

Challenger Wholesale High Yield Fund For IDPS investors

Product Disclosure Statement (PDS)

Dated 30 November 2008

Challenger Wholesale High Yield Fund

(ARSN 099 212 647)

Responsible Entity

Challenger Managed Investments Limited

(ABN 94 002 835 592)

(AFSL 234668)



About this Product Disclosure Statement (PDS)

This document provides information to help investors and their advisers assess the merits of investing in the wholesale class of units in the Challenger High Yield Fund (ARSN 099 212 647), referred to in this PDS as the Challenger Wholesale High Yield Fund (**Fund**) and to compare this Fund with other investment opportunities on offer. No other class of units is offered in this PDS. Please note that whilst this PDS is for the Challenger Wholesale High Yield Fund, as an investor you will not necessarily be a wholesale client for the purposes of the Corporations Act. We strongly encourage you to read this document in full before making an investment decision.

In preparing this PDS we did not take into account your particular investment objectives, financial situation or needs. As investors' needs and aspirations differ, you should consider whether investing in the Fund is appropriate for you in light of your particular needs, objectives and financial circumstances. You may also wish to obtain independent advice, particularly about such individual matters as taxation, retirement planning and investment risk tolerance.

Updated information

The information in this PDS is up to date at the time of preparation. However, some information and terms (see below) can change from time to time. If a change is considered materially adverse we will issue a supplementary or replacement PDS.

For updated or other information about the Fund (such as performance), please consult your IDPS operator (as defined on page 5), your financial planner or visit our website www.challenger.com.au. We will also send unitholders a copy of the updated information free of charge upon request.

Important notices

This PDS relating to the Fund is dated 30 November 2008 and is issued by Challenger Managed Investments Limited (ABN 94 002 835 592) (AFSL 234668) (**Challenger** or **CMIL**, also referred to as **we, us, our, the manager** or **the responsible entity** throughout this PDS).

The Fund is managed by CMIL. CMIL is the responsible entity of the Fund and issuer of this PDS. CMIL's ultimate parent is Challenger Financial Services Group Limited (ABN 85 106 842 371) (the **Challenger Group**).

CMIL authorises the use of this PDS as disclosure to investors and potential investors who wish to access the Fund through an IDPS operator (indirect investors). This PDS may also be used for direct investment by IDPS operators (**direct investors** or **unitholders**).

Neither CMIL nor any other member of the Challenger group of companies guarantee the repayment of your capital or the performance of your investment or any particular taxation consequences of investing.

By investing in the Fund you confirm you have received a copy of the current PDS to which this investment relates, that you have read it and agree to the terms contained in it, and that you agree to be bound by the terms of the current PDS and current Fund constitution (each as amended from time to time).

The offer or invitation to subscribe for units in the Fund under this PDS is only available to persons receiving this PDS in Australia and is subject to the terms and conditions described in this PDS. CMIL reserves the right to change these terms and conditions with, in the case of an increase in fees, 30 days notice, otherwise notice will be provided before or as soon as practicable after the change occurs. We reserve the right to withdraw the offer or invitation to subscribe for units and withdraw this PDS.

All fees and costs quoted in this PDS, unless otherwise stated, are quoted inclusive of any Goods and Services Tax (**GST**) and net of reduced input tax credits (**RITCs**) (if any) of 75% of GST paid, which effectively reduces the GST payable from 10% to 2.5%.


Contact details

For any enquiries please contact your financial planner or IDPS operator. Our direct contact details are listed on the inside back cover of this PDS.

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About the Challenger Group



The Challenger Group is a diversified financial services company listed on the Australian Securities Exchange.

With a contemporary business model that aims to provide products and services to meet a broad range of financial needs, the Challenger Group manages activities that span mortgage management, funds management and annuities.

The Challenger Group offers significant depth and breadth of investment expertise, with an established team of in-house investment professionals as well as relationships with quality investment partners. This means that it can offer a range of products to help meet your investment needs, across not only a variety of asset classes, but also across different investment styles.

The Challenger Group uses its extensive investment capability to provide clients with access to superior investment opportunities, whatever their life stage.

To find out more about how Challenger can help you, talk to your financial planner or call our Investor Services team on 13 35 66.

Features at a glance

		See section
Minimum transaction and balance requirements	You need to comply with any minimum transaction and balance requirements of your IDPS operator.	‘Making, withdrawing and monitoring your investment’ on pages 14 and 15.
Fees and other costs¹		
Contribution fee	Nil	
Withdrawal fee	Nil	
Management fee	0.75% p.a. of the Fund’s net asset value	
Performance fee	20% of the Fund’s after management fee return above the UBSA Composite (All Maturities) Bond Index	‘Fees and other costs’ on pages 10 to 13.
Operating expenses	We currently pay normal operating expenses from our management fee. We may, however, recover any abnormal expenses from the Fund, such as the cost of unitholder meetings.	
Transaction costs – buy/sell spread	+0.20% on entry and –0.20% on exit. These amounts may change if the estimate of the underlying transaction costs changes.	
Risks of investing in the Fund	All investments are subject to risk. The significant risks are described on pages 7 to 9.	‘About the risks of investing’ on pages 7 to 9.
Making and withdrawing your investment		
Investing	Generally, you can invest at any time	
Withdrawals	Currently, you are only able to withdraw from the Fund if we make a withdrawal offer. Whilst there is no obligation for us to make a withdrawal offer, our intention is to make withdrawal offers on a quarterly basis. You need to comply with any requirements set by your IDPS operator. For further information about processing withdrawals, refer to pages 14 and 15. You should speak with your IDPS operator to determine how this effects your investment in the Fund.	‘Making, withdrawing and monitoring your investment’ on pages 14 and 15.
Transaction cut-off times	Valid transaction requests must be received from your IDPS operator prior to 3pm Sydney time to be processed effective that day (refer to page 14 for further information on transaction cut-off times).	
Distribution payments		
Frequency	Quarterly as at 31 March, 30 June, 30 September and 31 December. However, there may be periods in which no distributions are made.	‘Distributions’ on pages 16 and 17.
Payment methods	Distributions will be paid to your IDPS operator as soon as practicable after the end of the quarterly distribution period.	
Valuations and pricing		
Valuing the Fund’s assets	The Fund’s assets are usually valued each NSW business day.	‘Unit prices and valuing assets and liabilities’ on page 16.
Unit pricing	Unit prices are usually calculated each NSW business day.	

