

# **Challenger Guaranteed Income Fund**

ARSN 139 607 122

## **Annual Financial Report for the year ended 30 June 2020**

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## Annual Financial Report for the year ended 30 June 2020

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These financial statements cover Challenger Guaranteed Income Fund as an individual entity.

The Responsible Entity of Challenger Guaranteed Income Fund is Challenger Retirement and Investment Services Limited (ABN 80115534453). The Responsible Entity's registered office is:

Level 2  
5 Martin Place  
Sydney NSW 2000

## Directors' report

The Directors of Challenger Retirement and Investment Services Limited, the Responsible Entity of Challenger Guaranteed Income Fund ('the Trust'), present their report together with the financial statements of the Trust for the year ended 30 June 2020.

### Directors

The following persons held office as Directors of Challenger Retirement and Investment Services Limited during the year or since the end of the year and up to the date of this report, unless otherwise stated.

D W Bennett  
A R Bofinger  
C Dube  
A L Tobin  
B W Koster (appointed 29 November 2019)  
M Somerville (resigned 30 November 2019)

### Principal activities

The Trust invests in annuities provided by Challenger Life Company Limited ('CLC') in accordance with the provisions of the Trust's Constitution. For the purposes of managing the Trust's cash flow, the Trust also invests in derivatives provided by CLC.

There were no significant changes in the nature of the Trust's activities during the year.

### Review and results of operations

During the year, the Trust continued to invest in accordance with target asset allocations as set out in the current product disclosure statement. The Trust maintained its strategy of investing in annuities provided by CLC.

### Results

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

	<b>30 June 2020 \$'000</b>	30 June 2019 \$'000
Net profit before finance costs	<b>7,536</b>	12,290
Distributions paid and payable	<b>10,567</b>	12,200
Distributions (cents per unit) - 4.85 cents p.a. 30 September 2018 Class	-	1.21
Distributions (cents per unit) - 4.45 cents p.a. 30 September 2019 Class	<b>1.11</b>	4.45
Distributions (cents per unit) - 5.08 cents p.a. 31 December 2019 Class	<b>2.54</b>	5.08
Distributions (cents per unit) - 5.15 cents p.a. 31 March 2020 Class	<b>3.86</b>	5.15

## Directors' report (continued)

### Review and results of operations (continued)

Distributions (cents per unit) - 4.55 cents p.a. 30 November 2019 Class	<u>1.90</u>	4.55
Distributions (cents per unit) - 4.46 cents p.a. 31 December 2019 Class	<u>2.23</u>	4.46
Distributions (cents per unit) - 3.78 cents p.a. 30 April 2020 Class	<u>3.15</u>	3.78
Distributions (cents per unit) - 3.78 cents p.a. 30 September 2020 Class	<u>3.78</u>	3.78
Distributions (cents per unit) - 4.00 cents p.a. 30 September 2022 Class	<u>4.00</u>	4.00
Distributions (cents per unit) - 3.40 cents p.a. 31 March 2021 Class	<u>3.40</u>	2.85
Distributions (cents per unit) - 3.54 cents p.a. 30 September 2022 Class	<u>3.54</u>	2.95
Distributions (cents per unit) - 3.64 cents p.a. 30 September 2023 Class	<u>3.64</u>	3.03
Distributions (cents per unit) - 3.10 cents p.a. 31 March 2024 Class	<u>3.10</u>	0.77
Distributions (cents per unit) - 1.70 cents p.a. 30 April 2021 Class	<u>0.43</u>	-
Distributions (cents per unit) - 3.40 cents p.a. 30 April 2022 Class	<u>0.28</u>	-
Distributions (cents per unit) - 2.03 cents p.a. 30 September 2023 Class	<u>1.69</u>	-
Distributions (cents per unit) - 2.08 cents p.a. 28 February 2021 Class	<u>1.00</u>	-
Distributions (cents per unit) - 2.35 cents p.a. 31 August 2024 Class	<u>1.00</u>	-

### Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the nature of the Trust's activities or to the state of affairs of the Trust during the year.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- (i) the operations of the Trust in future financial years;
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Trust in future financial years.

### Likely developments and expected results of operations

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.

### Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to the officers of Challenger Retirement and Investment Services Limited. Provided the officers of Challenger Retirement and Investment Services Limited 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.

**Directors' report (continued)**

**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 its related entities out of Trust property during the year.

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

The number of interests in the Trust held by the Responsible Entity or its related entities as at the end of the financial year are disclosed in Note 11 to the financial statements.

**Interests in the Trust**

The movement in units on issue in the Trust during the year is set out below.

	<b>30 June 2020 No. '000</b>	30 June 2019 No. '000
Units on issue - opening	282,141	245,710
Units issued	62,068	131,162
Units redeemed	(183,320)	(94,731)
Units on issue - closing	<b>160,889</b>	<b>282,141</b>

The movement in units on issue in the Trust during the year is further disclosed in Note 3 to the financial statements.

<b>Value of assets</b>	<b>\$'000</b>	\$'000
Value of Trust assets at 30 June	<b>170,454</b>	<b>296,917</b>

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 2 to the financial statements.

**Environmental regulation**

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

**Rounding of amounts to the nearest thousand dollars**

The amounts contained in this report and the financial report have been rounded off 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. The Trust is an entity to which the class order applies.

**Directors' report (continued)**

**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 6.

This report is made in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read "Andrew Hill", written in a cursive style.

