

15 August 2011

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Dear Investor

**Custom Choice Boutique Australian Share Portfolio**  
**Account number: xxxxxx**

We are writing to inform you of some important information regarding a number of changes to the Custom Choice Boutique Australian Share Portfolio (ARSN 107 016 517) (**Fund**). These changes include a change to the investment process of the Fund, the appointment of a new investment manager and a reduction in the Fund's management fee.

**Background**

In mid-2005 QIC Limited (**QIC**) was appointed as the investment consultant to the Fund, responsible for manager research and selection under the multi-manager strategy at the time. However, we recently received confirmation from QIC that it has decided to exit the multi-manager investment consulting business.

As a result, Challenger and QIC have mutually agreed to end the multi-manager investment consulting arrangement, with regard to the Fund. Consequently, Challenger has conducted a review of the Fund and its investment strategy and as a result has decided to make a number of significant changes to the investment process of the Fund.

**Changes to the investment process of the Fund**

The Fund will transition to a single manager investment strategy, which will provide investors with exposure to one investment manager. This replaces the previous multi-manager approach, where investors were exposed to a number of different investment managers and associated styles within the one fund.

We have appointed Alphinity Investment Management Pty Ltd (ABN 12 140 833 709, AFSL 356895) (**Alphinity**) as the investment manager of the Fund. This change was effective on 12 August 2011 and the Fund will transition to Alphinity over the coming weeks. Challenger Managed Investments Limited (**Challenger**) remains the responsible entity of the Fund. Please refer to the information under the heading 'Who is Alphinity?' for more information about Alphinity and the enclosed summary for the main changes to the Fund.

To reflect this change, the Fund will be renamed the Alphinity Australian Equity Fund.

In changing the investment process of the Fund, initial stock turnover may result in the realisation of capital gains in the portfolio (that may, depending on the size of realised capital gains (if any), be paid in the next regular distribution, at the end of the financial year in June, or as a special distribution). This may have implications for your individual tax position. In addition, transaction costs may be incurred by the Fund as underlying investments are aligned with the new investment process.

Challenger believes that the change to the investment process and the appointment of Alphinity is in the best interest of investors.

**Who is Alphinity?**

Alphinity is a boutique Australian equities investment manager whose goal is to add value through an investment philosophy and process that is rigorous, disciplined and proven through market cycles. Alphinity

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aims to deliver consistent outperformance for its clients by investing in companies with underestimated earnings expectations. Its process to identify such companies uses a distinctive combination of fundamental analysis and quantitative inputs.

Alphinity has a highly qualified investment team with an average of 18 years' industry experience, who previously worked together in the Australian office of a leading global investment manager. The team has a strong record of performance through both up and down markets and have been managing the Alphinity Australian Share Fund, Alphinity Concentrated Australian Share Fund and Alphinity Socially Responsible Share Fund since September 2010. Alphinity was recently awarded 'Rising Star Fund Manager of the Year' for 2011 by Money Management/Lonsec. The broader Challenger Limited group has a partial equity stake in Alphinity and provides back office, marketing and distribution support.

Please visit Alphinity's website [www.alphinity.com.au](http://www.alphinity.com.au) for more information.

**Reduction in the management fee**

As at 12 August 2011 we reduced the management fee charged by the Fund from 1.08% p.a. to 0.90% p.a. of the Fund's net asset value. The reduced fee reflects the change to the investment process and brings the management fee in line with its competitors.

**Further information**

If you have any questions regarding your investment in the Fund or the changes described in this letter, please contact your financial adviser, visit our website [www.challenger.com.au](http://www.challenger.com.au) or call our Investor Services team on 13 35 66 (+61 2 9994 7000 from outside Australia), during Sydney business hours.

Yours sincerely



Paul Rogan  
Chief Executive  
Distribution, Product & Marketing  
Challenger

# Alphinity Australian Equity Fund (ARSN 107 016 517)

(previously Custom Choice Boutique Australian Share Portfolio)

## Summary of main changes

Below is a summary of the main changes to the Custom Choice Wholesale Boutique Australian Share Portfolio (now Alphinity Wholesale Australian Equity Fund) (the Fund)<sup>1</sup> effective on or around 12 August 2011.

The summary below should not be relied on as a complete statement regarding each change. We strongly encourage you to read the product disclosure statement (PDS) of the Fund in full to ensure that your investment meets your needs. You can obtain a copy of the PDS by visiting our website [www.challenger.com.au](http://www.challenger.com.au). A paper copy of any updated information will also be given to you, on request, without charge.