¹ For certain wholesale clients (as defined in the Corporations Act) we may, at our discretion, negotiate, rebate or waive all or part of our fees.

About the Fund

Suggested minimum investment timeframe	At least three years		
Investment manager	Challenger		
Benchmark	<ul style="list-style-type: none"> • UBSA Bank Bill Index • UBSA Composite (All Maturities) Bond Index 		
Investment objective	The Fund aims to outperform both benchmarks over any 12-month period.		
Investment strategy	We adopt an active approach to managing the Fund. We are active participants in the fixed interest and hybrid securities market and have considerable expertise in assessing the investment potential of rated and unrated fixed interest and hybrid securities.		
Investment approach	<p>We believe that inefficiencies exist in Australian credit markets that allow for the construction of diversified portfolios for income seeking investors.</p> <p>We maintain a solid research base and draw information from a wide variety of sources, such as the media, brokers, company visits, ratings agencies, in-house research and central bank commentaries. We adopt a three-step process of analysis when making investments:</p> <ol style="list-style-type: none"> 1. Macroeconomic assessment; 2. Research and valuation analysis; and 3. Risk management. 		
Investment universe	<p>The Fund typically invests in high yielding corporate bonds, asset backed securities, hybrid debt/equity and fixed interest investments. The Fund may also invest in international securities. The Fund's investments include but are not limited to bank bills, bonds, commercial paper, mortgages, loans, convertible shares/notes, mortgage and asset backed securities, floating rate notes, reset securities, hybrid debt/equity securities, structured yield transactions, credit linked securities, credit default swaps and ordinary and preferred shares/units. We also have the ability to participate in short selling (refer to page 5).</p> <p>We may use derivatives to gain exposure to assets and markets as part of implementing investment or asset allocation decisions. For example, derivatives such as credit default swaps, may also be used to manage security specific risk as well as overall portfolio risk. We may also use derivatives to manage the sensitivity of the Fund's value to changes in interest rates, manage credit risk and for currency hedging. Derivative holdings may result in notional exposures that are greater than the underlying assets in the Fund.</p>		
Portfolio construction	The final portfolio reflects our rigorous selection process resulting in a diversified portfolio of high yielding securities. Portfolio construction guidelines include broad limits to the Fund's exposure to any one issuer or industry sector.		
Currency strategy	Our intention is to fully hedge any foreign currency exposure back to the Australian dollar.		
Asset allocation ranges		Min (%)	Max (%)¹
	Securities	70	100
	Cash	0	30

¹ Derivative holdings may result in notional exposures that are greater than the underlying assets in the Fund.

Additional information about the Fund

Who may invest?

Only IDPS operators can invest directly in the Fund through this PDS. In this PDS we refer to investors who invest in the Fund through an investor-directed portfolio service (IDPS), an IDPS-like scheme, master trust or wrap account service as **indirect investors** and we refer to the operators of these products and services as **IDPS operators**.

To invest, simply complete the documentation which your IDPS operator requires. In addition to reading this PDS, you should read the disclosure document that explains your IDPS.

Indirect investors do not become unitholders in the Fund. Your enquiries and complaints should be directed to your financial planner or IDPS operator, not to us. Usually, IDPS operators pool their investors' money and make a single investment in the Fund that is held in the name of a custodian. Accordingly, it is the IDPS operator or custodian, not the indirect investor, who acquires the unitholder rights and it is the IDPS operator or custodian, not the indirect investor, to whom we have reporting obligations. Fund reports and other information will be sent directly to your IDPS operator, who will use this information to provide you with regular reporting.

Derivatives

The term 'derivative' is used to describe any financial product that has a value that is derived from another security, liability or index. The Fund may at times invest in or obtain exposure to derivatives, such as futures, options and swaps.

The Fund's constitution permits it to use derivatives.

'Derivative risk' on page 8 provides information on the risks associated with derivatives.

Short selling

Short selling occurs when a fund 'borrows' a share from a securities lender and sells it on the share market (known as a **short position**). When a fund has to return the borrowed share to the lender, it will buy the share from the share market. If the share has dropped in price, the fund will benefit, as it buys the share at a lower price than

it sold it. If the share price has risen, the fund will have to buy the share at a higher price than it sold it, thereby making a loss. Short positions on particular stocks are taken when it is expected that these stocks will fall in price.

'Short position risk' on page 9 provides information on the risks associated with short selling.

Borrowings

The Fund's constitution allows for borrowing. We will generally not borrow on behalf of the Fund, except from time to time to cover short-term cash flows or if emergency or extraordinary situations arise.

Borrowings may be from a variety of sources, including companies associated with the Challenger Group. Where funds are borrowed from companies associated with the Challenger Group, the terms are set on a commercial and arm's length basis.

The availability and terms of borrowings are subject to the market for borrowings (including market conditions in debt and other markets) and as such borrowings may not always be available. Lenders may refuse to provide borrowings, renew an existing borrowing facility or refuse to renew on commercially acceptable terms. This may be for reasons specific to a Fund or due to market-wide events.

Challenger may change the lending financial institution (if any) from time to time and may also seek to vary the terms of the borrowing facility where it believes this is in the best interest of members.

Labour standards or environmental, social or ethical considerations

We do not take into account labour standards or environmental, social or ethical considerations when buying, retaining or selling underlying investments. However, to the extent that we believe those matters may affect the value or performance of an underlying investment, they may be considered. We do not have a predetermined view as to what constitutes a labour standard or environmental, social or ethical consideration as these will be determined on a case-by-case basis.