Director

Sydney  
24 September 2020



**Building a better  
working world**

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## **Auditor's Independence Declaration to the Directors of Challenger Retirement and Investment Services Limited**

As lead auditor for the audit of Challenger Guaranteed Income Fund for the financial year ended 30 June 2020, 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; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive script.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva' in a cursive script.

Rita Da Silva  
Partner  
24 September 2020

**Challenger Guaranteed Income Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2020**

**Statement of comprehensive income**

For the year ended 30 June

		2020	2019
	Notes	\$'000	\$'000
<b>Income</b>			
Net (losses)/gains on financial instruments at fair value through profit or loss		(3,031)	90
Annuities income		<u>10,567</u>	<u>12,200</u>
<b>Total income</b>		<u>7,536</u>	<u>12,290</u>
<b>Net profit before finance costs</b>		<u>7,536</u>	<u>12,290</u>
<b>Finance costs attributable to unitholders</b>			
Distribution to unitholders	4	(10,567)	(12,200)
Decrease/(increase) in net assets attributable to unitholders	3	<u>3,031</u>	<u>(90)</u>
<b>Net profit for the year</b>		-	-
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year attributable to unitholders</b>		<u>-</u>	<u>-</u>

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



**Challenger Guaranteed Income Fund**  
**Statement of financial position**  
**As at 30 June 2020**

**Statement of financial position**

<b>As at 30 June</b>	Notes	<b>2020</b>	2019
		<b>\$'000</b>	\$'000
<b>Assets</b>			
Receivables		469	1,056
Financial assets at fair value through profit or loss	5	<u>169,985</u>	295,861
<b>Total assets</b>		<u>170,454</u>	296,917
<b>Liabilities</b>			
Distribution payable		475	1,061
Financial liabilities at fair value through profit or loss	6	<u>3,250</u>	6,971
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>3,724</u>	8,032
<b>Net assets attributable to unitholders</b>	3	<u>166,730</u>	288,885

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

**Challenger Guaranteed Income Fund**  
**Statement of changes in net assets attributable to unitholders**  
**For the year ended 30 June 2020**

**Statement of changes in net assets attributable to unitholders**

	Notes	2020 \$'000	2019 \$'000
<b>At 1 July - opening</b>		<b>288,885</b>	250,246
Change in net assets attributable to unitholders		<b>(3,031)</b>	90
Application for units		<b>64,330</b>	133,352
Redemption of units		<b>(183,454)</b>	<u>(94,803)</u>
<b>At 30 June - closing</b>	3	<b><u>166,730</u></b>	<u>288,885</u>

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

**Challenger Guaranteed Income Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2020**

**Statement of cash flows**

**For the year ended 30 June**

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>Cash flows from operating activities</b>		
Annuity income received	<u>11,155</u>	<u>12,202</u>
<b>Net cash inflow from operating activities</b>	8(a) <u>11,155</u>	<u>12,202</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	<b>193,985</b>	99,600
Purchase of investments	<u>(74,861)</u>	<u>(138,151)</u>
<b>Net cash inflow/(outflow) from investing activities</b>	<u>119,124</u>	<u>(38,551)</u>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	<b>64,330</b>	133,352
Redemption payments to unitholders	<u>(183,454)</u>	<u>(94,803)</u>
Distributions paid	<u>(11,155)</u>	<u>(12,200)</u>
<b>Net cash (outflow)/inflow from financing activities</b>	<u>(130,279)</u>	<u>26,281</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>-</u>	<u>-</u>

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

## **1 General information**

These financial statements cover Challenger Guaranteed Income Fund ('the Trust') as an individual entity. The Trust is an Australian registered managed investment scheme and was constituted on 18 September 2009. The Trust will terminate on 17 September 2089 unless terminated earlier in accordance with the provisions of the Trust's Constitution.

The financial statements were authorised for issue by the Directors on 24 September 2020.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### **(a) Basis of preparation**

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

The financial statements are presented in Australian dollars and are 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 period cannot be reliably determined.

As the Trust did not hold cash and cash equivalents during the year, the statement of cash flows has been prepared to disclose the cash flows from annuities directly to the unitholders.

Where applicable, comparative figures have been updated to reflect the disclosure format applied in the most recent annual financial report and to reflect any changes applied in the current period.

#### *Compliance with International Financial Reporting Standards*

The financial statements have been prepared in accordance with the Australian Accounting Standards as issued by the Australian Accounting Standards Board and the International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **(b) Significant accounting judgements, estimates and assumptions**

The carrying values of amounts recognised on the statement of financial position are often based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the recognised amounts within the next annual reporting period are disclosed individually within each of the relevant notes to the financial statements. The impact of COVID-19 has been considered in relation to the disclosures made in these financial statements.

#### **Coronavirus (COVID-19) impact**

Coronavirus disease (COVID-19) is a highly infectious disease caused by a newly discovered coronavirus. The disease has spread worldwide and was declared a pandemic by the World Health Organisation on 11 March 2020. COVID-19 has had a significant impact on global and domestic economies as a result of measures taken by governments to slow the spread of the virus. Local and overseas equity, debt and commodity markets have also been impacted by the threat of COVID-19.

## 2 Summary of significant accounting policies (continued)

### (b) Significant accounting judgements, estimates and assumptions (continued)

Trust has considered the impact of COVID-19 and other market volatility in preparing the financial statements. As a result, the Trust has reviewed the appropriateness of the inputs to its valuations, the fair value hierarchy and related disclosures. As at reporting date, the determination of the carrying value of annuity investments and derivatives includes consideration of the impact of COVID-19 on interest rates. There has been no impact on the going concern of the Trust.

