

Kapstream Wholesale Absolute Return Income Fund

For IDPS investors

Product Disclosure Statement
Dated 19 November 2009

Responsible Entity
Challenger Managed Investments Limited
(ABN 94 002 835 592)
(AFSL 234668)

KAPSTREAM

C A P I T A L

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 Kapstream Absolute Return Income Fund (ARSN 124 152 790). References in this PDS to the **Kapstream Wholesale Absolute Return Income Fund** or the **Fund** are to the wholesale class of units in the Kapstream Absolute Return Income Fund. No other class of units in the Kapstream Absolute Return Income Fund is offered in this PDS. This PDS should be used to compare the Fund with other investment opportunities on offer. 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 6), 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 19 November 2009 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** or the **responsible entity** throughout the 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 has appointed Kapstream Capital Pty Ltd (ABN 19 122 076 117) (AFSL 308 870) (**Kapstream, Kapstream Capital** or the **investment manager**) as the investment manager of the Fund.

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 nor Kapstream guarantees 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 generally 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 (if any) of 75% of GST paid, which effectively reduces the GST payable from 10% to 2.5%.

Consent

Kapstream has given its consent to statements about it in the form and context in which they are included, and has not withdrawn its consent before the date of this PDS. Kapstream was not involved in the preparation and distribution of this PDS and is not responsible for the issue of this PDS nor is it responsible for any particular part of this PDS, other than those parts that refer to it.

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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Glossary

In this PDS we refer to

As

wholesale class of units of the Kapstream Absolute Return Income Fund (the class offered in this PDS)	Kapstream Wholesale Absolute Return Income Fund or the Fund
Challenger Financial Services Group Limited	Challenger Group
Challenger Managed Investments Limited	Challenger, CMIL, we, us, our or the responsible entity
Kapstream Capital Pty Ltd	Kapstream, Kapstream Capital or the investment manager

Important investment terms explained

Absolute return	Where the investment objective of a fund is to seek positive returns in both rising and falling markets. This is in contrast with a relative return, which measures a fund manager's performance as compared to a market benchmark.
Active management	A style of investment management that seeks to attain returns through active asset allocation and security selection within each asset class.
Alpha	The excess return of that security or portfolio over the market return or a stated benchmark.
Derivatives	The term 'derivative' is used to describe any financial product that has a value derived from one or more underlying assets. The derivative itself is a contract between two or more parties. Common underlying assets include stocks or shares, bonds, commodities, currencies, interest rates and market indices.
Duration	Duration is a measure of a bond or bond fund's price sensitivity to changes in interest rates. The greater a bond or bond fund's duration, the greater its price volatility in response to changes in interest rates. For example; the price of a bond with a duration of 2 would be expected to move 2% for every 1% move in interest rates.
Investment grade securities	Debt securities that have an independent credit rating high enough for them to be generally considered to have a lower risk of default than other credit or debt securities. Securities attributed credit ratings of 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit rating) are considered investment grade.
OECD	Organisation for Economic Cooperation and Development.
Volatility	The extent of fluctuation in share prices, exchange rates and interest rates. The higher the volatility, the less certain an investor is of return, and therefore volatility is one measure of risk.
Yield curve	A visual representation of the relationship between interest rates and maturities of similar fixed interest securities. A normal or positive yield curve signifies rising interest rates as maturities lengthen while an inverse or downward curve signifies falling interest rates as maturities lengthen.

About Kapstream Capital

Kapstream Capital is a global fixed income manager providing alternative investment strategies. Kapstream aims to generate positive absolute returns over multiple business cycles by incorporating high quality/high conviction trades into the portfolio.

Kapstream was founded by Kumar Palghat, and is majority owned by its executives. Challenger Financial Services Group has a 25% shareholding, and provides administration and distribution support.

Kapstream aims to maximise investment returns for clients by targeting absolute return strategies in the global fixed income space. Capital preservation coupled with income generation serves as the driving force behind the investment strategy. The capacity to move in and out of specific sectors and countries within the fixed income universe permits Kapstream to seek areas that are priced for greater return potential and opportunistically identify trades in the market place. This key differentiating factor gives Kapstream flexibility in managing portfolios and allows it to capture what Kapstream considers to be among the best investment ideas.