Making investments directly or indirectly

The Fund may make investments directly, or indirectly by investing in other funds (including funds related to or managed by a member of the Challenger Group) that have investment objectives and authorised investments that are consistent with the Fund. This structure helps to minimise transaction costs and can enhance diversification.

Asset allocation ranges

The asset allocation ranges on page 4 show indicative asset allocations for the Fund. If market movements, applications into or withdrawals from the Fund, or changes in the nature of an investment, cause the Fund to exceed the indicative allocations or limit in this PDS, this will be rectified by us as soon as reasonably practicable.

Up-to-date information about the Fund

You can obtain up-to-date information for the Fund by contacting your IDPS operator, financial planner or visiting our website www.challenger.com.au. A paper copy of any updated information will be given to you without charge on your request.

Changes to investment policy

The Fund's constitution permits a wide range of investments and gives us, as responsible entity, broad investment powers. We may vary the investment objectives, strategies, benchmarks, asset allocation ranges and processes of the Fund set out in this PDS. We will give unitholders written notice of any material variation we believe they would not have reasonably expected.

About the risks of investing

What are the risks of investing?

A degree of risk applies to all types of investments. As investing in the Fund involves exposing your investment to a range of risks, it is important that you understand:

- the risks involved in investing in the Fund;
- how these risks compare with the risks of other investments;
- how comfortable you are in exposing your investment to risk; and
- the extent to which the Fund fits into your overall financial plan.

Risk can mean different things to different people. It can mean the risk that your investment may fail to achieve the returns that you expect. This includes situations in which your investment may suffer substantial declines in value. It also includes situations in which your investment goals will not be met because the type of investments you chose did not provide the potential for adequate returns.

Risk is also often defined to mean investment volatility. That means the extent to which an investment varies in value over a given period. Often investments offering higher levels of return also exhibit higher levels of short-term volatility.

When making your investment decision, you should consider that investments in growth assets, such as shares and property, provide the potential for higher returns in the long term than investments in income-producing assets such as fixed interest and cash. However, growth types of investments tend to produce more variability of returns in the short-term. Diversifying your investments across different asset classes can help you to smooth your returns.

The Fund has a suggested minimum investment timeframe which is the minimum period generally required for the Fund to meet its objective. Ensuring you select an investment that matches your investment timeframe and investment needs can also help you manage the risks of investing. Your financial planner can help you with these considerations and in understanding and managing the risks of investing.

Types of risk

Investments are subject to many risks, not all of which can be predicted or foreseen. The table below explains the significant risks associated with investing in the Fund. You should consult your financial planner before making a decision to invest.

Risk	Explanation
Credit risk	The risk that a security's issuer may not meet its obligations in full and/or on time to pay interest and repay capital or other financial obligations. Causes of such failure include situations where an issuer encounters financial difficulties, including insolvency.
Currency risk	As the Fund invests in securities domiciled outside Australia and these currencies change in value relative to the Australian dollar, the value of the investment can change. For example, a rise in the Australian dollar relative to other currencies may negatively impact investment value or returns. Conversely, a decline in the Australian dollar relative to other currencies may positively impact investment returns. Please refer to 'Currency strategy' on page 4 for information on how the Fund manages currency risk.
Derivative risk	<p>The value of derivative instruments is linked to the value of an underlying asset (or an interest rate, share index or some other reference point) and can be highly volatile. While derivatives offer the opportunity for higher gains for a smaller initial cash outlay, they can also result in significant losses, sometimes significantly in excess of the amount invested to obtain the derivative.</p> <p>Risks associated with using derivatives might include the value of the derivative failing to move in line with that of the underlying asset, potential illiquidity of the derivative, the Fund not being able to meet payment obligations as they arise, and counterparty risk (where the counterparty to the derivative contract cannot meet its obligations under the derivatives contract).</p> <p>Derivative holdings may result in notional exposures that are greater than the underlying assets in the Fund. Where the Fund uses derivatives, we aim to ensure that there are sufficient liquid assets available in the Fund to meet costs and other liabilities under derivatives (that is, while a derivative may turn out to be loss making, we aim to keep sufficient liquid assets in the Fund to meet such losses).</p>
Entity risk	When a security in a company or other entity is purchased, the investor is exposed to many of the risks to which the individual company or other entity is itself exposed. These risks may impact the value of a security in the company. They include such factors as changes in management, actions of competitors and regulators, changes in technology and market trends.
Fund risk	<p>Fund risk refers to specific risks associated with the Fund, such as termination and changes to fees and expenses. We may close the Fund to further investments if, for example, we consider it appropriate given the investment objective and investment strategy of the Fund. We may also terminate the Fund by notice to unitholders.</p> <p>Your investment in the Fund is governed by the terms of the constitution and the PDS for the Fund, each as amended from time to time. There is also a risk that investing in the Fund may give different results from holding the underlying assets of the Fund directly because of:</p> <ul style="list-style-type: none"> • income or capital gains accrued in the Fund at the time of investing; and • the consequences of investment and withdrawal decisions made by other investors in the Fund; for example, a large level of withdrawals from the Fund may lead to the need to sell underlying assets which would potentially realise income and/or capital gains. <p>We aim to manage these risks by monitoring the Fund and acting in investors' best interests. When we wind up the Fund, we will realise all Fund assets which will result in crystallisation of tax positions (both income and capital) at that time.</p>
Interest rate risk	The risk that the capital value or income of a security may be adversely affected when interest rates rise or fall. In particular, the value of fixed interest securities can fluctuate significantly in reaction to changes in interest rates. For example, when interest rates rise, the value of an existing fixed interest security tends to fall and vice versa.