The nature of COVID-19 continues to evolve and the financial and economic impacts are still taking shape. This may result in changes to the future estimates and outcomes applied to the measuring of the Trust's assets and liabilities. Any major adjustments if any, will be reflected up to the reporting date. Beyond this date, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

### (c) New accounting standards and interpretations

All new accounting standards that are applicable to the Trust for the 30 June 2020 reporting period 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 2020 reporting period.

### (d) Financial instruments

#### (i) *Classification and Measurement*

##### *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, which is mandatory, in accordance with the Trust's documented investment strategy. All investments are measured at fair value through profit or loss.

##### *Liabilities*

Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

#### (ii) *Recognition/derecognition*

The Trust recognises 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.

## **2 Summary of significant accounting policies (continued)**

### **(d) Financial instruments (continued)**

- 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 period.

### **(e) Net assets attributable to unitholders**

Units are redeemable at the unitholders' option, subject to the Trust's capital risk management detailed in Note 3, 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.

### **(f) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

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.

### **(g) Investment income**

Annuity income is received from CLC, who is contractually obliged to make regular guaranteed income payments to the Trust. The annuity income is recognised in the statement of comprehensive income on an entitlements basis.

### **(h) Expenses**

The Trust does not currently incur any expenses.

### **(i) Income tax**

The Trust is a member of Challenger Limited's tax consolidated group ('TCG') for the purposes of income taxation, of which Challenger Limited is the head entity. The Trust has entered into a tax sharing arrangement with the Challenger TCG which protects the Trust from the income tax related liabilities of other members of the Challenger TCG.

### **(j) Distributions**

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

## 2 Summary of significant accounting policies (continued)

### (k) Change in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

### (l) Goods and Services Tax (GST)

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

### (m) Receivables

Receivables may include amounts from annuities. Annuity income is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(g) above. Amounts are generally received within 30 days of being recorded as receivables.

### (n) Payables

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

### (o) 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.

### (p) Use of estimates

The Trust's financial instruments, including annuities and derivatives, are fair valued using the prevailing current earnings rate set by CLC that is applicable to the annuity and derivative contracts at the reporting date.

### (q) Unit prices

Unit prices are determined in accordance with the Trust's Constitution. CLC sets an earnings rate for the securities referable to each class of units in the Trust. Generally each earnings rate is set weekly in advance and a different earnings rate will apply to the securities referable to each class. As a result, changes in any earnings rate affect the application unit price that applies and the early withdrawal unit price.

### (r) 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 unit are identical in all respects.

### (s) Rounding of amounts

The monetary amounts contained in this financial report have been rounded off 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. The Trust is an entity to which the class order applies.

### 3 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. There were sixteen classes of units in the year and each unit has the same rights, preferences and restrictions attaching to it as all other units of the Trust, except for their respective terms of issue.

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

<b>Net assets attributable to unitholders - 5.08 cents p.a. 31 December 2019 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
<b>Class</b>	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	10,000	10,000	10,118	10,206
Redemptions	(10,000)	-	(10,000)	-
Change in net assets attributable to unitholders	-	-	(188)	(88)
Closing balance	-	10,000	-	10,118

<b>Net assets attributable to unitholders - 4.85 cents p.a. 30 September 2018 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
<b>Class</b>	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	-	86,523	-	86,999
Redemptions	-	(86,523)	-	(86,525)
Change in net assets attributable to unitholders	-	-	-	(474)
Closing balance	-	-	-	-

<b>Net assets attributable to unitholders - 5.15 cents p.a. 31 March 2020 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
<b>Class</b>	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	136,703	93,091	139,629	96,043
Applications	18	49,194	17	50,649
Redemptions	(136,721)	(5,582)	(136,789)	(5,669)
Change in net assets attributable to unitholders	-	-	(2,857)	(1,394)
Closing balance	-	136,703	-	139,629



**3 Net assets attributable to unitholders (continued)**

<b>Net assets attributable to unitholders - 4.45 cents p.a. 30 September 2019 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
<b>Class</b>	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	9,000	9,000	9,036	9,167
Applications	-	-	-	-
Redemptions	(9,000)	-	(9,000)	-
Change in net assets attributable to unitholders	-	-	(36)	(131)
Closing balance	-	9,000	-	9,036

<b>Net assets attributable to unitholders - 4.55 cents p.a. 30 November 2019 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
<b>Class</b>	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	10,000	10,000	10,067	10,216
Redemptions	(10,000)	-	(10,000)	-
Change in net assets attributable to unitholders	-	-	(67)	(149)
Closing balance	-	10,000	-	10,067

<b>Net assets attributable to unitholders - 4.46 cents p.a. 31 December 2019 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
<b>Class</b>	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	10,000	10,000	10,073	10,212
Redemptions	(10,000)	-	(10,000)	-
Change in net assets attributable to unitholders	-	-	(73)	(139)
Closing balance	-	10,000	-	10,073

**3 Net assets attributable to unitholders (continued)**

<b>Net assets attributable to unitholders - 3.78 cents p.a. 30 April 2020 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	5,000	5,000	5,029	5,060
Redemptions	(5,000)	-	(5,000)	-
Change in net assets attributable to unitholders	-	-	(29)	(31)
Closing balance	-	5,000	-	5,029