For more information on Kapstream Capital you can visit their website www.kapstream.com

Challenger is the responsible entity and issuer of this PDS. All correspondence pertaining to your investment will be issued by Challenger and you should contact Challenger with any queries regarding your investment.

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 16 and 17.
Fees and other costs¹		'Fees and other costs' on pages 12 to 15.
Contribution fee	Nil	
Management fee	0.70% p.a. of the Fund's net asset value.	
Withdrawal fee	Nil	
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)	Nil	
Risks of investing in the Fund	Significant risks are described on pages 8 to 11.	
Making and withdrawing your investment		'Making, withdrawing and monitoring your investment' on pages 16 and 17.
Investing and withdrawing	Generally, you can invest or withdraw at any time subject to certain limits in the constitution and this PDS. Refer to pages 16 and 17 for further information about processing withdrawals.	
Transaction cut-off times	Valid transaction requests must be received from your IDPS operator prior to 3pm Sydney time to be processed that day. Withdrawal requests will usually be paid within five business days. Refer to page 17 for further information about transaction cut-off times.	
Distribution payments		'Distributions' on page 18.
Frequency	Quarterly as at 31 March, 30 June, 30 September and 31 December. However, there may be periods in which no distributions are made.	
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		'Unit prices' on page 18.
Valuing the Fund's assets	The Fund's assets are usually valued each NSW business day.	
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 investment timeframe	At least three years
Investment manager	Kapstream Capital Pty Ltd
Benchmark	Reserve Bank of Australia Cash Rate
Investment objective	The Fund aims to provide a steady stream of income and capital stability over the medium-term. The Fund is not managed in any way that attempts to track any particular index and aims to outperform both cash and bond markets over all business cycles.
Investment strategy	Kapstream will actively manage the Fund. Kapstream aims to generate absolute returns over multiple business cycles by incorporating high quality/high conviction trades into the portfolio. Capital preservation coupled with income generation will serve as the driving force behind Kapstream's investment strategy.
Investment approach	Kapstream draws on information from many sources such as economic roundtables, investment banks, brokers, rating agencies and central banks. Kapstream employs a rigorous evaluation process for individual trades, first confirming that a prospective trade meets Kapstream's global macroeconomic view, then taking account of various decision variables such as duration, yield curve and volatility which must support the research and analysis.
Investment universe	<p>Kapstream utilises the breadth of fixed income instruments in the formation of the portfolio, so as to capitalise on opportunities to enhance returns. These may include, but are not limited to, Government and non-Government bonds, notes, corporate securities, mortgage backed and asset backed securities, emerging market debt, convertible securities, derivatives including swaps, foreign exchange contracts, options, and enhanced cash instruments. Kapstream will explore opportunities in both Australian and global markets, potentially investing in securities across the range of OECD member countries and, to a limited extent, emerging market countries.</p> <p>Kapstream may leverage the Fund through the use of derivatives (e.g. options, swaps or futures). Derivatives may also be used within the Fund as a means to reduce risk or gain exposure to other types of investments.</p>
Portfolio construction	Kapstream's absolute return approach involves a high degree of specialised strategies resulting in a diversified portfolio with balanced opportunity for growth. Trades will be based on the firm's macroeconomic view and will offer what Kapstream considers to be the optimal risk adjusted return. Kapstream expects to hold approximately 15-20 alpha generating strategies in a portfolio comprised of at least 50 securities. Although higher risk/higher return trades may exist, Kapstream's goal is to provide the investor with an appropriate degree of diversification and ensure the client is compensated for any risk taken.
Currency strategy	Kapstream manages the currency exposure of the Fund's investments in securities by aiming to fully hedge those investments back to the Australian dollar. Kapstream may also invest directly into currencies up to a maximum of 15% of the portfolio.
Asset allocation ranges	<p>Global securities 0–100%* Cash 0–100%</p> <p>* The global securities asset allocation is broken down as follows: Investment grade securities 85–100% Non-investment grade securities 0–15%</p>

About the Fund

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 set out in this PDS, provided that we give unitholders written notice of any material variation we believe they would not have reasonably expected.

Up-to-date information about the Fund

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

Continuous disclosure

Challenger, as responsible entity of the Fund, is subject to continuous disclosure obligations that require us to make material information available to investors. You can obtain a copy of the Fund's continuous disclosure information by visiting our website www.challenger.com.au. A paper copy of any updated information will also be given to you, on request, without charge.