Risk	Explanation
Investment manager risk	The investment style of an investment manager can have a substantial impact on the investment returns of the Fund. No single investment style performs better than all other investment styles in all market conditions. Investment performance will also depend on the skill of the investment manager in selecting, combining and implementing investment decisions. Changes in the personnel of the investment manager may also have an impact on investment returns of the Fund.
Liquidity risk	<p>If a security is not actively traded it may not be readily bought or sold without some adverse impact on the price paid or obtained. Securities that may be less liquid include mortgage and asset backed securities and some debt instruments (including corporate bonds).</p> <p>As the Fund currently operates as an illiquid scheme, withdrawals can only be made pursuant to a withdrawal offer made to investors in the Fund. This withdrawal mechanism enables liquidity risk to be managed by ensuring that the level of withdrawals will not exceed a nominated level of available liquidity in the Fund (refer to pages 14 and 15 for more details). In more normal market conditions the Fund is able to operate as a liquid scheme. In these circumstances, if an investor or a group of investors in a fund with exposure to less liquid assets seeks to make large withdrawals, then selling assets to meet those withdrawals may result in a detrimental impact on the price we receive for those assets. In certain circumstances we may be required to suspend or amend our withdrawal procedures (see 'Withdrawal risk' below) to allow sufficient time for a more orderly liquidation of assets to meet the withdrawals.</p>
Market risk	Generally, the investment return on a particular asset is correlated to the return on other assets from the same market, region or asset class. Market risk is impacted by broad factors such as interest rates, political environment, investor sentiment and significant external events (e.g. natural disasters). Often assets from less developed regions or markets display higher levels of volatility of investment return than assets in mature markets.
Regulatory risk	The risk that the value or tax treatment of an investment in the Fund or its underlying assets, or the effectiveness of the Fund's trading or investment strategy, may be adversely affected by changes in government (including taxation) policies, regulations and laws, or changes in generally accepted accounting policies or valuation methods. Such changes could also make some investors consider the Fund to be a less attractive investment option than other investments, prompting greater than usual levels of withdrawals, which could have adverse effects on the Fund.
Short position risk	<p>Establishing a short position in a security involves a different assessment of risk than investing long in a security. When investing long in a security the maximum loss is generally limited to the amount invested. With short positions, there is no limit on the maximum loss, as the loss will continue to increase as the share price rises. This is because a rising share price means the Fund must pay a higher amount to buy back the share (refer to 'Short selling' on page 5).</p> <p>Being able to short sell means the Fund's total gross effective exposure to the share market may exceed 100% of its net assets. This in turn may magnify the exposure to other investment risks detailed in this section.</p> <p>A further risk is that the securities lender may recall a security that has been borrowed at any time. This means the Fund will have to find another securities lender willing to lend the security or buy the security on the share market within a short period of time. This may force the Fund to buy the security at an unfavourable price.</p>
Withdrawal risk	<p>Currently, investors can only withdraw if we make an offer of withdrawal and investors may not have the full amount of their withdrawal request met.</p> <p>When the Fund is liquid (as defined in the Corporations Act), we have the power under the constitution to take up to 30 days to process withdrawals and may suspend withdrawals in the circumstances described on page 15 for up to an additional 60 days.</p>

Fees and other costs

Consumer advisory warning

Did you know?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000). You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs. You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (www.fido.asic.gov.au) has a managed investment fee calculator to help you check out different fee options.

Because you are investing in this Fund via an IDPS, you will need to consider the fees and other costs of the IDPS when calculating the total cost of your investment. This table shows fees and other costs that you may be charged in the Fund. These fees and costs may be deducted from your money, from the returns on your investment or from the Fund assets as a whole.

Taxes are set out in 'Taxation considerations' on page 17. You should read all the information about fees and costs because it is important to understand their impact on your investment.

Type of fee or cost	Amount	How and when paid
Fees when your money moves in or out of the fund		
Establishment fee: The fee to open your investment.	Nil	Not applicable
Contribution fee: The fee on each amount contributed to your investment.	Nil	Not applicable
Withdrawal fee: The fee on each amount you take out of your investment.	Nil	Not applicable
Termination fee: The fee to close your investment.	Nil	Not applicable
Management costs¹		
Management costs: The fees and costs for managing your investment.		Management costs include your management fee expressed as a percentage of the total net assets of the Fund and a performance fee (if payable). This amount does not include any abnormal expenses.
<ul style="list-style-type: none"> • Management fee 	0.75% p.a.	The management fee is deducted from the Fund's assets, accrued daily and is paid monthly in arrears.
<ul style="list-style-type: none"> • Estimated performance fee² 	0.00% p.a. ²	The performance fee (if payable) is calculated daily and paid quarterly in arrears (refer to pages 11 to 12).
Total estimated management costs²	0.75% p.a. ²	
Service fees		
Investment switching fee: The fee for changing investment options.	Nil	Not applicable

¹ For certain wholesale clients (as defined in the Corporations Act) we may, at our discretion, negotiate, rebate or waive all or part of our fees. Refer to 'Can fees be different for different investors?' on page 12.

² The estimated performance fee quoted is based on the actual performance fee charged for the year ended 30 June 2008 and is not an indication or guarantee of future performance, nor the performance fee which may be charged in the future. Performance fees and therefore total management costs generally vary each year depending on the Fund's return.

Additional explanation of fees and costs

Management costs

Management costs comprise the additional fees or costs that an investor incurs by investing in the Fund rather than investing directly in the underlying assets.

Management costs include the management fee, normal operating expenses, investment expenses, abnormal expenses and any performance fee. They do not include transaction costs or other costs that an investor would ordinarily incur when investing directly in the underlying assets.

Management costs are payable from the Fund's assets and are not paid directly from your account.

The management costs for the Fund are based on current financial information. For details of the maximum fees permitted under the constitution see 'Can fees change?' and 'Maximum fees of the Fund' on page 13.

Management fee

This is the fee we charge for managing the investments, the overseeing of the Fund's operations and providing access to the Fund.

Normal operating expenses

We currently pay the normal operating expenses of the Fund from our management fee and do not recover these from the Fund.

