

# **Challenger Guaranteed Pension Fund**

ARSN 154 366 588

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

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ARSN 154 366 588

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

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

The Responsible Entity of Challenger Guaranteed Pension 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 Pension 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 principal activity of the Trust was to invest in annuities provided by Challenger Life Company Limited ('CLC') in accordance with the provisions of the Trust's Constitution.

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 a strategy of investing in annuities provided by Challenger Life.

#### Results

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

	<b>30 June 2020</b>	30 June 2019
	<b>\$'000</b>	\$'000
Net profit before finance costs	<u>955</u>	<u>1,127</u>
Distributions paid and payable	<u>17,606</u>	<u>19,126</u>
Distributions (cents per unit) - 30 June 2021 Class	<u>15.24</u>	<u>14.76</u>
Distributions (cents per unit) - 31 December 2019 Class	<u>6.00</u>	<u>12.00</u>
Distributions (cents per unit) - 31 December 2023 Class	<u>11.98</u>	<u>7.13</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.

## Directors' report (continued)

### 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.

### 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 8 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	1,839	1,062
Units issued	442	931
Units redeemed	<u>(1,511)</u>	<u>(154)</u>
Units on issue - closing	<u>770</u>	<u>1,839</u>

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	<u>12,579</u>	<u>23,248</u>

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.

## Directors' report (continued)

### 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.

### 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 5.

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



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 Pension 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 Pension Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2020**

**Statement of comprehensive income**

For the year ended 30 June

	Notes	2020 \$'000	2019 \$'000
<b>Income</b>			
Annuities income		955	1,127
<b>Total income</b>		<b>955</b>	<b>1,127</b>
<b>Net profit before finance costs</b>			
		<b>955</b>	<b>1,127</b>
<b>Finance costs attributable to unitholders</b>			
Distribution to unitholders	4	(17,606)	(19,126)
Decrease in net assets attributable to unitholders	3	16,651	17,999
<b>Net profit for the year</b>		<b>-</b>	<b>-</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year attributable to unitholders</b>		<b>-</b>	<b>-</b>

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

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

**Statement of financial position**

<b>As at 30 June</b>		<b>2020</b>	<b>2019</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
Receivables		978	1,852
Financial assets at amortised cost	5	<u>11,601</u>	<u>21,396</u>
<b>Total assets</b>		<u><b>12,579</b></u>	<u><b>23,248</b></u>
<b>Liabilities</b>			
Payables		<u>978</u>	<u>1,852</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u><b>978</b></u>	<u><b>1,852</b></u>
<b>Net assets attributable to unitholders</b>	<b>3</b>	<u><b>11,601</b></u>	<u><b>21,396</b></u>

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



**Challenger Guaranteed Pension 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>21,396</b>	23,178
Change in net assets attributable to unitholders		<b>(16,651)</b>	(17,999)
Application for units		<b>10,758</b>	18,631
Redemption of units		<b>(3,902)</b>	<u>(2,414)</u>
<b>At 30 June - closing</b>	3	<b><u>11,601</u></b>	<u>21,396</u>

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

**Challenger Guaranteed Pension 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
Notes	<b>\$'000</b>	\$'000
<b>Cash flows from operating activities</b>		
Annuity income received	<b>983</b>	1,127
<b>Net cash inflow from operating activities</b>	<b>983</b>	1,127
<b>Cash flows from investing activities</b>		
Purchase of investments	<b>(10,758)</b>	(18,629)
Proceeds from sale of investment capital	<b>17,582</b>	17,171
Proceeds from sale of investment gains	<b>2,982</b>	2,411
<b>Net cash inflows from investing activities</b>	<b>9,805</b>	953
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	<b>10,758</b>	18,631
Redemption payments to unitholders	<b>(2,982)</b>	(2,414)
Distributions paid	<b>(18,565)</b>	(18,297)
<b>Net cash (outflow) from financing activities</b>	<b>(10,789)</b>	(2,080)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-</b>	-
<b>Cash and cash equivalents at the end of the year</b>	<b>-</b>	-

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

## **1 General information**

These financial statements cover Challenger Guaranteed Pension Fund ('the Trust') as an individual entity. The Trust is an Australian registered managed investment scheme and was constituted on 1 December 2011. The Trust will terminate on 30 November 2081 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.

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

COVID-19 is a respiratory illness which was declared a pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global and domestic economies. In preparing these financial statements, the Company has considered the impacts of COVID-19 on the Company's assets, liabilities and disclosures for the year ended 30 June 2020. As at reporting date, there has been minimal impact on assets or liabilities nor on the going concern of the Company.

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 Company's assets and liabilities. No major adjustments have been reflected in the financial statements up to the reporting date.