Asset allocation ranges

The asset allocation ranges on page 5 show indicative asset allocations for the Fund. If market movements, applications 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 or the investment manager as soon as reasonably practicable.

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.

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.

Labour standards or environmental, social or ethical considerations

In buying, retaining or selling underlying investments neither we nor Kapstream generally take into account labour standards or environmental, social or ethical considerations. However, to the extent that we or Kapstream believe those matters may affect the value or performance of an underlying investment, they may be considered. Neither we nor Kapstream have a pre-determined 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.

Borrowings

Although 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 flow needs or if emergency or extraordinary situations arise.

Derivatives

The Fund's constitution permits the use of derivatives. Financial derivatives, such as futures, swaps and options, can be used to adjust or implement investment decisions, to help manage certain risks and to gain exposure to a particular market rather than purchasing physical assets. Derivatives may also be used to leverage the Fund. Please refer to 'What is leverage?' below for more information.

The use of derivatives may expose the Fund to certain risks. Please refer to 'Derivative risk' and 'Leverage risk' on pages 9 and 10 for more information.

What is leverage?

Leverage can be a useful tool to enhance the returns of a Fund. Leverage can be obtained by either of the following methods:

- using derivative investments to increase the Fund's investment exposure to a size greater than the net asset value of the Fund; or
- using an asset as a security for borrowing money to increase the amount of money available to invest.

Please refer to 'Leverage risk' on page 9 for more information on risks associated with leveraging.

How Kapstream uses leverage in the Fund

Kapstream uses leverage to increase the exposure of the Fund to investment markets. This is done through the use of derivatives such as options, swaps and futures.

The Fund does not currently borrow money to leverage the portfolio.

When using fixed income derivatives (including futures, swaps and options) to leverage the Fund, Kapstream is able to take into account the investment exposure inherent in a trade.

Limits have been set on the Fund's investment exposure through the use of leverage. Kapstream uses a risk adjusted limit for investment exposure. The limit is based on the duration measure of 10-year Government bonds. The Fund can leverage its investment exposure two times through exposure to 10-year Government bonds. For example, assuming you had \$100 in assets, the Fund's duration guidelines would allow for exposure to \$200 in 10-year bonds.

The Fund may take more or less investment exposure through other securities, based on their relative duration measure against 10-year Government bonds. For example, assuming you had \$100 in assets, the Fund's duration guidelines would allow for exposure to \$130 in 20-year securities or \$370 in 5-year bonds.

Of significance is that Kapstream's leveraging is accomplished through using derivatives. Therefore, Kapstream may gain market exposure in 10-year equivalents (such as bond futures) rather than purchasing actual 10-year bonds. By purchasing bond futures a small amount is payable to the broker to achieve the required investment exposure leaving the remaining funds to be invested in cash or cash like securities.

The Fund does not operate on the basis of having a fixed leverage percentage. Leverage through derivatives will be used with the objective of enhancing investment return, and will be adjusted according to the prevailing investment opportunities.

Please refer to 'Leverage risk' for information on the risk associated with leverage.

Understanding the risks of investing

What are the risks of investing?

A degree of risk applies to all types of investments, including investments in the Fund.

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 assets 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 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 can also help you manage risk.

Your financial planner can help you with these considerations and in understanding and managing the risks of investing.

Types of risks

Investments are subject to many risks, not all of which can be predicted or foreseen. The table below lists the significant risks associated with investing in the Fund.

You should consult with your financial planner before making a decision to invest.

Risk	Explanation
Counterparty risk	The risk that a counterparty (the other party with whom a derivatives contract, physical security, or foreign exchange contract is made) will fail to perform contractual obligations.
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 a failure include an issuer encountering financial difficulties including insolvency. Kapstream seeks to manage credit risk by adopting a due diligence process prior to investment which takes into account any applicable external credit rating or determines an internal credit risk rating on each issuer in advance of the investment. In addition, Kapstream monitors on an ongoing basis, the financial position of issuers whose securities are held by the Fund.

