

Merlon Wholesale Australian Share Income Fund (formerly known as Challenger Wholesale Australian Share Income Fund)

First Supplementary Product Disclosure Statement

Dated: 7 May 2010

This is the first Supplementary Product Disclosure Statement (SPDS) to the Challenger Wholesale Australian Share Income Fund Product Disclosure Statement for IDPS investors dated 16 June 2006 (PDS) issued by Challenger Managed Investments Limited (ABN 94 002 835 592, AFSL 234668) (**Challenger**).

This SPDS is to be read together with the PDS and has been issued to update the following information regarding the Challenger Wholesale Australian Share Income Fund (ARSN 090 578 171) (**Fund**):

- i. Changes to the investment manager of the Fund
- ii. Changes to the PDS

Changes to the investment manager of the Fund

Challenger, as the responsible entity of the Fund, has appointed Merlon Capital Partners Pty Limited (ABN 94 140 833 683, AFSL 343753) (**Merlon or Merlon Capital Partners**) as the investment manager of the Fund. Merlon will commence the investment management of the Fund on or about 7 May 2010.

Changes to the PDS

As a result of these changes, this SPDS amends, updates or replaces the following sections and content of the PDS:

1. Change to the name of the Fund
2. Important notices
3. Consents
4. About the Challenger Group
5. About the Fund
6. Benefits and risks of investing

1. Change to the name of the Fund

References throughout the PDS to the 'Challenger Wholesale Australian Share Income Fund' are replaced by:

'Merlon Wholesale Australian Share Income Fund'.

2. Important notices

The following replaces the second paragraph under the heading 'Important notices' on the inside front cover of the PDS:

'The Fund is managed by Challenger. Challenger is the responsible entity of the Fund and issuer of this PDS. Challenger's ultimate parent is Challenger Financial Services Group Limited (ABN 85 106 842 371) (**Challenger Group**). Challenger has appointed Merlon Capital Partners Pty Limited (ABN 94 140 833 683, AFSL 343753) (**Merlon or Merlon Capital Partners**) as the investment manager of the Fund.'

The following replaces the fourth paragraph under the heading 'Important notices' on the inside front cover of the PDS:

'Neither Challenger nor any member of the Challenger Group of companies, nor Merlon Capital Partners, guarantees the repayment of your capital or the performance of your investment or particular taxation consequences of investing.'

3. Consents

The following is added above 'Contact details' on the inside front cover of the PDS:

'Consents

Merlon Capital Partners has provided its consent to statements about Merlon Capital Partners in the form and context which they are included, and has not withdrawn its consent before the date of this PDS. Merlon Capital Partners 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.'

4. About the Challenger Group

The following replaces the section 'About the Challenger Group' on page 2 of the PDS:

'About Merlon Capital Partners

Merlon Capital Partners is a boutique fund manager based in Sydney, Australia, specialising in equity income strategies. Merlon Capital Partners commenced operation in May 2010, with the ambition of providing high quality, tailored investment management services to investors. The business is controlled by the principals of Merlon Capital Partners, while strategic partner Challenger Financial Services Group (Challenger Group) holds a minority voting shareholding. Challenger Group provides key business and operational services, with this structure allowing the Merlon investment team to focus on the management of client investments. Prior to establishing Merlon Capital Partners, the majority of the principals worked together at Challenger Group for 5 years managing over \$650 million in funds.'

