



# Challenger Investment Solutions Management Pty Limited

## Solutions: Allocation of Investment Opportunity Practice Note

December 2022

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Policy owner:	Head of Solutions
Prepared by:	Challenger Solutions
Authorised by:	CISM Board

## SUMMARY

<b>Why is this Practice Note required?</b>	The purpose of this Practice Note is to provide guidelines as to how investment opportunities will be allocated to one or more mandates run by the Challenger Solutions team, inclusive of both discretionary and non-discretionary mandates.	
<b>Who does this Practice Note apply to?</b>	All legal entities, business and support function units and employees of Challenger, its agents, advisors and contractors that act for or on behalf of Challenger Solutions.	
<b>Incidents &amp; breaches</b>	It is important that incidents and breaches are reported promptly. Incidents and breaches are to be reported to Risk and Compliance and managed in accordance with the Incident Management Policy.	
<b>Practice Note Responsibilities</b>	<b>Governance</b>	The Directors of Challenger Investment Solutions Management Pty Limited bear the ultimate responsibility for corporate governance and operational risk management.
	<b>Development &amp; Maintenance</b>	The Head of Solutions is responsible for the development and ongoing maintenance of this Practice Note.
	<b>Implementation</b>	The Head of Solutions, key stakeholders and all applicable staff are responsible for the implementation of this Practice Note.
<b>Key Terms</b>	<b>Challenger</b>	Challenger Limited and wholly owned subsidiaries and entities.
	<b>Challenger Investment Solutions Management Pty Limited (CISM) or (Solutions)</b>	The Solutions business that is a part of Challenger's Life and Solutions division.
	<b>Client</b>	Institutional funds or portfolios for which the Solutions team acts as fiduciary on either a discretionary or non-discretionary basis and provides investment management and/or advisory services.
	<b>Life and Solutions</b>	<p>The division within the Challenger Group that manufactures and distributes investment products for institutional and retail clients.</p> <p>Solutions is responsible for managing the execution of assets and derivative overlays on behalf of Clients across various assets classes.</p>
	<b>Investment Management Agreement (IMA)</b>	An agreement between CISM and a Client in respect to investment management services that specifies the Investment Guidelines for that Client.
	<b>Investment Opportunity</b>	Any investment transaction offered to the Solutions team with a pre-defined size limitation.

# 1. Content of Practice Note

This Practice Note assists Solutions staff to comply with its allocation procedures, where Solutions provides investment management and/or advisory services to one or more funds or portfolios (Clients) for which the Solutions team acts as fiduciary on either a discretionary or non-discretionary basis.

This Practice Note supplements the other relevant Challenger and CISM policies and practice notes.

Each Client's IMA includes Investment Guidelines setting out the type of investment opportunities sought.

This Practice Note describes the process to allocate an Investment Opportunity between Clients if the investment meets the Investment Guidelines of more than one Client and, for non-discretionary mandates, a Portfolio Manager within the Solutions team determines, with their sole discretion, the Investment Opportunity to be suitable for any given Client.

# 2. Scope

This Practice Note applies to all staff (including support functions) engaged (whether directly or indirectly) in market trading on behalf of the Solutions division of Challenger. The terms of the relevant client agreement should be followed when trading on behalf of a client directed mandate.

# 3. References

This Practice Note needs to be considered with reference to and taking account of the obligations laid out in Challenger Policies and the regulatory framework applicable to Challenger's operations, products and services. Specific policies, which should be referred to include:

- CISM Solutions Advice and Trading Process Practice Note;
- Information Barriers Policy;
- Conflicts of Interest Policy;
- Group Delegated Authorities Policy;
- Derivative Risk Policy;
- Incident Management Policy;
- Inside Information Policy and Practice Note;
- Market Trading Rules Policy and Practice Note;
- Organisational Competency and Training Policy; and
- Related Party Transaction Policy.

# 4. Investment allocation approach

All investment managers within Solutions are expected to assess the eligibility of any Investment Opportunity against the Investment Guidelines of all Clients.

Investment Guidelines may include the following:

- maximum and/or minimum investment size;
- permitted asset sectors and geographies;
- liquidity considerations; and
- portfolio concentration limits.

Once eligibility has been confirmed, the allocation of that Investment Opportunity to a Client will be determined in accordance with this section of this Practice Note. Where there is uncertainty regarding the eligibility for an allocation, the Portfolio Manager should consult with the Head of Solutions, and if necessary, Risk & Compliance.

The overarching principle guiding the implementation of this Practice Note is that Solutions will take all necessary steps to ensure all Clients are treated fairly in all circumstances.