Risk	Explanation
Currency risk	<p>There are two types of currency risk of the Fund. The first is currency risk associated with the Fund holding non-Australian dollar denominated securities. The Fund can invest in securities domiciled outside Australia or denominated in a foreign currency, and there is no limit on the Fund's investments in securities domiciled in a foreign currency. If 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. Kapstream manages this currency exposure by aiming to fully hedge the Fund's investments back to the Australian dollar.</p> <p>The second type of currency risk occurs if the Fund invests directly in foreign currencies. The Fund may invest directly into foreign currencies and this exposure is limited to a maximum of 15% of the portfolio. This source of currency risk is not hedged back to the Australian dollar and hence a rise in the Australian dollar relative to the foreign currency invested in, can negatively impact the Fund's return.</p>
Derivative risk	<p>The value of derivatives is linked to the value of an underlying asset (or an interest rate, share index or 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 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	<p>When a security in a company is purchased, the investor is exposed to many of the risks to which the individual company 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. Such risks are considered through the investment process and managed by maintaining a diversified portfolio of securities.</p>

Understanding the risks of investing

Risk	Explanation
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 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 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 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 capital gains. <p>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> <p>We aim to manage these risks by monitoring the Fund and acting in investors' interests.</p>
Interest rate risk	<p>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 a fixed interest security tends to fall and vice versa. Generally, the longer the maturity (or duration) of the fixed interest security, the greater the impact that changes in interest rates will have on the value of that security.</p>
Investment manager risk	<p>The investment style of an investment manager can have a substantial impact on the investment returns of a 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 a fund.</p>
Leverage risk	<p>The Fund can leverage by the use of derivatives.</p> <p>There can be no assurance that the Fund's leverage strategy will be successful. Leverage involves risks and special considerations for investors including:</p> <ul style="list-style-type: none">• the likelihood of greater volatility than a comparable portfolio without leverage;• the effect of leverage in a declining market, which is likely to cause a greater decline in the value of the Fund than if the Fund were not leveraged.
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.</p> <p>Kapstream aims to manage the liquidity risk by maintaining at least 85% of the portfolio in investment grade assets and maintaining adequate cash reserves to pay anticipated withdrawals.</p>

Risk	Explanation
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 valuations 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.
Withdrawal risk	In certain circumstances (including where assets in which the Fund invests cannot be readily bought and sold, or market events reduce the liquidity of a security or asset class), there is a risk that the generally applicable timeframe of five business days for meeting withdrawal requests may not be able to be met. This is because it may take longer to sell these types of investments at an acceptable price. In this case, withdrawals from the Fund may take significantly longer than the generally applicable timeframe. The maximum timeframe in which the responsible entity has to meet a withdrawal request is set out in the constitution of the Fund. Additional information about an investor's ability to withdraw when the Fund is liquid, including these timeframes, and an investor's ability to withdraw if the Fund is not liquid is found at pages 16 and 17.

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

Tax impacts are set out in 'Taxation considerations' on page 19.

You should read all the information about fees and costs because it is important to understand the 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. <ul style="list-style-type: none"> • Management fee 	0.70% p.a. ¹	Management costs include your management fee expressed as a percentage of the total net assets of the Fund. This amount does not include any abnormal expenses. The management fee is deducted from the Fund's assets, accrued daily and is paid monthly in arrears.
Service fees²		
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. Please see 'Can fees be different for different investors?' on page 14 for more information.

² Please also see 'Additional adviser service fees' on page 14.

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, abnormal expenses and investment expenses. Management costs 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?' on page 14.

Management fee

This is the fee we charge for managing the investments, overseeing the Fund's operations and providing access to the Fund. The management fee is calculated daily as a percentage of the net asset value of the Fund and payable monthly in arrears.

The management fee is 0.70% p.a. of the Fund's net asset value.

Normal operating expenses

We currently pay the normal Fund-related expenses from our management fee, and do not recover these from the Fund.

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. The management costs set out on page 12 do not include any abnormal expenses. Whilst it is not possible to estimate such expenses with certainty, we anticipate that the events that give rise to abnormal expenses will not occur regularly. In circumstances where such events do occur, we may decide not to recover these abnormal expenses from the Fund.

Investment expenses

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

Transaction costs – buy/sell spread

The buy/sell spread in 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. 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, withdrawals and switches made by investors.

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.

Currently, the buy/sell spread is nil. A different buy/sell spread may apply if we change our estimate. We will notify unitholders 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.

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.

Investing in other Challenger funds

The Fund may gain investment exposure through other unlisted funds operated by Challenger.

Where the Fund invests in an unlisted fund operated by us, full management fees are not received by us from both funds. Instead, adjustments will be made so that our management fee will be no greater than the management fee set out on page 12.