5. About the Fund

The following replaces the information in the 'Investment manager' row in the table in the 'About the Fund' section on page 3 of the PDS:

Investment manager	Merlon
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References to 'we' or 'our' in the following sub-sections under the 'About the Fund' section on pages 3 to 5 of the PDS are replaced by 'Merlon' or 'Merlon's' (as appropriate):

- Investment strategy
- Investment approach
- Labour standards or environmental, social or ethical considerations
- Borrowings
- Derivatives

6. Benefits and risks of investing

References to 'we' or 'our' under the following headings in the 'Benefits and risks of investing' section on pages 6 and 7 of the PDS are replaced by 'Merlon' or 'Merlon's' (as appropriate):

- Portfolio risk
- Liquidity risk
- Derivative risk

The information in this SPDS is up to date at the time of preparation. However, some information can change from time to time. If a change is considered materially adverse we will issue a supplementary or replacement PDS. For updated information about the Funds, please consult your financial planner, visit our website www.challenger.com.au or call our Investor Services team on 13 35 66, during Sydney business hours. We will also send you a copy of the updated information free of charge upon request.

Challenger Wholesale Australian Share Income Fund For IDPS investors



Product Disclosure Statement (PDS)

Dated 16 June 2006

Challenger Wholesale Australian Share Income Fund

(ARSN 090 578 171)

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 Challenger Wholesale Australian Share Income Fund (Fund) and to compare this 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 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 16 June 2006 and is issued by Challenger Managed Investments Limited (ABN 94 002 835 592) (AFSL 234668) (CMIL), referred to as we, us, our, the manager or the responsible entity throughout this PDS. No other class of units in the Fund is offered in this PDS.

The Fund is managed by CMIL. CMIL is the responsible entity and issuer of this PDS. CMIL's ultimate parent is Challenger Financial Services Group Limited (ABN 85 106 842 371) (Challenger or 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 guarantees the repayment of your capital or the performance of your investment.

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 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 net of any GST and reduced input tax credits (RITCs) 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



Listed on the Australian Stock Exchange, the Challenger Group is an established player in Australian financial services. We are dedicated to providing smarter solutions to financial intermediaries and their clients, offering a broad spectrum of financial products and services.

We are one of Australia's largest non-bank mortgage lenders, funding commercial loans as well as a range of residential mortgage products offered by a network of preferred lenders under their own brands.

Through our annuity products, Challenger has built a strong reputation in the retirement market. This reputation also extends to the other investment products and wealth management services that we offer. As new opportunities arise, we will continue to expand our range of listed and unlisted products for both institutional and retail clients.

We are highly regarded as a quality investment manager in our own right. And we also act as a gateway to other expert investment managers. This means that we can offer a range of funds to help meet your investment needs, across not only a variety of asset classes, but also across different investment styles.

Our commitment to quality ensures we provide our clients with outstanding access to top level solutions, an ethos that is also carried into our range of financial planning services.

Challenger is always striving to challenge the status quo and deliver a smarter way forward. To find out more about how Challenger can help you, talk to your financial planner or call Challenger's Investor Services team on 13 35 66.