Investment expenses

We currently pay the standard investment management costs of the Fund from our management fee.

Abnormal expenses

We may recover abnormal expenses (such as costs of unitholder meetings, changes to the constitution and defending or pursuing legal proceedings) from the Fund. Whilst it is not possible to estimate such expenses with certainty, we anticipate that the events that give rise to such expenses will rarely occur. In circumstances where such events do occur, we may decide not to recover these abnormal expenses from the Fund.

Performance fee

What is the performance fee and how is it calculated?

If the Fund exceeds its defined Performance Benchmark, a performance fee is payable to us.

This Performance Benchmark is the daily return of the UBSA Composite (All Maturities) Bond Index plus the current management fee (i.e. 0.75% p.a.).

The performance fee is 20% of the difference between the Fund's gross return (before fees and expenses) and the Performance Benchmark. As the Performance Benchmark includes an amount representing the current management fee, the Fund must outperform the UBSA Composite (All Maturities) Bond Index on an after management fee basis (based on the current management fee) before the performance fee becomes payable.

When is the performance fee calculated and paid?

The performance fee is calculated on each business day based on the daily return of the Fund compared to the defined Performance Benchmark. The daily performance fee can be a positive or negative amount depending on whether or not the Performance Benchmark has been exceeded.

The performance fee on any given business day is the aggregate of the daily performance fees since a performance fee was last paid from the Fund. If the aggregate of the performance fees is a positive amount, then this performance fee amount will be incorporated into the unit price.

If the aggregate of the performance fees over the period is negative then no performance fee amount will be reflected in the unit price, but the negative amount will need to be offset by future positive performance fees before any performance fee becomes payable.

The performance fee is payable from the Fund for quarterly periods, ending 31 March, 30 June, 30 September and 31 December, where:

- the aggregate of the daily performance fee amounts for the wholesale class of units is positive; and
- the Fund's gross return is also positive.

If the aggregate performance fee is positive but the Fund's gross return is negative, the performance fee is carried forward to the next quarter.

Transaction costs – buy/sell spread

The buy/sell spread of the Fund is stated as a percentage of the net asset value of the Fund and is the difference between the investment price and the withdrawal price of units.

Investment prices and withdrawal prices reflect a spread (adjustment) of +0.20% and -0.20% respectively around the unit price. It reflects our estimate of the transaction costs expected to be incurred in buying and selling the Fund's assets as a result of investments and withdrawals made by investors. A different buy/sell spread may apply if we change our estimate and we will notify you if the buy/sell spread increases.

Types of transaction costs can include brokerage, stamp duty and other government taxes or charges. The purpose of the buy/sell spread is to ensure that only those investors transacting in the Fund's units at a particular time bear the Fund's costs of buying and selling the Fund's assets as a consequence of their transaction. Our estimate of transaction costs may take into account factors such as (but not limited to) historical transaction costs and anticipated levels of investments and withdrawals. It is expected that brokerage will make up the vast majority of transaction costs.

Please note that the buy/sell spread is not a fee paid to us. It is paid to the Fund and is reflected in the unit price. The buy/sell spread, however, is an additional cost to you.

Transaction costs example

If you invested or withdrew \$50,000 in the Fund, a buy/sell spread of +0.20%/–0.20% is included in the unit price which is equal to a transaction cost of \$100.

Where we invest through underlying funds

The Fund may gain investment exposure through other unlisted funds operated by Challenger. Where we invest in an unlisted fund operated by us, full management fees are not received by us from both funds. Instead, adjustments are made so that our management fee will be no greater than the management fee set out on page 10.

Units in lieu

We may elect to receive units in lieu of all or part of the management fee and performance fee (if payable) (plus any applicable GST) for the Fund.

Can fees be different for different investors?

Yes, we may negotiate, rebate or waive fees for wholesale clients (as defined by the Corporations Act). We do not negotiate fees with retail investors.

Government charges and GST

Government taxes such as stamp duty and GST may be applied as appropriate. Please refer to 'Taxation considerations' on page 17.

Borrowing costs

Borrowing costs are the costs associated with borrowing money or securities.

The Fund may enter into borrowing facilities and, if so, the costs of the borrowing facility would be borne by unitholders in the Fund and not included in the management costs set out on page 10.

Short selling costs

If the Fund takes a short position, it will pay a securities lender a fee for the borrowed shares. The amount will vary from share to share and is determined on an individual basis. Short selling costs are expenses of the Fund and are paid in addition to the Fund's management costs set out on page 11.

Adviser remuneration

Indirect (or alternative form) remuneration

We may pay fees or provide other financial assistance (for seminars, client mailings, co-operative advertising, postage, etc.) to financial services intermediaries. These may be a fixed dollar amount or a percentage of funds invested. If we do, we will make these payments from our own resources, so that they are not an additional cost to the Funds or its investors.

We maintain a register (in compliance with the IFSA/ FPA Industry Code of Practice on Alternative Forms of Remuneration) summarising alternative forms of remuneration that are paid or provided to certain financial planners. If you would like to review this register please contact our Investor Services team.

Commissions and other payments

We may pay fees from our resources to some investor directed portfolio service (IDPS) operators if they offer the Fund on their

investment menus. These fees may be rebated to investors who invest through an IDPS operator and include:

- for each IDPS operator, product access payments of up to \$5,500 p.a. and/or
- fund manager payments of up to 0.55% p.a. of the amount invested by the IDPS operator in the Fund.

If we do pay fees, we will pay them from our own resources so that they are not an additional cost to the Funds or its investors. These amounts are current at the date of this PDS.

Can fees change?

All fees can change. The reasons for this might include changing economic conditions and changes in regulation. We will give unitholders 30 days written notice of any proposed increase. We cannot charge more than the Fund's constitution allows. If we wished to raise fees above the amounts allowed for in the Fund's constitution, we would need the approval of unitholders.