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

### **(b) 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.

### **(c) Financial instruments**

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

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 investments were classified as held to maturity as designated at inception and comprise of investments provided by Challenger Life Company Limited ('Challenger Life').

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both the following conditions are met:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Trust invests in annuities with fixed or determinable payments with an intention to hold to maturity. Annuity income is received from Challenger Life, who is contractually obliged to make regular guarantee income payments of interest and principal on specified dates to the Trust.

#### *(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.

### **(d) 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.

### **(e) 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.

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

### **(f) Investment income**

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

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

### **(g) Expenses**

The Trust does not currently incur any expenses.

### **(h) 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.

### **(i) 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.

Each class has a set commencement date, distribution and maturity date, and the regular monthly distribution amount of each class is made up of both capital and income. Therefore, the distributions recorded in the statement of comprehensive income represent the regular distribution payments.

### **(j) 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.

### **(k) 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(f) above. Amounts are generally received within 30 days of being recorded as receivables.

### **(l) 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.

### **(m) 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.

### **(n) Use of estimates**

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

### **(o) Unit prices**

Unit prices are determined in accordance with the Trust's Constitution. Challenger Life 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.

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

### **(p) 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.

### **(q) 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.

### **(r) Impairment of assets**

The Trust recognises an allowance for expected credit losses ('ECLs') for its financial assets at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Trust expects to receive, discounted at an approximation of the original effective interest rate.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in the statement of comprehensive income.

### 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.

Each class of units have the same rights, preferences and restrictions attaching to it as all other units of the Trust.

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

	<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
<b>30 June 2021 Class</b>				
Opening balance	419	151	13,000	6,866
Applications	441	290	10,727	10,185
Redemptions	(91)	(22)	(3,141)	(812)
Change in net assets attributable to unitholders	-	-	(9,017)	(3,239)
Closing balance	<b>769</b>	419	<b>11,569</b>	13,000

	<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
<b>31 December 2019 Class</b>				
Opening balance	1,420	911	8,396	16,312
Applications	-	641	-	8,446
Redemptions	(1,420)	(132)	(762)	(1,602)
Change in net assets attributable to unitholders	-	-	(7,634)	(14,760)
Closing balance	-	1,420	-	8,396

	<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
<b>31 December 2023 Class</b>				
Opening balance	-	-	-	-
Applications	1	-	31	-
Redemptions	-	-	1	-
Change in net assets attributable to unitholders	-	-	-	-
Closing balance	<b>1</b>	-	<b>32</b>	-

**Challenger Guaranteed Pension 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>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
<b>Total all classes</b>				
Opening balance	<b>1,839</b>	1,062	<b>21,396</b>	23,178
Applications	<b>442</b>	931	<b>10,758</b>	18,631
Redemptions	<b>(1,511)</b>	(154)	<b>(3,902)</b>	(2,414)
Change in net assets attributable to unitholders	-	-	<b>(16,651)</b>	(17,999)
Closing balance	<b>770</b>	1,839	<b>11,601</b>	21,396

#### 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 - 30 June 2021 Class</b>				
Distributions paid- July	<b>632</b>	<b>1.27</b>	207	1.23
Distributions paid- August	<b>694</b>	<b>1.27</b>	214	1.23
Distributions paid- September	<b>739</b>	<b>1.27</b>	219	1.23
Distributions paid- October	<b>773</b>	<b>1.27</b>	228	1.23
Distributions paid- November	<b>809</b>	<b>1.27</b>	242	1.23
Distributions paid- December	<b>826</b>	<b>1.27</b>	258	1.23
Distributions paid- January	<b>813</b>	<b>1.27</b>	286	1.23
Distributions paid- February	<b>846</b>	<b>1.27</b>	316	1.23
Distributions paid- March	<b>871</b>	<b>1.27</b>	362	1.23
Distributions paid- April	<b>906</b>	<b>1.27</b>	407	1.23
Distributions paid- May	<b>934</b>	<b>1.27</b>	468	1.23
Distributions payable - June	<b>1,035</b>	<b>1.27</b>	518	1.23
	<b>9,878</b>		3,725	



**Challenger Guaranteed Pension 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 - 31 December 2019 Class</b>				
Distributions paid- July	1,323	1.00	963	1.00
Distributions paid- August	1,310	1.00	1,026	1.00
Distributions paid- September	1,300	1.00	1,134	1.00
Distributions paid- October	1,300	1.00	1,200	1.00
Distributions paid- November	1,260	1.00	1,310	1.00
Distributions paid- December	1,235	1.00	1,416	1.00
Distributions paid- January	-	-	1,414	1.00
Distributions paid- February	-	-	1,413	1.00
Distributions paid- March	-	-	1,400	1.00
Distributions paid- April	-	-	1,398	1.00
Distributions paid - May	-	-	1,379	1.00
Distribution paid - June	-	-	1,348	1.00
	<b>7,728</b>		<b>15,401</b>	