About the Fund

Minimum investment timeframe	Five years.								
Investment manager	Challenger Managed Investments Limited.								
Benchmark	S&P/ASX 200 Accumulation Index.								
Investment objective	The Fund aims to provide a higher level of tax-effective income than its benchmark, with the potential for capital growth over the medium to long term.								
Investment strategy	<p>We are an active 'bottom-up' manager and believe we can enhance the mix of total return in favour of income and generate capital growth by using fundamental research to identify companies with attractive, sustainable and growing dividends.</p> <p>We do not apply a particular style and do not focus exclusively on 'growth' or 'value' stocks. Instead, we look for high dividend-paying securities with strong cash flows.</p> <p>Our approach to stock selection combined with the use of derivatives and hybrid equity securities will generally produce a portfolio with a lower level of volatility (i.e. variations in total return) than its benchmark.</p>								
Investment approach	<p>Our analysis is focused on identifying opportunities for the Fund at an individual company level as opposed to considering broad macroeconomic and sector trends when selecting stocks, i.e. bottom-up approach. The Fund primarily targets companies identified by our analysts as having attractive, sustainable and growing dividends.</p> <p>Companies that are of interest to the Fund undergo fundamental analysis (including detailed financial modelling) and are also assessed on the basis of qualitative factors (including strategic direction and management). We visit companies to verify the accuracy and completeness of our information as well as to confirm the main drivers of the company, its competitive advantages, and corporate strategy. The emphasis of our internal analysis is the company's free cash flow generation over the medium term, balance sheet strength and long-term growth prospects.</p>								
Investment universe	<p>The Fund's investment universe is primarily securities listed on the Australian Stock Exchange, or those we expect to list within the next six months. The Fund can also invest in cash.</p> <p>The types of securities the Fund can invest in is broad, for example, the Fund can invest in listed equity securities, derivatives or hybrid equity securities such as convertible notes, redeemable preference shares and partly paid shares. It can also enter into underwriting agreements relating to shares able to be held by the Fund provided there are sufficient liquid assets in the Fund to cover such obligations.</p>								
Portfolio construction	The final portfolio reflects the best bottom-up ideas generated, resulting in a portfolio of between 30 and 60 securities, which meet the Fund's investment criteria. There are broad limits to the Fund's exposure to any one company.								
Asset allocation ranges	<table> <tr> <td>Securities</td> <td>60 – 100%</td> </tr> <tr> <td>Derivatives</td> <td>0 – 40%</td> </tr> <tr> <td>Hybrid equity securities</td> <td>0 – 20%</td> </tr> <tr> <td>Cash</td> <td>0 – 10%</td> </tr> </table>	Securities	60 – 100%	Derivatives	0 – 40%	Hybrid equity securities	0 – 20%	Cash	0 – 10%
Securities	60 – 100%								
Derivatives	0 – 40%								
Hybrid equity securities	0 – 20%								
Cash	0 – 10%								

Benefits and risks of investing in the Fund	See pages 6 to 7
Minimum transaction and balance requirements	You need to comply with any minimum transaction and balance requirements of your IDPS operator (see page 12).
Fees and other costs¹	See pages 8 to 11
Contribution fee	Nil
Management fee	0.95% p.a. ² of the Fund's net asset value.
Withdrawal fee	Nil
Expense recoveries	In addition to the management fee, we may recover certain fund related expenses as allowed by the Fund constitution from the Fund. From 1 July 2006, we will pay normal fund related 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)	+0.30% on entry and -0.30% on exit. These amounts may change if the estimate of the underlying transaction costs changes (see page 9).
Distribution payments	See page 13
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 accrual period.
Valuations and pricing	See page 13
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.

² Until 30 June 2006 the management fee will be 0.768% p.a. In addition we will recover normal fund related expenses from the Fund. From 1 July 2006 any normal fund related expenses will be paid from the management fee and only abnormal expenses will be recovered (see page 9).

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.

Making investments directly or indirectly

The Fund may make investments directly, or indirectly by investing in other funds that have investment objectives and authorised investments that are consistent with the Fund. This structure helps to minimise transaction costs and can enhance diversification.

Benchmark

The S&P/ASX 200 Accumulation Index is a widely used measure of the performance of the broader Australian share market. Returns from indices do not include the costs of buying or selling securities or other ongoing expenses incurred when investments are actually made.

Labour standards or environmental, social or ethical considerations

In buying, retaining or selling underlying investments we do not generally take into account labour standards or environmental, social or ethical considerations.

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.

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 flows or if emergency or extraordinary situations arise.

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's constitution permits it to use derivatives, such as futures or options, to reduce risk or gain exposure to other types of investments. We do not intend to gear the Fund through the use of derivatives.

It is our intention is to use derivatives (e.g. options) within the Fund as a means to derive income and reduce volatility. While this may earn income for the Fund, the potential total return from the security (the subject of the option) may be limited by the terms of the option.

Changes to investment policy

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

Fund performance, actual asset allocation and size

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.

Benefits and risks of investing

What are the benefits of investing in the Fund?