Maximum fees of the Fund

The current fees are set out on page 10. Under the constitution of the Fund we are presently entitled to charge the following maximum fees (plus GST if applicable).

Fee	Maximum amount
Contribution fee (currently not charged)	Up to 5.00% of the contribution.
Management fee	1.50% p.a. of the Fund's net asset value.
Performance fee	20% of the Fund's gross return above its benchmark (UBSA Composite (All Maturities) Bond Index) return.

The constitution of the Fund allows for the expenses of the Fund (whether normal or abnormal expenses) such as registry, audit, taxation advice, investment management and offer document costs to be paid directly from the Fund. The constitution does not place any limit on the amount of the normal operating expenses that can be paid from the Fund.

Example of annual fees and costs for the Fund

The following table gives an example of how fees and costs in the Fund can affect your investment over a one-year period. You should use this table to compare this product with other managed investment products. Please note that this is just an example. In practice, the actual investment balance of an investor will vary daily and the actual fees and expenses we charge are based on the value of the Fund, which also fluctuates daily.

Example – Challenger Wholesale High Yield Fund	Amount	Balance of \$50,000 with a contribution of \$5,000 during year
Contribution fees	0.00%	For every \$5,000 you put in, you will be charged \$0.
Plus Management costs		
• Management fee	0.75%	And , for every \$50,000 you have in the Fund you will be charged \$375 in management fees.
• Estimated performance fee ¹	0.00% ¹	And , for every \$50,000 you have in the Fund you will be charged \$0¹ in performance fees.
Equals Cost of the Fund		If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during that year, you would be charged fees from: \$375 to \$412.50² What it costs you will depend on the fees you negotiate with your financial planner.

¹ The estimated performance fee quoted is based on the actual performance fee charged for the year ended 30 June 2008 and is not an indication or guarantee of future performance, nor the performance fee which may be charged in the future. Performance fees and therefore total management costs generally vary each year depending on the Fund's return.

² An allowance for transaction costs will apply for contributions and withdrawals from the Fund (please refer to 'Transaction costs – buy/sell spread' on page 12).

Making, withdrawing and monitoring your investment

Making an investment

To invest, please complete the documentation which your IDPS operator requires.

We may reject any application in whole or in part for any reason.

Restrictions on investments

We can vary the minimum investment amounts for the Fund. We can also change the application cut-off time.

Where we consider it to be in the best interests of unitholders (such as an inability to value a Fund), we may suspend application requests. Any application requests received during the period of suspension, or for which a unit price has not been calculated or confirmed prior to the commencement of a period of suspension, will be deemed to have been received immediately after the end of the suspension period. In addition, under the constitution we can refuse

Cooling-off rights

Whilst the Fund only makes withdrawals available under a withdrawal offer, investors have no 'cooling-off' rights when they invest in the Fund. Therefore, if you change your mind about your investment, the Fund is under no obligation to accept a request to withdraw an application once received.

You should seek advice from your IDPS operator about the cooling-off rights (if any) that apply to your investment in or through your IDPS. If you have any questions about cooling-off rights, please contact your financial planner or IDPS operator.

Application transaction cut-off time

Generally, valid application requests must be received from your IDPS operator prior to 3pm Sydney time on a New South Wales business day (the application transaction cut-off time) to be processed that day. If the valid application request is received after the application transaction cut-off time, or on a non-business day, it will usually be processed using the investment unit price calculated as at the close of business on the next business day. We will provide notice if we are to change the application transaction cut-off time.

Withdrawing your investment

Currently, withdrawals from the Fund can only be made after we make a withdrawal offer. While there is no obligation for us to make a withdrawal offer, we expect that we will be able to offer withdrawals from the Fund each quarter (i.e. after 31 March, 30 June, 30 September and 31 December). Before making a withdrawal offer, we will determine the amount available for withdrawals based on our estimate of the available liquidity in the Fund and market conditions that prevail at the time.

How to make a withdrawal

If we make a withdrawal offer, generally, you can lodge a withdrawal request if the requirements set by your IDPS operator are satisfied. You should speak with your IDPS operator to determine how this amended withdrawal process affects your investment in the Fund.

At the time of making a withdrawal offer, we will write to your IDPS operator explaining the process for submitting a withdrawal including the applicable withdrawal transaction cut-off time and the total amount available for withdrawals.

The withdrawal offer will be open for at least 21 days and will be made to all unitholders.

Processing withdrawals

As the Fund is illiquid, we will make withdrawal offers. When the offer of withdrawals is made, we will inform your IDPS operator of our anticipated processing time and the total amount available for withdrawals. If withdrawal requests submitted exceed the amount available for a particular offer, then requests will be satisfied proportionally in accordance with the Corporations Act. That is, withdrawal payments will be scaled back by taking the individual's withdrawal request (which may be up to 100% of a unitholder's account balance) divided by the total amount requested by all unitholders, multiplied by the total sum made available for withdrawal for the period.

When the Fund is liquid, we may take a significant time to pay a withdrawal and may suspend withdrawals.

We may determine that some or all of the withdrawal amount consists of income (which may include net capital

gains), rather than capital of the Fund. We are required to advise a unitholder of any such determination as soon as practicable after the end of the financial year in which the withdrawal occurred.

We have the discretion to transfer assets of the Fund to you (instead of cash) in payment (partly or fully) for the proceeds of your withdrawal request, less any costs involved in the transfer.

When the Fund is liquid, we can compulsorily redeem investor units where we give affected unitholders 30 days notice.

A withdrawal request, either in whole or in part, once received by us may not be withdrawn without our agreement.

Delay of withdrawal payments

When a withdrawal offer has been made, we will advise your IDPS operator of our anticipated processing time.

When the Fund is liquid, withdrawals are normally processed within five business days of receiving a request from your IDPS operator. However we do not guarantee this timeframe and may take significantly longer to pay withdrawals.