Units in lieu

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

Fees and other costs

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 clients.

Government charges and GST

Government taxes such as stamp duty and GST may be applied as appropriate. Please refer to the section on 'Taxation considerations' on page 19.

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 other financial services intermediaries. These may be a fixed dollar amount or a percentage of the funds invested. If we do, we will make these payments from our own resources so that they are not an additional cost to the Fund 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 advisers. If you would like to review this register please contact us.

Commissions and other payments

We may pay fees from our resources to some IDPS operators because they offer the Fund on their investment menus.

These fees may be rebated to you or retained by your IDPS operator and include:

- for each IDPS operator, product access payments of up to \$5,500 p.a. per Fund; 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 Fund or its investors. These amounts are current at the date of this PDS.

Additional adviser service fees

Although this is not paid from the Fund, you and your financial planner may agree that you will pay your financial planner an additional fee.

Can fees change?

All fees can change. 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.

The constitution of the Fund allows for the expenses of the Fund (whether normal or abnormal expenses, please refer to page 13) 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 expenses that can be paid from the Fund.

The current fees are set out on page 12. Under the constitution of the Fund we are presently entitled to charge the following maximum fees (GST can be added to all these fees if applicable).

Fee	Maximum amount
Contribution fee (currently not charged)	5.00% of the contribution.
Management fee	3.00%p.a. of the Fund's gross asset value.
Withdrawal fee (currently not charged)	5.00% of the withdrawal amount.
Performance fee (currently not charged)	20% of the Fund's gross return above its benchmark
Switching fee (currently not charged)	the contribution fee plus \$50 (CPI adjusted each year) for each switch.

Example of annual fees and costs for the Fund

This 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).

Type of fee or cost	Amount	Balance of \$50,000 with a contribution of \$5,000 during year
Contribution fees	0.00%	Nil.
Plus Management costs	0.70%	And , for every \$50,000 you have in the Fund you will be charged \$350 each year.
Equals Cost of the Fund	Nil	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: \$350 to \$385. What it costs you will depend on the fees you negotiate with your financial adviser.

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 applications for any reason.

Cooling-off right

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.

Withdrawing your investment

To make a withdrawal simply complete the documentation your IDPS operator requires. Generally, you can withdraw some or all of your investment at any time, if requirements set by your IDPS operator are satisfied. Withdrawals are normally processed within five business days of receiving a request from your IDPS operator.

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 unitholders (instead of cash) in payment (partly or fully) for the proceeds of a withdrawal request.

We can also change the withdrawal cut-off time. A withdrawal request, either in whole or in part, once received by us may not be withdrawn without our agreement. Where we give 30 days notice to affected unitholders we can compulsorily redeem investor units.

Delay of withdrawal payments

While withdrawals are usually processed within five business days of receiving your withdrawal request, we do not guarantee this timeframe. We 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):

- we have 30 days to pay withdrawals under the constitution; and
- we can also suspend withdrawals for up to 60 days (refer to 'Suspending withdrawal requests' on this page); and
- while a Fund is 'illiquid', we are not required to pay withdrawals unless we offer to do so (refer to 'If the Fund becomes illiquid' on page 17); and
- we can also spread withdrawal payments over four months (refer to 'Spreading withdrawal requests' on page 17).

Suspending withdrawal requests

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 the Fund's assets;

- we reasonably consider it to be in the best interests of investors to do so; or
- 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.

Spreading withdrawal requests

We may spread a withdrawal request where:

- we receive a withdrawal request that represents 5% or more of the units on issue; or
- we receive on any day withdrawal requests that in total represent 10% or more of the units on issue; or
- there has been, or we anticipate that there will be, withdrawal requests for 10% or more of the units on issue in the Fund and we consider that if those requests are met rapidly this may either place a disproportionate expense or capital gains tax burden on remaining investors or meeting the requests would impact negatively on the price we could achieve in selling Fund assets or otherwise disadvantage remaining investors.

When we spread withdrawals, we may determine a withdrawal request is four separate requests, each for a quarter (or as close to a quarter as we determine) of the total number of units in the original withdrawal request. Each of the four (deemed) withdrawal requests will be deemed to be received by us on the same business day of the month (or next business day, if not a business day or if that day does not occur in that month) in each of the four succeeding months following the original withdrawal request.