<b>Net assets attributable to unitholders - 3.78 cents p.a. 30 September 2020 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	10,000	10,000	10,178	10,120
Change in net assets attributable to unitholders	-	-	(119)	58
Closing balance	10,000	10,000	10,059	10,178

<b>Net assets attributable to unitholders - 4.00 cents p.a. 30 September 2022 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	30,714	12,096	32,333	12,223
Applications	38,928	19,334	41,025	19,924
Redemptions	(2,414)	(715)	(2,477)	(712)
Change in net assets attributable to unitholders	-	-	8	898
Closing balance	67,227	30,715	70,889	32,333

**3 Net assets attributable to unitholders (continued)**

<b>Net assets attributable to unitholders – 3.40 cents p.a. 31 March 2021 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	<b>35,773</b>	-	<b>36,434</b>	-
Applications	<b>6,016</b>	37,684	<b>6,152</b>	37,779
Redemptions	<b>(156)</b>	(1,911)	<b>(158)</b>	(1,897)
Change in net assets attributable to unitholders	-	-	<b>(185)</b>	552
Closing balance	<b>41,633</b>	35,773	<b>42,243</b>	36,434

<b>Net assets attributable to unitholders – 3.54 cents p.a. 30 September 2022 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	<b>7,981</b>	-	<b>8,285</b>	-
Applications	-	7,981	-	8,000
Redemptions	-	-	-	-
Change in net assets attributable to unitholders	-	-	<b>49</b>	285
Closing balance	<b>7,981</b>	7,981	<b>8,334</b>	8,285

<b>Net assets attributable to unitholders – 3.64 cents p.a. 30 September 2023 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	<b>11,969</b>	-	<b>12,558</b>	-
Applications	-	11,969	-	12,000
Change in net assets attributable to unitholders	-	-	<b>189</b>	558
Closing balance	<b>11,969</b>	11,969	<b>12,747</b>	12,558

### 3 Net assets attributable to unitholders (continued)

<b>Net assets attributable to unitholders – 3.10 cents p.a. 30 September 2024 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	<b>5,000</b>	-	<b>5,145</b>	-
Applications	-	5,000	-	5,000
Change in net assets attributable to unitholders	-	-	<b>123</b>	145
Closing balance	<b>5,000</b>	5,000	<b>5,268</b>	5,145

<b>Net assets attributable to unitholders – 4.00 cents p.a. 30 September 2022 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Applications	<b>8,645</b>	-	<b>8,645</b>	-
Redemptions	<b>(30)</b>	-	<b>(30)</b>	-
Change in net assets attributable to unitholders	-	-	<b>19</b>	-
Closing balance	<b>8,615</b>	-	<b>8,634</b>	-

<b>Net assets attributable to unitholders – 3.40 cents p.a. 31 March 2021 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Applications	<b>1,500</b>	-	<b>1,500</b>	-
Change in net assets attributable to unitholders	-	-	<b>1</b>	-
Closing balance	<b>1,500</b>	-	<b>1,501</b>	-

<b>Net assets attributable to unitholders – 3.53 cents p.a. 30 September 2022 Class</b>	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Applications	<b>6,961</b>	-	<b>6,991</b>	-
Redemptions	-	-	-	-
Change in net assets attributable to unitholders	-	-	<b>64</b>	-
Closing balance	<b>6,961</b>	-	<b>7,055</b>	-

**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**3 Net assets attributable to unitholders (continued)**

	<b>30 June 2020</b>	30 June 2019	<b>30 June 2020</b>	30 June 2019
<b>Total all classes</b>	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	<b>282,141</b>	245,710	<b>288,885</b>	250,246
Applications	<b>62,068</b>	131,162	<b>64,330</b>	133,352
Redemptions	<b>(183,320)</b>	(94,731)	<b>(183,454)</b>	(94,803)
Change in net assets attributable to unitholders	-	-	<b>(3,031)</b>	90
Closing balance	<b>160,889</b>	282,141	<b>166,730</b>	288,885

**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.

Although the Trust is designed for unitholders to hold the investments for the full investment term, early redemptions can be made using the early redemption unit price (which includes an early redemption discount) and unitholders may receive significantly less back than if the investment is held until its maturity date.

**4 Distributions to unitholders**

**Timing of distributions**

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

	<b>30 June 2020</b>	<b>30 June 2020</b>	30 June 2019	30 June 2019
	<b>\$'000</b>	<b>CPU</b>	\$'000	CPU
<b>Distributions - 5.08 cents p.a. 31 December 2019</b>				
Distributions paid - July	<b>42</b>	<b>0.42</b>	42	0.42
Distributions paid - August	<b>42</b>	<b>0.42</b>	42	0.42
Distributions paid - September	<b>42</b>	<b>0.42</b>	42	0.42
Distributions paid - October	<b>42</b>	<b>0.42</b>	42	0.42
Distributions paid - November	<b>42</b>	<b>0.42</b>	42	0.42
Distributions paid - December	<b>42</b>	<b>0.42</b>	42	0.42
Distributions paid - January	-	-	42	0.42
Distributions paid - February	-	-	42	0.42
Distributions paid - March	-	-	42	0.42
Distributions paid - April	-	-	42	0.42
Distributions paid - May	-	-	42	0.42
Distributions payable - June	-	-	42	0.42
	<b>252</b>		<b>508</b>	