Withdrawals may be delayed by any one or more of the following (and the applicable timeframes may apply cumulatively):

- under the constitution we have 30 days to pay withdrawals; and
- we can also suspend withdrawals in certain circumstances for up to 60 days (refer to 'Suspending withdrawal requests' below).

Suspending withdrawal requests

When the Fund is liquid, we may suspend withdrawal requests for up to 60 days where:

- we consider it impracticable to calculate the Fund's net asset value (and hence unit prices);
- we estimate that we must sell 5% or more of the Fund's assets to meet withdrawals;

- we believe that the size of withdrawal requests is such that it would require us to realise a significant amount of the Fund rapidly and this may either place a disproportionate expense or capital gains tax burden on remaining investors or impact negatively on the price we would achieve in selling Fund's assets; we reasonably consider it to be in the best interests of investors to do so;
- the law otherwise permits.

Any withdrawal requests received during a period of suspension, or for which a unit price has not been calculated or confirmed prior to the commencement of a period of suspension, will be deemed to have been received immediately after the end of the suspension period.

When the Fund is illiquid

As the Fund is illiquid (as defined by the Corporations Act). As such, unitholders will only be able to withdraw from the Fund if we make an offer of withdrawal. If we do make such an offer, unitholders may only be able to withdraw part of their investment. There is no obligation for us to make such an offer.

Under the Corporations Act, a Fund is regarded as liquid if liquid assets account for at least 80% of the value of the assets of that fund. Liquid assets generally include money in an account or on deposit with a bank, bank-accepted bills, marketable securities and property of the kind prescribed under the Corporations Act.

Monitoring your investment

Fund reports and other information will be sent directly to your IDPS operator, who will use this information to provide unitholders with regular reporting. You should consult your IDPS operator for any investor queries or complaints.

If the Fund is a 'disclosing entity' for purposes of the Corporations Act 2001 it will be subject to regular reporting and disclosure obligations. Unitholders may obtain from, or inspect at ASIC, copies of documents lodged by the Fund. They can also ask us for a copy of the Fund's most recent annual financial report lodged with ASIC, any subsequent continuous disclosure notices given before the date of this PDS and any half-yearly financial report lodged with ASIC before the date of this PDS.

Additional information

Unit prices and valuing assets and liabilities

Unit prices are determined in accordance with the Fund's constitution and are usually calculated each NSW business day.

The calculation of both the investment unit price and the withdrawal unit price is based on the Net Asset Value (NAV) adjusted by the buy/sell spread (refer to page 12). For investment and withdrawal unit prices, the NAV is the value of all the Fund's assets attributed to the wholesale class of units less the value of all the Fund's liabilities attributed to the wholesale class of units at the valuation time. When calculating the NAV we must use the most recent valuations of the Fund's assets and the most determination of its liabilities.

The Fund's assets and liabilities are usually valued each NSW business day.

Generally, for unit pricing purposes, listed securities are valued using the last available market close price quoted on the relevant exchange. Other assets are generally valued at their recoverable value. Any income entitlements (including any imputation credits attributable to income, based on quarterly information available), cash at bank, and any amount of GST recoverable by the Fund from the Australian Tax Office are also included in asset values used to calculate the investment price and withdrawal unit price.

Generally, for unit pricing purposes, liabilities are valued at cost. Liabilities also include an accrual for management costs and for costs (if any) that an investor would ordinarily incur when investing in the Fund's underlying assets (refer to pages 11 and 12).

Where we receive a valid transaction request before the relevant cut-off time (as defined on page 14), then the unit price will generally be determined at the next valuation time after that transaction cut-off time. This is typically referred to as 'forward pricing'. In rare

circumstances we may suspend unit pricing where, acting in accordance with our obligations to members, we consider it impracticable to calculate a NAV.

We have a Unit Pricing Permitted Discretions Policy. The policy sets out how we will exercise any discretions in relation to unit pricing (for example, how often we determine unit prices and valuation methodology). If we depart from our policy, we are required to record details of this departure. You can obtain a copy of this policy or any recorded departures free of charge by calling our Investor Services team.

Distributions

Distributions will generally be paid to your IDPS operator as soon as practicable after the end of the distribution period. There may be periods in which no distributions are made or we make interim distributions. However, we do not guarantee any particular level of distribution.

You should check with your IDPS operator to see when it will pay distributions to you.

For direct investors, the price of units issued on reinvestment of distributions is the investment price for units next determined after the close of business on the last day of the distribution period. There is no buy/sell spread reflected in this investment price.

The amount of each distribution may vary. A unitholder's share of any distribution depends on how many units are held at the end of the distribution period as a proportion of the total number of units on issue at that time and the amount of net income of the Fund referable to those investors.

The amount of income distributed each period will be generally based on our estimate of the income received by the Fund (excluding net capital gains) in the relevant distribution period. In addition, the 30 June distribution will generally include any net realised capital gains, however, we may also include net realised capital gains in other distributions.

As distributable amounts are a component of the unit price, unit prices normally fall by the distribution amount following a distribution. If you invest just prior to a distribution, you may receive some of your investment back immediately as income. Conversely, if you withdraw from the Fund just before a distribution, you might turn income into a capital gain or reduce your capital losses.

We have the discretion to transfer assets of the Fund to unitholders (instead of cash) in payment (partly or fully) for a distribution amount.

If any distribution payments are returned to us and remain outstanding for a period of one month, we may reinvest those distributions and amend your future distribution method to reinvest. If a unitholder's distribution cheque remains unpresented for three months, we may stop the cheque and reinvest the proceeds in the Fund and amend the unitholder's future distribution method to reinvest. Any reinvestment will be processed using the investment unit price current at the time of the reinvestment transaction.

Under the Fund's constitution we have the power to make reinvestment of distributions compulsory. At the date of this PDS, we have no current intention of introducing compulsory distribution reinvestment.

Taxation considerations

Any investment can have a substantial impact on your tax position from year to year.