If the Fund becomes illiquid

If the Fund becomes illiquid (as defined by the Corporations Act), 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, the Fund is regarded as liquid if liquid assets account for at least 80% of the value of the assets of the 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.

Transaction cut-off times

Please see your IDPS operator's disclosure document for more information on your transaction cut-off times.

Generally, if your IDPS operator's valid transaction request is received in our Sydney office before 3pm Sydney time on a New South Wales business day (the transaction cut-off time), it will usually be processed using the unit price determined as at the close of business on that day. If a valid application with payment or a valid withdrawal request is received after the cut-off time, or on a non-business day, it will usually be processed using the unit price calculated as at the close of business on the next business day. We will provide notice if we are to change the cut-off time.

Monitoring your investment

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

An annual report for the Fund is available from our website www.challenger.com.au. Unitholders can request a paper copy of the annual report free of charge at any time.

If the Fund is a 'disclosing entity' for the 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. You 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

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 (if any) (see page 13 for details). For the investment and withdrawal unit prices, the NAV is the value of all the assets attributed to the wholesale class of units of the Fund less the value of all the liabilities attributed to the wholesale class of units of the Fund at the valuation time. When calculating the NAV we must use the most recent valuations of the Fund's assets and the most recent determination of the liabilities. Generally, for unit pricing purposes, securities are valued using the last available market close price quoted on the relevant exchange. Other assets are generally valued at recoverable value. Any income entitlements, cash at bank, and any amount of GST recoverable by the Fund from the Australian Taxation 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 costs (if any) that an investor would ordinarily incur when investing in the Fund's underlying assets.

Where we receive a valid transaction request before the relevant cut-off time (see page 17 for details), 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 responsible entity obligations to members, we consider it impracticable to calculate a NAV.

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

We have a Unit Pricing Permitted Discretions Policy. The policy sets out how we will exercise any discretions in relation to unit pricing (such as, for example, how often we determine unit prices and valuation methodology). If we depart from our policy, we are also 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 distribution period. There may be periods in which no distributions are made or we may make interim distributions. However, we do not guarantee any particular level of distributions.

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 accrual period as a proportion of the total number of wholesale class units on issue at that time and the amount of net income referable to those investors.

The amount of income distributed for each period will generally be 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) of a distribution amount.

Generally, 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 of an unclaimed or returned distribution will be processed using the investment unit price current at the time of the reinvestment transaction.

Under the 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 however 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 any 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 fund regime, entitlement to franking credits, tax deferred income, capital gains tax and taxation of foreign source income.

The operative provisions of the Foreign Investment Fund (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 the 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 each investor of their share of tax credits. You should consult a tax adviser to assess whether you are eligible for tax credits.

The disposal of units (for example by redemption or transfer) may give rise to a capital gains tax liability or a capital loss. Some investors, if their units are held on capital account for more than 12 months, 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 acquisition of investment management services. In certain specified circumstances, the Fund may be entitled to RITCs (i.e. reduced input tax credits) equal to 75% of the GST in the price, which, if available, effectively reduces the non-recoverable GST cost 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 it is a member.

Additional information

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 invest in or withdraw their units at any time.

The Fund's constitution together with the Corporations Act and some other laws, govern 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 in that class.

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 for the Fund with a majority of external members.

The 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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Contact details

Website www.challenger.com.au

By Email info@challenger.com.au

By Telephone Investor Services team 13 35 66

Adviser Services team 1800 621 009

By Mail Challenger Managed Investments Limited
Reply Paid 3698
Sydney NSW 2001

By Fax 02 9994 7777

Level 15
255 Pitt Street
Sydney NSW 2000
telephone 02 9994 7000
facsimile 02 9994 7777

Level 10
101 Collins Street
Melbourne VIC 3000
telephone 03 8616 1000
facsimile 03 8616 1111

Level 7
320 Adelaide Street
Brisbane QLD 4000
telephone 07 3218 8000
facsimile 07 3220 3132

Level 2
168 St Georges Terrace
Perth WA 6000
telephone 08 9223 7800
facsimile 08 9221 2499

Level 3
97 Pirie Street
Adelaide SA 5000
telephone 08 8228 3270
facsimile 08 8212 1661

Investor services
13 35 66

Adviser services
1800 621 009

www.challenger.com.au

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