The significant benefits of investing in the Fund are as follows:

- The Fund has the potential to provide a higher level of income with lower than average volatility compared to its benchmark, over the Fund's investment timeframe, by investing in a highly diversified portfolio of listed Australian securities.
- The Fund aims to provide tax-effective income and the potential for capital growth over the medium to long term.
- Your money is managed by investment professionals, which allows the Fund to access investment opportunities, markets and diversity that individual investors usually can't achieve on their own.
- The Fund provides investors with access to our investment expertise.
- Investors in the Fund have the right to receive distributions. These are usually paid following the end of March, June, September and December.

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 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. 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

To help you consider the risks of investing, some of the significant risks associated with investing in the Fund are as follows.

Market risk

Investment returns are influenced by market factors. These factors include changes in the economic (e.g. changes in interest rates), legislative and political environment, as well as changes in investor sentiment.

Equity risk

The risk shares will fall over short or extended periods of time. Historically, shares have outperformed other traditional asset classes over the long term. Share markets tend to move in cycles, and individual share prices may fluctuate and underperform other asset classes over extended periods of time.

Investment manager risk

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.

Portfolio risk

The Fund will be invested in a diversified portfolio that seeks to generate income and the potential for medium to long-term capital growth. We aim to achieve a lower level of volatility over the Fund's investment timeframe than the Fund's benchmark by limiting the Fund's exposure to any one company and by permitting the Fund to invest in derivatives, cash and hybrid equity securities.

Given we do not construct the portfolio with reference to a benchmark, this may cause the Fund's return to differ substantially from the benchmark return over the short to medium term.

Company risk

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 in regard to the company, changes in technology and market trends.

Company risks are considered through our investment process (see page 3) and are reduced by maintaining a diversified portfolio of securities in Australian companies.

Sector risk

Companies in the same or similar industries are said to be in the same market 'sector'. The values of securities in companies in the same market sector may be similarly affected by market or economic events.

Liquidity risk

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. We aim to manage this through our investment process and by carefully managing the sale and purchase of the Fund's assets.

Fund risk

Risks particular to the Fund include that it could terminate and the fees and expenses could change. There is also a risk that investing in the Fund may give different results from holding the underlying assets directly because of:

- 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.

We aim to manage these risks by monitoring the Fund and acting in investors' interests.

Regulatory risk

The risk that the value of some investments may be adversely affected by changes in government policies, regulations and laws.

Derivative risk

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 may not be 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).

We aim to keep derivative risk to a minimum by constantly monitoring the Fund's use of derivatives, by making sure the Fund can meet all its obligations with respect to its derivative contracts, and by entering into derivative contracts with reputable counterparties.

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.

You should read all the information about fees and costs because it is important to understand their impact on your investment. 'Taxation considerations' are set out on page 14.

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 costs The fees and costs for managing your investment.	0.95% p.a. ^{1,2}	The management cost is 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 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. See 'Can fees change?' on page 10.

² Until 30 June 2006 the management fee will be 0.768% p.a. and we will recover normal fund related expenses from the Fund. Therefore, the estimated management costs are 0.95% p.a. From 1 July 2006 any normal fund related expenses will be paid from the management fee and only abnormal expenses will be recovered.

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 and abnormal expenses. 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. For details of the maximum fees permitted under the constitution see 'Can fees change?' on page 10.

The management costs for the Fund are based on current financial information.

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. The management fee is calculated daily as a percentage of the net asset value of the Fund and payable monthly in arrears.

Until 30 June 2006, the management fee will be 0.768% p.a.

From 1 July 2006, the management fee will be 0.95% p.a.

Normal operating expenses

Until 30 June 2006, we will recover normal fund related expenses from the Fund.

From 1 July 2006, we will pay the normal fund related expenses of the Fund from our management fee and will 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. 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.

Investment expenses

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

Transaction costs – buy/sell spread

The buy/sell spread is the difference between the investment price and the withdrawal price of units. Investment prices and withdrawal prices reflect a spread (adjustment) of +0.30% and –0.30% respectively around the unit price.