**4 Distributions to unitholders (continued)**

	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 4.85 cents p.a. 30 September 2018</b>				
Distributions paid - July	-	-	348	0.40
Distributions paid - August	-	-	348	0.40
Distributions paid - September	-	-	346	0.40
	-		1,042	

	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 5.15 cents p.a. 31 March 2020</b>				
Distributions paid - July	578	0.43	414	0.43
Distributions paid - August	576	0.43	423	0.43
Distributions paid - September	574	0.43	430	0.43
Distributions paid - October	573	0.43	524	0.43
Distributions paid - November	572	0.43	546	0.43
Distributions paid - December	570	0.43	578	0.43
Distributions paid - January	564	0.43	583	0.43
Distributions paid - February	560	0.43	589	0.43
Distributions paid - March	558	0.43	587	0.43
Distributions paid - April	-	-	587	0.43
Distributions paid - May	-	-	587	0.43
Distributions payable - June	-	-	587	0.43
	5,125		6,437	

**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**4 Distributions to unitholders (continued)**

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 4.45 cents p.a. 30 September 2019</b>				
Distributions paid - July	33	0.37	33	0.37
Distributions paid - August	33	0.37	33	0.37
Distributions paid - September	33	0.37	33	0.37
Distributions paid - October	-	-	33	0.37
Distributions paid - November	-	-	33	0.37
Distributions paid - December	-	-	33	0.37
Distributions paid - January	-	-	33	0.37
Distributions paid - February	-	-	33	0.37
Distributions paid - March	-	-	33	0.37
Distributions paid - April	-	-	33	0.37
Distributions paid - May	-	-	33	0.37
Distributions payable - June	-	-	33	0.37
	<b>99</b>		<b>396</b>	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 4.45 cents p.a. 30 November 2019</b>				
Distributions paid - July	38	0.38	37	0.38
Distributions paid - August	38	0.38	38	0.38
Distributions paid - September	38	0.38	38	0.38
Distributions paid - October	38	0.38	38	0.38
Distributions paid - November	38	0.38	38	0.38
Distributions paid - December	-	-	38	0.38
Distributions paid - January	-	-	38	0.38
Distributions paid - February	-	-	38	0.38
Distributions paid - March	-	-	38	0.38
Distributions paid - April	-	-	38	0.38
Distributions paid - May	-	-	38	0.38
Distributions payable - June	-	-	38	0.38
	<b>190</b>		<b>455</b>	

**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**4 Distributions to unitholders (continued)**

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 4.46 cents p.a. 31 December 2019</b>				
Distributions paid - July	37	0.37	37	0.37
Distributions paid - August	37	0.37	37	0.37
Distributions paid - September	37	0.37	37	0.37
Distributions paid - October	37	0.37	37	0.37
Distributions paid - November	37	0.37	37	0.37
Distributions paid - December	37	0.37	37	0.37
Distributions paid - January	-	-	37	0.37
Distributions paid - February	-	-	37	0.37
Distributions paid - March	-	-	37	0.37
Distributions paid - April	-	-	37	0.37
Distributions paid - May	-	-	37	0.37
Distributions payable - June	-	-	37	0.37
	<b>222</b>		<b>444</b>	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 3.78 cents p.a. 30 April 2020</b>				
Distributions paid - July	16	0.32	16	0.32
Distributions paid - August	16	0.32	16	0.32
Distributions paid - September	16	0.32	16	0.32
Distributions paid - October	16	0.32	16	0.32
Distributions paid - November	16	0.32	16	0.32
Distributions paid - December	16	0.32	16	0.32
Distributions paid - January	16	0.32	16	0.32
Distributions paid - February	16	0.32	16	0.32
Distributions paid - March	16	0.32	16	0.32
Distributions paid - April	16	0.32	16	0.32
Distributions paid - May	-	-	16	0.32
Distributions payable - June	-	-	16	0.32
	<b>160</b>		<b>192</b>	



**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**4 Distributions to unitholders (continued)**

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 3.78 cents p.a. 30 September 2020</b>				
Distributions paid - July	32	0.32	31	0.32
Distributions paid - August	32	0.32	31	0.32
Distributions paid - September	32	0.32	31	0.32
Distributions paid - October	32	0.32	31	0.32
Distributions paid - November	32	0.32	31	0.32
Distributions paid - December	32	0.32	32	0.32
Distributions paid - January	32	0.32	32	0.32
Distributions paid - February	32	0.32	32	0.32
Distributions paid - March	32	0.32	32	0.32
Distributions paid - April	32	0.32	32	0.32
Distributions paid - May	32	0.32	32	0.32
Distributions payable - June	32	0.32	32	0.32
	<b>384</b>		<b>379</b>	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 4.00 cents p.a. 30 September 2022</b>				
Distributions paid - July	106	0.33	49	0.33
Distributions paid - August	114	0.33	50	0.33
Distributions paid - September	120	0.33	50	0.33
Distributions paid - October	123	0.33	58	0.33
Distributions paid - November	130	0.33	69	0.33
Distributions paid - December	132	0.33	71	0.33
Distributions paid - January	134	0.33	72	0.33
Distributions paid - February	136	0.33	74	0.33
Distributions paid - March	136	0.33	80	0.33
Distributions paid - April	204	0.33	85	0.33
Distributions paid - May	216	0.33	90	0.33
Distributions payable - June	224	0.33	102	0.33
	<b>1,775</b>		<b>850</b>	