Indirect investors should refer to tax information in their IDPS disclosure document. Tax statements will be sent by us to your IDPS operator after the end of the financial year.

The following information is of a general nature and is based on our understanding of the Australian tax laws as at the date of preparing this PDS. We recommend that you obtain your own professional advice regarding your position as tax and social security laws are complex and subject to change, and investors' individual circumstances vary.

The Fund will generally not be liable for income tax as all the Fund's net income is distributed each year. You may be liable for tax on income, net realised gains distributed by the Fund (even if distributions are reinvested) and any net realised capital gains from disposal of your units in

the Fund. For investors who are non-residents, Australian withholding tax may be deducted from distributions.

There are other relevant tax considerations that may be applicable to the Fund's investments and your tax position. For example, the Foreign Investment Funds regime, entitlement to franking credits, tax deferred income, capital gains tax and taxation of foreign source income.

The operative provisions of the Foreign Investment Funds (FIF) legislation may require those funds which have a foreign investment exposure, to include in their net income, unrealised gains derived in respect of interests held in foreign investments. It is our intention that this Fund should qualify for certain exemptions and therefore the operative provisions of the FIF legislation will not apply to the foreign investments held.

Some of the income distributed to investors may be classified as tax deferred income. Generally, tax deferred income is not taxable in the year it is received, but may increase the capital gain or reduce the capital loss upon disposal of an investor's units.

You may also be entitled to tax credits (franking credits and/or foreign tax credits) distributed by the Fund. Investors may be able to utilise these credits against the tax liability of their distributions. In order to claim the amount of tax credits, investors must first include the amount of the credits in their assessable income. We will advise unitholders of their share of tax credits.

The disposal of units (for instance by redemption or transfer) may give rise to a capital gains tax liability or a capital loss. For some investors, if units are held for more than 12 months, they may be entitled to a capital gains tax discount. For non-resident investors, complex laws govern the taxation of capital gains distributed by the Fund or those realised on disposal of their units. Accordingly, non-resident investors should seek their own professional tax advice.

GST is not payable on the issue, withdrawal or transfer of units in the Fund, as these are input-taxed financial supplies for GST purposes. However, GST will generally be incurred on various acquisitions made by the Fund, including the investment management services supplied by the responsible entity. In specified circumstances, the Fund may be entitled to RITCs (i.e. GST related tax credits)

of 75% of GST paid, which effectively reduces the GST payable on acquisitions from 10% to 2.5%.

Complaints

For indirect investors, your first point of contact should be your IDPS operator. If any issues remain unresolved, then you can contact the complaints scheme of which they are a member.

Privacy and personal information

We do not normally receive any personal information about you when you invest in the Fund through an IDPS operator. For details on the collection, storage and use of personal information you should contact your IDPS operator.

The information we collect and store from IDPS operators is used to establish and administer their investments. If we do receive any personal information we will deal with it in accordance with our privacy policy. A copy of our privacy policy is available by visiting our website www.challenger.com.au or on request from our Investor Services team.

Legal relationships

The Fund is a registered managed investment scheme that is an unlisted Australian unit trust and is governed by a constitution.

Interests in unit trusts, which are called units, represent a share in the trust's collective asset pool. Certain rights are attached to units and these rights are exercisable by the investors who own these units (who are referred to as unitholders).

Subject to the law, the Fund's constitution and the terms on which units are held, unitholders can apply for or withdraw their units at any time.

The Fund's constitution together with the Corporations Act and some other laws, governs the way in which the Fund operates and the rights and responsibilities and duties of the responsible entity and unitholders. The constitution contains the rules relating to a number of issues including:

- unitholder rights;
- the process by which units are issued and redeemed;
- the calculation and distribution of income;

- the investment powers of the responsible entity;
- the responsible entity's right to claim indemnity from the Fund and charge fees and expenses to the Fund; and
- the termination of the Fund.

It is generally thought that unitholders' liabilities are limited to the value of their holding in the Fund. It is not expected that a unitholder would be under any obligation if a deficiency in the value of the Fund were to occur. However, this view has not been fully tested at law.

Unitholders can inspect a copy of the constitution at our head office or we will provide them with a copy free of charge.

We may alter the constitution if we reasonably consider the amendments will not adversely affect unitholders' rights. Otherwise (subject to any exemption under the law) we must obtain unitholder approval at a meeting of unitholders.

We may retire or be required to retire as responsible entity (if unitholders vote for our removal).

Termination

The constitution of the Fund, together with the Corporations Act, governs how and when the Fund may be terminated. We may terminate the Fund at any time by written notice to unitholders. On termination a unitholder is entitled to a share of the net proceeds of our realisation of the assets in proportion to the number of units they hold.

Unitholder meetings

The conduct of unitholder meetings and unitholders' rights to requisition, attend and vote at those meetings are subject to the Corporations Act and (to the extent applicable) the Fund's constitution.

Compliance plan and compliance committee

We have lodged the Fund's compliance plan with ASIC and established a compliance committee with a majority of external members.

The Fund's compliance plan sets out how we will ensure compliance with both the Corporations Act and the Fund's constitution.

The compliance committee's role is to monitor compliance with the compliance plan. It must also regularly assess the adequacy of the compliance plan and report any breaches of the Corporations Act or the Fund's constitution to us. If we do not take appropriate action to deal with the breach, the compliance committee must report the breach to ASIC.

Audit

The Fund and the compliance plan are required to be audited annually.

Other parties

We have engaged an independent custodian to hold the assets of the Fund. The custodian has no independent discretion with respect to the holding of assets and is subject to performance standards.

The Fund has a registered company auditor. The auditor's role is to provide an audit of the financial statements of the Fund each year as well as performing a half-yearly review (if required), and to provide an opinion on the financial statements.

Related parties

We may enter into transactions with, and use the services of, any member of the Challenger group of companies. Such arrangements will be based on arm's length commercial terms. We or any member of the Challenger group of companies or any director or officer of any of them may invest in the Fund.

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