## 4.1 Investment Opportunities with limited available size

Where an Investment Opportunity arises and meets a Client's Investment Guidelines, but the Investment Opportunity is limited in size, the client will be offered an equal-weighted portion of the opportunity, with the

weighting depending on the number of total eligible clients. For non-discretionary clients, the pro-rated amount of the Investment Opportunity will be offered to the client and a deadline set for the client to deliver a Proper Instruction to the Solutions team taking up the Investment Opportunity. In the event any clients elect not to take up their available allocation, or the deadline passes without a Proper Instruction being received, the remaining amount will be offered to those clients electing to proceed with the Investment Opportunity.

If the available size of an Investment Opportunity is such that an equal-weighted portion of the opportunity would fall below the minimum investment size, the following allocation procedures would apply, depending on the scenario:

- Scenario 1: The total size of the Investment Opportunity is too small to meet the minimum investment size for all non-discretionary mandates.
- Scenario 2: The total size of the Investment Opportunity meets the minimum investment size for one or more non-discretionary mandates but fails to meet the minimum investment size after the pro-rated size is calculated and made available to individual clients.

Under Scenario 1, Solutions can allocate the Investment Opportunity to any eligible discretionary mandates on an equal-weighted basis. No further action need be taken.

Under Scenario 2, the Investment Opportunity is split between the maximum number of clients such that minimum size requirements for those clients is met on a rotational basis. A list of Clients will be maintained by the Solutions team showing the rotation order. The initial rotation order will be determined based on the dates of each Client's IMA. Any new Clients will be added to the end of the rotation list.

## 4.2 Sales

Any proposal (excluding sales to raise liquidity or comply with Investment Guidelines) by an investment manager for the sale of an Investment Opportunity held in a Client's portfolio must be made to all relevant Clients. For non-discretionary mandates, the proposal to sell an Investment Opportunity will be made and a deadline set for Clients to deliver a Proper Instruction. Trades will be executed either once Proper Instructions have been received from all relevant Clients, or after the deadline has passed. Where an Investment Opportunity is sold for one Client and not another, there must be specific rationale for each respective Client as to why the sale was/was not executed.

## 4.3 Records

Records of the allocation of transactions will be maintained in an Allocations spreadsheet in the Solutions Teams Channel. These records must include a written explanation of non-pro rata allocations and rotational ordering between Clients.

# 5. Investment Management Agreements

A stakeholder review and sign off process is performed on all Investment Management Agreements to ensure the approach to the allocation of Investment Opportunities is made in accordance with this Practice Note.

## 6. Risk Review

Where necessary, the Risk and Compliance team will undertake periodic reviews of Solutions' compliance with the provisions of this Practice Note.

# 7. Related Party Transactions Policy

Challenger has a Related Party Transaction Policy which requires that any transaction between related parties is conducted on arm's length terms. Further, the Related Party Transaction Policy requires a demonstration of the arm's length nature of the terms.

These approaches will apply in any circumstance where a transaction is undertaken between related parties. This may include transactions such as the sale of an asset from one party to another, or the provision of services for which a fee is charged.

## 8. Training and Awareness

The Head of Solutions, key stakeholders and all applicable staff managers are responsible for ensuring awareness of this Practice Note and that operational adherence to this Practice Note is achieved within their area of responsibility.

## 9. Whistleblower Provisions

Challenger has a Whistleblower Policy and encourages disclosures from employees, former employees and suppliers regarding any unethical, illegal, corrupt or other inappropriate conduct including in relation to this Practice Note. The Whistleblower Policy is available on Connect and [www.challenger.com.au](http://www.challenger.com.au).

## 10. Risk Appetite and Complying with this Practice Note

Challenger's purpose is to provide customers with financial security for a better retirement. Challenger promotes a positive culture of risk awareness and transparency, including open communication and challenge of current and emerging risks, speaking up regarding matters of concern and the proactive management of issues and incidents. Challenger has no appetite for conducting business activities unfairly or in contravention of the law, or which knowingly damage or are inconsistent with its brand and reputation. Challenger has no appetite for employees intentionally not following policies and procedures.

Employees are to comply with Challenger policies and are responsible for familiarising themselves with the policies relevant to their role. Policies are available on the intranet.

Incidents of non-compliance with this Practice Note are to be reported in line with the Challenger Incident Management Policy.

Employees at Challenger are held accountable for their actions. Consequences for non-compliance with this Practice Note may include but are not limited to:

- a requirement to undertake additional training;
- increased supervisions;
- a verbal warning;
- a written warning (including a first and final written warning);
- an impact to performance rating or promotion;
- a financial consequence; and
- dismissal.

For further details, please refer to the Challenger Limited Conduct Risk and Consequence Management Framework.

## 11. Point of Contact

The Head of Solutions is the point of contact for matters arising from this Practice Note.

## 12. Review Cycle

This Practice Note will be reviewed every two years or as deemed necessary by the Head of Solutions. Any material changes will be required to be communicated to Clients as promptly as possible.