**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**4 Distributions to unitholders (continued)**

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 3.40 cents p.a. 31 March 2021</b>				
Distributions paid - July	102	0.28	-	-
Distributions paid - August	113	0.28	-	-
Distributions paid - September	114	0.28	-	0.30
Distributions paid - October	114	0.28	92	0.28
Distributions paid - November	115	0.28	93	0.28
Distributions paid - December	115	0.28	93	0.28
Distributions paid - January	116	0.28	95	0.28
Distributions paid - February	118	0.28	95	0.28
Distributions paid - March	118	0.28	95	0.28
Distributions paid - April	118	0.28	92	0.28
Distributions paid - May	118	0.28	101	0.28
Distributions payable - June	118	0.28	101	0.28
	<b>1,379</b>		<b>857</b>	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 3.54 cents p.a. 30 September 2022</b>				
Distributions paid - July	24	0.30	-	-
Distributions paid - August	24	0.30	-	-
Distributions paid - September	24	0.30	24	0.30
Distributions paid - October	24	0.30	24	0.30
Distributions paid - November	24	0.30	24	0.30
Distributions paid - December	24	0.30	24	0.30
Distributions paid - January	24	0.30	24	0.30
Distributions paid - February	24	0.30	24	0.30
Distributions paid - March	24	0.30	24	0.30
Distributions paid - April	24	0.30	24	0.30
Distributions paid - May	24	0.30	24	0.30
Distributions payable - June	24	0.30	24	0.30
	<b>288</b>		<b>240</b>	

**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**4 Distributions to unitholders (continued)**

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 3.64 cents p.a. 30 September 2023</b>				
Distributions paid - July	36	0.30	-	-
Distributions paid - August	36	0.30	-	-
Distributions paid - September	36	0.30	36	0.30
Distributions paid - October	36	0.30	36	0.30
Distributions paid - November	36	0.30	36	0.30
Distributions paid - December	36	0.30	36	0.30
Distributions paid - January	36	0.30	36	0.30
Distributions paid - February	36	0.30	36	0.30
Distributions paid - March	36	0.30	36	0.30
Distributions paid - April	36	0.30	37	0.30
Distributions paid - May	36	0.30	37	0.30
Distributions payable - June	36	0.30	37	0.30
	<b>432</b>		<b>363</b>	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 3.10 cents p.a. 31 March 2024</b>				
Distributions paid - July	13	0.26	-	-
Distributions paid - August	13	0.26	-	-
Distributions paid - September	13	0.26	-	-
Distributions paid - October	13	0.26	-	-
Distributions paid - November	13	0.26	-	-
Distributions paid - December	13	0.26	-	-
Distributions paid - January	13	0.26	-	-
Distributions paid - February	13	0.26	-	-
Distributions paid - March	13	0.26	-	-
Distributions paid - April	13	0.26	13	0.26
Distributions paid - May	13	0.26	13	0.26
Distributions payable - June	13	0.26	13	0.26
	<b>156</b>		<b>39</b>	

**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**4 Distributions to unitholders (continued)**

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2019 CPU</b>
<b>Distributions - 1.70 cents p.a. 30 April 2021</b>				
Distributions paid - April	12	0.14	-	-
Distributions paid - May	12	0.14	-	-
Distributions payable - June	12	0.14	-	-
	36		-	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2019 CPU</b>
<b>Distributions - 3.40 cents p.a. 30 April 2022</b>				
Distributions payable - June	4	0.28	-	-
	4		-	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2019 CPU</b>
<b>Distributions - 2.03 cents p.a. 30 September 2023</b>				
Distributions paid - September	5	0.17	-	-
Distributions paid - October	5	0.17	-	-
Distributions paid - November	5	0.17	-	-
Distributions paid - December	5	0.17	-	-
Distributions paid - January	5	0.17	-	-
Distributions paid - February	5	0.17	-	-
Distributions paid - March	5	0.17	-	-
Distributions paid - April	10	0.17	-	-
Distributions paid - May	10	0.17	-	-
Distributions payable - June	12	0.17	-	-
	67		-	

**Challenger Guaranteed Income Fund**  
**Notes to the financial statements**  
**30 June 2020**  
**(continued)**

**4 Distributions to unitholders (continued)**

<b>Distributions - 2.08 cents p.a. 28 February 2021</b>	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2019 CPU</b>
Distributions paid – February	-	<b>0.20</b>	-	-
Distributions paid – March	-	<b>0.20</b>	-	-
Distributions paid – April	-	<b>0.20</b>	-	-
Distributions paid – May	-	<b>0.20</b>	-	-
Distributions payable - June	-	<b>0.20</b>	-	-
	-		-	

<b>Distributions - 2.35 cents p.a. 31 August 2024</b>	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2019 CPU</b>
Distributions paid – February	-	<b>0.20</b>	-	-
Distributions paid – March	-	<b>0.20</b>	-	-
Distributions paid – April	-	<b>0.20</b>	-	-
Distributions paid – May	-	<b>0.20</b>	-	-
Distributions payable - June	-	<b>0.20</b>	-	-
	-		-	