Change	Details in old PDS	Details in new PDS	How this change affects you
<b>Investment manager</b>	QIC Limited (QIC) was the appointed investment consultant.	Alphinity Investment Management Pty Ltd (Alphinity)	Please see information below.
<b>Investment strategy</b>	Previously, the Fund was a 'manage-the-manager' (MTM) Australian share portfolio. QIC provided investment manager research and selection services for the Fund.	Now, the Fund is managed by Alphinity, an active core Australian equities manager who seeks to identify opportunities across market cycles. Alphinity believes that investing in companies with underestimated forward earnings expectations provides superior long-term returns.	The change to Alphinity gives investors access to an experienced, well-resourced boutique Australian equities investment manager with a strong track record of performance through both up and down markets.
<b>Investment approach</b>	Previously, the QIC MTM research process involved a progressive filtering process that utilised quantitative and qualitative analysis to reduce the universe of investment managers within each asset class. Investment managers progressing to a review were then assessed on their capabilities.	Alphinity uses a combination of strong, fundamental bottom-up research and targeted quantitative inputs to identify mispriced companies likely to deliver earnings in excess of that expected by the market. The combined output of this is brought together in Alphinity's proprietary Composite Research Model (CRM).	The Fund will now be managed using Alphinity's distinctive, rigorous and disciplined investment approach.
<b>Investment universe</b>	Previously, the Fund invested in shares of companies listed on the Australian Securities Exchange (ASX), equity securities, hybrid securities, shares in unlisted companies (provided that they were expected to list within a reasonable time), and shares of an Australian company listed on both a foreign stock exchange and the ASX. The Fund could also hold up to 5% in securities listed or about to list on the New Zealand Stock Exchange as well as enter into underwriting agreements relating to shares. The Fund could also use options, futures and other derivatives.	The Fund continues to hold a diversified portfolio of Australian stocks listed on the ASX, as well as listed equity securities or hybrid equity securities. It may also enter into underwriting agreements relating to shares that are held by the Fund and invest in derivatives such as options and futures. The Fund aims to be fully invested.	The investment universe remains largely unchanged, however, the Fund will no longer invest in securities listed or about to list on the New Zealand Stock Exchange.

<sup>1</sup> References to the Alphinity Wholesale Australian Equity Fund and the Custom Choice Wholesale Boutique Australian Share Portfolio refer to the wholesale class of units in the Alphinity Australian Equity Fund and Custom Choice Boutique Australian Share Portfolio respectively.

Change	Details in old PDS	Details in new PDS	How this change affects you
<b>Portfolio construction</b>	Previously, QIC selected and blended specialist investment managers to manage the Fund.	Alphinity uses their proprietary CRM to determine the portfolio of between 35-55 stocks. The aim is to build a portfolio that is well diversified across different industries and sectors whilst meeting the Fund's investment objectives in a risk-controlled manner.	The change results in a more concentrated portfolio of stocks due to Alphinity's disciplined process and the fundamental conviction of the investment team.
<b>Currency strategy</b>	Previously, the exposure to New Zealand investments was not hedged.	The Fund no longer has exposure to New Zealand investments.	
<b>Fees</b>	Previously, the management fee of the Fund was 1.08% p.a. In addition, if an appointed investment manager was eligible to receive performance-based remuneration, this may have been recovered from the Fund.	Now, the management fee of the Fund is 0.90% p.a. The Fund does not have a performance fee.	The reduced management fee is a reflection of the Fund's change to a single manager investment approach. This change brings the management fee in line with the Fund's major competitors.

This information is current as at 12 August 2011 and is provided by Challenger Managed Investments Ltd (ABN 94 002 835 592, AFSL 234 668) (Challenger), the issuer of interests in the Alphinity Australian Equity Fund (ARSN 107 016 517) (Fund). The information is general in nature, and does not take into account any person's objectives, financial situation or needs. Offers of interests in the Fund are contained in the relevant current Product Disclosure Statement (PDS) issued by Challenger which is available on our website [www.challenger.com.au](http://www.challenger.com.au). Each person should obtain a copy of the Fund's PDS and consider the information in the PDS (including the information about risks) before making any investment decisions. If you acquire or hold any investments in the Fund, we will receive the fees and other benefits disclosed in the PDS of the Fund. We and our employees do not receive any specific remuneration for any advice provided to you. However, financial advisers may receive fees or commissions if they provide advice to you or arrange for you to invest in the Fund. Some or all of the Challenger Limited Group companies may benefit from fees, commission and other benefits received by another Challenger Limited Group company.