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions - 31 December 2023 Class</b>				
Distributions paid- July	-	1.02	-	-
Distributions paid- August	-	0.96	-	-
Distributions paid- September	-	1.00	-	-
Distributions paid- October	-	1.00	-	-
Distributions paid- November	-	1.00	-	-
Distributions paid- December	-	1.00	-	1.02
Distributions paid- January	-	1.00	-	1.02
Distributions paid- February	-	1.00	-	1.02
Distributions paid- March	-	1.00	-	1.02
Distributions paid- April	-	1.00	-	1.02
Distributions paid - May	-	1.00	-	1.02
Distribution paid - June	-	1.00	-	1.02
	<b>-</b>			

\* Amounts are rounded to zero; total distributions for the year ended 30 June 2020 were \$0.44 (2019: \$0.0013).

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

**4 Distributions to unitholders (continued)**

	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
<b>Total all classes</b>		
Distributions paid- July	1,955	1,170
Distributions paid- August	2,004	1,240
Distributions paid- September	2,039	1,353
Distributions paid- October	2,073	1,428
Distributions paid- November	2,069	1,552
Distributions paid- December	2,061	1,674
Distributions paid- January	813	1,700
Distributions paid- February	846	1,729
Distributions paid- March	871	1,762
Distributions paid- April	906	1,805
Distributions paid - May	934	1,847
Distributions paid - June	1,035	1,866
	<b>17,606</b>	<b>19,126</b>

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 amortised cost**

The following table details the investments held by the Trust during the year.

	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
Annuities	11,601	21,396
	<b>11,601</b>	<b>21,396</b>

**6 Reconciliation of profit to net cash flow from operating activities**

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

	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
Net profit attributable to unitholders	955	1,127
Net change in annuity income receivable	28	-
<b>Net cash flow from operating activities</b>	<b>983</b>	<b>1,127</b>

## 7 Financial risk management

### (a) Overview

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.

#### (i) Foreign exchange risk

Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Fund managers may enter into derivatives contracts (such as forwards, swaps, options and futures) through approved foreign exchange dealers to minimise risk. However, the use of these contracts must be consistent with the investment strategy and restrictions of the Trust, and agreed acceptable level of foreign exchange risk.

The Trust is not exposed to foreign exchange risk.

#### (ii) Cash flow risk

Movements in official interest rates are taken into account by Challenger Life 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

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.

Challenger Life'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.

## 7 Financial risk management (continued)

### (c) Credit risk (continued)

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

There is a credit risk that Challenger Life might not meet its obligations under the annuities and that the assets of the Statutory Fund that support the annuities issued by Challenger Life 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.

Challenger Life has a Standard & Poor's credit rating of A (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 Challenger Life exercises similar rights in relation to the underlying securities. Challenger Life maintains liquidity reserves and does not expect to need to exercise these rights.

## 8 Related party transactions

### Responsible entity

The Responsible Entity of Challenger Guaranteed Pension 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.

## 8 Related party transactions (continued)

### 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).

### Key management personnel compensation

No amount was paid by the Trust directly to the Directors of the Responsible Entity.

### Responsible Entity's fees and other transactions

The Trust does not incur any direct management costs.

No amounts were paid by the Trust to the Responsible Entity (2019: Nil).

### 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 (Units)	No. of units held closing (Units)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Trust (\$)
Challenger Funds Management Holdings Pty Ltd	2	2	-	-	(5)
Challenger Life Company Holdings Limited	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(5)</b>

## 8 Related party transactions (continued)

### Related party unitholdings (continued)

30 June 2019

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Trust (\$)
Challenger Funds Management Holdings Pty Ltd	2	2	-	-	(29)
Challenger Life Company Holdings Limited	-	-	-	-	(3)
<b>Total</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(32)</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.

	Fair value of investment		Annuity income received/ receivable	
	2020 \$	2019 \$	2020 \$	2019 \$
Challenger Life - annuity contracts	<b>12,988,686</b>	22,582,984	<b>954,959</b>	1,127,193
	<b>12,988,686</b>	22,582,984	<b>954,959</b>	1,127,193

## 9 Auditor's remuneration

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

## 10 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.

## 11 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:

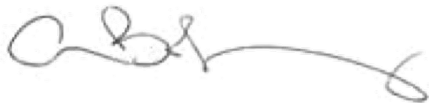
- (a) the financial statements and notes set out on pages 6 to 21 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true 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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working world**

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

### **Opinion**

We have audited the financial report of Challenger Guaranteed Pension 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.



- 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