	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
<b>Total distributions paid to unitholders</b>		
Distributions paid - July	<b>1,057</b>	1,008
Distributions paid - August	<b>1,074</b>	1,018
Distributions paid - September	<b>1,084</b>	1,083
Distributions paid - October	<b>1,053</b>	931
Distributions paid - November	<b>1,060</b>	965
Distributions paid - December	<b>1,022</b>	1,000
Distributions paid - January	<b>940</b>	1,008
Distributions paid - February	<b>940</b>	1,016
Distributions paid - March	<b>938</b>	1,021
Distributions paid - April	<b>465</b>	1,037
Distributions paid - May	<b>461</b>	1,051
Distributions payable - June	<b>475</b>	1,062
<b>Total distributions for the reporting period</b>	<b>10,567</b>	12,200

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

**5 Financial assets at fair value through profit or loss**

	<b>30 June 2020</b>	30 June 2019
	<b>\$'000</b>	<b>\$'000</b>
Annuities	<u>169,985</u>	<u>295,861</u>
Total	<u>169,985</u>	<u>295,861</u>

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

**6 Financial liabilities at fair value through profit or loss**

	<b>30 June 2020</b>	30 June 2019
	<b>\$'000</b>	<b>\$'000</b>
Interest rate swaps	<u>3,250</u>	<u>6,971</u>
Total	<u>3,250</u>	<u>6,971</u>

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.

## 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.

### (a) Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the Trust would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The Trust enters into swap contracts with CLC's Statutory Fund to manage the cash flows of the Trust. The Trust's derivative financial instruments at year-end are detailed below.

#### 30 June 2020

	Fair values		
	Contract/ notional	Assets	Liabilities
	\$'000	\$'000	\$'000
<b>Swaps</b>	<b>3,092</b>	-	<b>3,250</b>
	<b>3,092</b>	-	<b>3,250</b>

#### 30 June 2019

	Fair values		
	Contract/ notional	Assets	Liabilities
	\$'000	\$'000	\$'000
Swaps	6,800	-	6,971
	6,800	-	6,971

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

### (a) Reconciliation of profit to net cash flow from operating activities

	30 June 2020 \$'000	30 June 2019 \$'000
Net profit before finance costs	7,536	12,290
Net losses on financial instruments at fair value through profit or loss	3,031	90
Net change in receivables	588	(178)
<b>Net cash flow from operating activities</b>	<b>11,155</b>	<b>12,202</b>

## 9 Financial risk management

### (a) Overview

The Trust's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price 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 derivative financial instruments to alter certain risk exposures. The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

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;
- 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 period.

### (b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Trust's income or the value of financial instruments. 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.



## 9 Financial risk management (continued)

### (b) Market risk (continued)

#### (i) Cash flow and fair value interest rate risk

Movements in official interest rates are taken into account by CLC when determining the earnings rate each week. Where interest rates rise after an application into the Trust has been accepted, no exposure to the potential benefit of the rate rise is available as the returns are fixed at the date of investment. Similarly, where interest rates fall, there is no negative effect by the rate reduction.

### (c) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Trust to incur a financial loss.

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.

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.

CLC's Statutory Fund No.2 ('Statutory Fund') is contractually obliged under the terms of the annuity contracts entered into with the Trust to, amongst other things, make regular income payments to the Trust. These payments are intended to match each distribution and the maturity unit price for each class. The Statutory Fund's ability to meet these obligations is dependent on the assets it holds from time to time, including the capital support in accordance with the capital adequacy standards it is required to meet under APRA prudential standards.

As a result, the Trust's ability to pay the distributions and maturity unit price in respect of a class will depend on CLC meeting its obligations under the applicable annuities.

There is a credit risk that CLC might not meet its obligations under the annuities and that the assets of the Statutory Fund that support the annuities issued by CLC to the Trust are insufficient to meet the Statutory Fund's obligations under the annuities provided to the Trust.

Challenger Limited and its subsidiaries do not provide a guarantee to the Trust unitholders in respect to the Trust.

CLC has a Standard & Poor's credit rating of A at 30 June 2020 (2019: A).

### (d) Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due.

Under the terms of its Constitution, the Trust has the ability to manage liquidity risk by suspending or spreading withdrawal requests in extreme circumstances, including where CLC exercises similar rights in relation to the underlying securities. CLC maintains liquidity reserves and does not expect to need to exercise these rights.

## 10 Fair value measurement

### (a) 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 2. The Trust relies on information provided by CLC for the valuation of all the Trust's annuity investments and related swaps.

### (b) Fair value hierarchy

The Trust classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. 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 (by class) measured at fair value according to the fair value hierarchy.

## 10 Fair value measurement (continued)

### (b) Fair value hierarchy (continued)

30 June 2020

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss:</b>				
Annuities	-	169,985	-	169,985
<b>Total</b>	<b>-</b>	<b>169,985</b>	<b>-</b>	<b>169,985</b>

### Financial liabilities at fair value through profit or loss:

Swaps	-	-	(3,250)	(3,250)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(3,250)</b>	<b>(3,250)</b>

30 June 2019

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss:</b>				
Annuities	-	295,861	-	295,861
<b>Total</b>	<b>-</b>	<b>295,861</b>	<b>-</b>	<b>295,861</b>

### Financial liabilities at fair value through profit or loss:

Swaps	-	-	(6,971)	(6,971)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(6,971)</b>	<b>(6,971)</b>

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 annuities, that are valued at the present value of future cashflows with a discount rate which is observable. 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.

Investments classified within level 3 generally have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include swaps. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques such as net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models to derive fair value. The level 3 swaps are held between the Trust and CLC and the unobservable inputs are pre-determined and not subject to change from market factors, therefore no sensitivity analysis has been provided on the significant unobservable inputs.