The buy/sell spread reflects our estimate of the transaction costs expected to be incurred in buying and selling the securities as a result of investments, withdrawals and switches made by investors. A different buy/sell spread may apply if we change our estimate.

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.

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. 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.

Transaction costs example: If you make a \$50,000 investment or withdrawal from the Fund, you will pay +/-0.30% included in the unit price which is equal to a transaction cost of \$150.

Where we invest through underlying funds

The Fund may gain investment exposure through other unlisted funds operated by Challenger or entities outside the Challenger group. The management costs in this section also include the management costs in any underlying funds through which the Fund invests.

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.

The current fees are set out on page 8. 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	0.95% p.a. of the Fund's net asset value.

The constitution of the Fund allows for the normal operating expenses (such as registry, audit, taxation advice, investment management and offer documents) 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.

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. Any such units will be issued at the applicable withdrawal price.

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 the section on 'Taxation considerations' on page 14.

Commissions and other payments

We may pay fees from our money 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:

- product access payments of up to \$5,500 p.a. per IDPS operator; and
- fund manager payments of up to 0.40% p.a. of the amount invested by the IDPS operator in a Challenger 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.

We may pay fees or provide other financial assistance (for seminars, client mailings, co-operative advertising, postage, etc) to other financial services intermediaries. 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 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.

Additional adviser 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.

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.

Example – Challenger Wholesale Australian Share Income Fund	Amount	Balance of \$50,000 with a contribution of \$5,000 during year
Contribution fees	0%	Nil
Plus Management fee	0.95%	And , for every \$50,000 you have in the Fund you will be charged \$475 each year.
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 of from: \$475 to \$522.50¹.

¹ An allowance for transaction costs will apply for contributions and withdrawals from the Fund (please see 'Transaction costs – buy/sell spread' on page 9).

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.

Making, withdrawing and monitoring your investment

Making an investment

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

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 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.

Suspending withdrawal requests

We may suspend withdrawal requests for up to 60 days where we consider it impracticable for us to calculate the net asset value (and hence unit prices), where we estimate that we must sell 5% or more of the Fund's assets to meet withdrawals, where 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 capital gains tax burden on remaining investors or impact negatively on the price we

could achieve in selling Fund assets, where we reasonably consider it is in the interests of investors to do so, or where 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.

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. We do not expect the Fund to become illiquid.

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.

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

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 (see page 9 for details). For investment and withdrawal unit prices the NAV is the value of all the Fund's assets less the value of all the Fund's liabilities 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 its liabilities. Generally, listed securities are valued using the last sale price quoted on the relevant exchange and liabilities are valued at cost. Other assets are generally valued at the recoverable value.

Where we receive a transaction request before the relevant cut-off time, then the unit price will be generally determined at the next valuation time after that cut-off time.

The Fund's assets are usually valued and unit prices 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). You can obtain a copy of this policy 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 quarterly accrual period. There may be periods in which no distributions are made.

You should check with your IDPS operator to see when they 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 are no transaction costs 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 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 quarter will be generally based on our ongoing estimate of the income of the Fund for the year (this may include net capital gains), allocated proportionately between the quarters. Under the constitution we may make interim distributions at any time.

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 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 a general summary of current legislation. 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 the income is distributed to investors. Australian residents will have to include in their taxable income for the year the share of investment income of the Fund (including net capital gains) distributed, even if they reinvest distributions or if payment is not received in that year. In the case of non-residents, Australian 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, capital gains tax, tax deferred income and taxation of foreign source income.

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.

Where foreign tax has been paid by the Fund in respect of overseas investments, the Fund will generally pass on to investors the corresponding foreign tax credits. Investors may be able to utilise these credits to offset against the Australian tax payable on the foreign component of their distributions. In order to claim the foreign tax credits, investors must first include the amount of the credits in their assessable income.

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.

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 reduced input tax credits (RITCs) of 75% of GST paid, which effectively reduces the GST payable 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.

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

The 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.

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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