and applies the bid or asking price to the net open position, as appropriate.

10. Fair value measurement (continued)

Fair value hierarchy

In accordance with AASB 13 ***Fair Value Measurement*** the Trust is required to disclose fair value measurements by level using the fair value hierarchy. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity**.** The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Trust's financial assets and liabilities measured at fair value according to the fair value hierarchy.

30 June 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets at fair value through profit or loss				
Government bonds	—	53,379	—	53,379
Floating rate notes and corporate bonds	—	64,686	—	64,686
Total	**—**	**118,065**	**—**	**118,065**

30 June 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets at fair value through profit or loss				
Government bonds	—	113,076	—	113,076
Floating rate notes and corporate bonds	—	644,593	—	644,593
Total	**—**	**757,669**	**—**	**757,669**

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investments in fixed income securities and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non transferability, which are generally based on available market information.

11. Related party transactions

Responsible entity

The Responsible Entity of Challenger Index Plus Fund is Fidante Partners Services Limited whose immediate parent company is Challenger Funds Management Holdings Pty Limited and ultimate parent company is Challenger Limited. The Responsible Entity has authority for the strategic direction and management of the Trust.

The Portfolio Manager, CLC, is a related party to the Trust as its immediate parent company is Challenger Life Company Holdings Pty Limited and ultimate parent company is Challenger Limited.

Key management personnel

Directors

Key management personnel includes persons who were Directors of Fidante Partners Services Limited from 1 July 2022 and up to the date of the report, unless otherwise stated.

11. Related party transactions (continued)

A Bofinger	Director	
A Judin	Director	(Appointed: 13 July 2023)
J Coomer	Director	(Resigned: 26 June 2023)
J O'Keeffe	Director	
R Grimes	Director	(Resigned: 22 November 2022)
T Roxburgh	Director	(Appointed: 13 July 2023)
V Rodriguez	Director	(Appointed: 9 December 2022)
Y Sodhi	Director	(Resigned: 30 May 2023)

Key management personnel unitholdings

At 30 June 2023, no key management personnel held units in the Trust (2022: nil).

Key management personnel compensation

No amount was paid by the Trust directly to the Directors of the Responsible Entity (2022: nil).

Other transactions within the Trust

The total return swap is an agreement between two parties, CLC and the Trust, undertaken on an arm’s length basis whereby the Trust will swap the actual return on the underlying Trust assets for the index return plus a margin on the portfolio.

Responsible Entity's fees and other transactions

The Trust does not incur any direct management costs.

Under agreements entered into between CLC and the Responsible Entity in respect of the operation of the Trust, CLC agrees to pay the Responsible Entity certain fees and expenses in respect of the Trust's operations.

12. Remuneration of auditor

The cost incurred for auditing the financial report of the Trust is borne by CLC.

13. Subsequent events

At the date of this financial report, no matter or circumstance has arisen that has affected, or may significantly affect the Trust's operations, the results of those operations or the Trust's state of affairs in future financial years, which has not already been reflected in this report.

14. Commitments and contingencies

The Trust does not have any contingent liabilities, contingent assets or credit commitments as at 30 June 2023 (2022: nil).

Directors' declaration

In accordance with the resolution of the Directors of Fidante Partners Services Limited, we state that in the opinion of the Directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 4 to 18 are in accordance with the ***Corporations Act 2001***, including:

> (i) complying with Australian Accounting Standards, the ***Corporations Regulations 2001*** and other mandatory professional reporting requirements; and
>
> (ii) giving a true and fair view of the Trust's financial position as at 30 June 2023 and of its performance for the financial year ended on that date;

(b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in Note 1.1; and

(c) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Fidante Partners Services Limited.

A Judin

Director

15 September 2023

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Independent auditor's report to the Unitholders of Challenger Index Plus Fund

Opinion

We have audited the financial report of Challenger Index Plus Fund (the "Trust"), which comprises the statement of financial position as at 30 June 2023, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Trust is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the Trust's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Trust in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial report and auditor's report thereon

The directors of Fidante Partners Services Limited as the Responsible Entity of the Trust (the "Responsible Entity") are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better working world

Responsibilities of the directors for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
15 September 2023