For financial instruments categorised within level 3 of the fair value hierarchy, the valuation process applied in valuing such instruments is governed by the CLC Practice Note on Investment Asset and Financial Liability Valuation. The CLC Practice Note outlines the CLC Valuation Committee's responsibilities in the valuation of investment assets and financial liabilities for the purposes of financial reporting. All significant level 3 financial instruments are referred to the CLC Valuation Committee which meets at least monthly, or more frequently if required.

## 10 Fair value measurement (continued)

### (b) Fair value hierarchy (continued)

#### (i) Movement in level 3 instruments

The following tables present the movement in level 3 instruments for the Trust by class of financial instrument.

#### 30 June 2020

	Swaps \$'000	Total \$'000
Opening balance	(6,971)	(6,971)
Sales	5,837	5,837
Gains/(losses) recognised in profit or loss	(2,116)	(2,116)
<b>Closing balance</b>	<b>(3,250)</b>	<b>(3,250)</b>
<b>Total gains for the year included in the statement of comprehensive income for financial instruments held during the year</b>	<b>(2,116)</b>	<b>(2,116)</b>

#### 30 June 2019

	Swaps \$'000	Total \$'000
Opening balance	(7,745)	(7,745)
Sales	684	684
Gains/(losses) recognised in profit or loss	90	90
Closing balance	(6,971)	(6,971)
Total gains for the year included in the statement of comprehensive income for financial instruments held during the year	90	90

## 11 Related party transactions

### Responsible entity

The Responsible Entity of Challenger Guaranteed Income Fund is Challenger Retirement and Investment Services Limited whose immediate parent company is Challenger Life Company 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 Trust held annuity investments issued by CLC.

### Key management personnel

#### Directors

Key management personnel includes persons who were Directors of Challenger Retirement and Investment Services Limited at any time during the financial year and up to the date of the report as follows.

D W Bennett  
A R Bofinger  
C Dube  
A L Tobin  
B W Koster (appointed 29 November 2019)  
M Somerville (resigned 30 November 2019)

### Key management personnel unitholdings

At 30 June 2020 no key management personnel held units in the Trust (2019: Nil).

## 11 Related party transactions (continued)

### Key management personnel compensation

No amount was paid by the Trust directly to the Directors of the Responsible Entity (2019: Nil).

### 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.

### Related party unitholdings

Parties related to the Trust (including Challenger Retirement and Investment Services Limited, its related parties and other schemes managed by Challenger Retirement and Investment Services Limited), held units in the Trust as follows.

#### 30 June 2020

Unitholder	No. of units held opening	No. of units held closing	Interest held	No. of units acquired	No. of units disposed	Distributions paid/payable by the Trust
	(Units)	(Units)	(%)	(Units)	(Units)	(\$)
<b>Challenger Funds Management Holdings Pty Limited</b>	10	10	-	-	-	30
<b>Challenger Life Company Holdings Limited</b>	100	80	-	30	(50)	6
<b>Challenger Life Company Limited</b>	10	10	-	-	-	-
<b>Total</b>	<b>120</b>	<b>100</b>	<b>-</b>	<b>30</b>	<b>(50)</b>	<b>36</b>

#### 30 June 2019

Unitholder	No. of units held opening	No. of units held closing	Interest held	No. of units acquired	No. of units disposed	Distributions paid/payable by the Trust
	(Units)	(Units)	(%)	(Units)	(Units)	(\$)
Challenger Funds Management Holdings Pty Limited	10	10	-	-	-	-
Challenger Life Company Holdings Limited	70	100	-	40	(10)	4
Challenger Life Company Limited	10	10	-	-	-	-
<b>Total</b>	<b>90</b>	<b>120</b>	<b>-</b>	<b>40</b>	<b>(10)</b>	<b>4</b>

### Investments

The Trust held investments in the following entities which are also managed by Challenger Retirement and Investment Services Limited or its related parties.

## 11 Related party transactions (continued)

### Investments (continued)

	Fair value of investment		Annuity income received/receivable	
	2020	2019	2020	2018
	\$	\$	\$	\$
CLC - annuity contracts	<b>169,984,545</b>	295,860,752	<b>10,566,668</b>	12,198,535

## 12 Auditor's remuneration

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

## 13 Events occurring after the reporting period

No significant events have occurred since the reporting date which would impact on the financial position of the Trust as at 30 June 2020 or on the results and cash flows of the Trust for the year ended on that date.

## 14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2020 (2019: Nil).

## Directors' declaration

In accordance with the resolution of the Directors of Challenger Retirement and Investment Services Limited, we state that in the opinion of the Directors of the Responsible Entity:

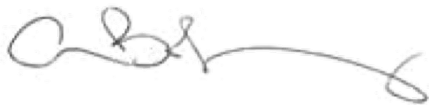
- (a) the financial statements and notes set out on pages 6 to 37 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2020 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 2(a); 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 Challenger Retirement and Investment Services Limited.



Director

Sydney  
24 September 2020



Director

Sydney  
24 September 2020



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## **Independent Auditor's Report to the Unitholders of Challenger Guaranteed Income Fund**

### **Opinion**

We have audited the financial report of Challenger Guaranteed Income Fund (the "Trust"), which comprises the statement of financial position as at 30 June 2020, 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 2020 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 Challenger Retirement and Investment 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.

## **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.



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- 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva'.

Rita Da Silva  
Partner  
Sydney  
24 September 2020