



A fund that concentrates  
on higher returns

Challenger Select Australian Share Fund

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# Challenger Select Australian Share Fund

## Diversification without the dilution

Diversification is important, but it shouldn't become an end in itself. As an investor, you want to have all of your money working hard for you. You want to be invested in the companies with the best growth prospects, the companies that can make the best use of your money and provide you with the best return.

What you don't want is to have the best companies in your portfolio dragged down by the performance of dozens of other companies that nobody really expected to do anything special anyway. So why are you invested in them?

The **Challenger Select Australian Share Fund** is a concentrated portfolio designed to increase your chances of outperforming the market. The Fund only invests in the 10–30 companies that we believe represent the very best investment opportunities in the Australian market. There's still diversification, with the Fund invested across a number of different industries, but we don't dilute the portfolio by investing in a lot of extra companies we're only lukewarm about.

## Not just fewer stocks... better stocks!

Concentration is key, but it takes more than holding fewer stocks to get better returns. We use a rigorous process to find the select few companies that are best positioned to their share price. We take a balanced approach. We don't target any particular style bias, such as 'growth' or 'value'. Instead, we seek to identify stocks benefitting from industry change or corporate turnaround. There's a little bit of art mixed in with all the science, but there's no real mystery behind the process. Essentially, it takes dedicated resources, a great portfolio manager, a focussed research approach and genuine market intelligence to find the companies with outstanding potential.

Of course the concentrated nature of the Fund means that it may be suitable for investors comfortable with accepting more risk to increase their chances of outperforming the market.

## An experienced investment team

With a culture that encourages individual thought and opinion, Challenger's Australian equities team is a 'centre of excellence' in share market research and analysis.

Comprising some of Australia's leading share analysts and headed by Peter Greentree, considered one of Australia's foremost share market investors, Challenger is well placed to offer a comprehensive range of Australian equity products to suit all types of investors.

We don't diversify for the sake of diversification. Instead, we invest more of your money in the companies we like most, because we believe that the fewer stocks we hold in the portfolio, the greater our chances of achieving higher returns for you.

## So what do we look for?

Our investment process targets companies and industries that are most likely to benefit from specific trends and changes in circumstances.

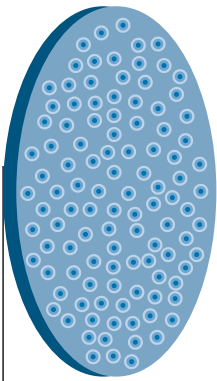
We look for corporate turnarounds – companies that may have been marked down through a period of lower-than-average earnings but that are now taking action to change the company's business. The clues to potential corporate turnarounds we look for include:

- company management changes;
- underperforming assets with
- a shareholder-friendly strategy.

We also look for industries undergoing **structural change**, particularly changes that increase the **pricing power** of companies within the industry (because increased pricing power makes it easier for companies to grow earnings). The trends we're looking for include:

- increasing concentration or consolidation of the major players in an industry;
- industries characterised by **under-investment** (which may lead to supply constraints); and/or
- **scarce assets** (which may lead to monopoly characteristics).

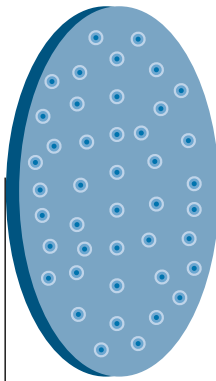
## The investment process. Reduction results in returns.



### 1. Fundamental analysis 200+ companies

Challenger's team of research analysts initially considers Australia's top 200+ companies for inclusion in the Fund.

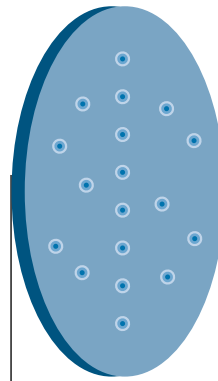
We rank each company on a scale of 1 to 5 using a quantitative valuation model and a qualitative overlay. We look at factors like industry structure, company quality and the competitive strength of the company to determine the main drivers of the company and its competitive advantages.



### 2. Idea generation 50 companies

The highest ranked companies from stage 1 are then rigorously screened to see which of them is most likely to benefit from:

- a turnaround in corporate performance, and/or
- changing industry structure.



### 3. Portfolio construction 10–30 companies

We then take the best ideas identified in stage 2 and determine whether (and how much) to invest. The aim is to build a very concentrated portfolio that is still diversified across a range of companies in different industries and so helps meet the Fund's risk and return objectives.

## Like panning for gold

Identifying the market's best investment opportunities is like panning for gold. We pass all of our information and ideas through a series of rigorous analytical tests and screens, continually refining our ideas, removing sediment and eliminating the fools' gold until we are left with the last few precious specks of the real thing that will make it into the portfolio and make all the difference to your returns.

# Challenger Select Australian Share Fund

## Portfolio construction and management summary

Market sector	Australian shares
Universe	The Fund can invest in companies listed on the S&P/ASX 200 Index (and companies that will list within six months)
Benchmark	S&P/ASX 200 Accumulation Index
Style	Bottom up, highly concentrated
Number of stocks	10-30
Portfolio turnover	Typically 40%-60% p.a.
Cash holding	0-40% (when there are insufficient quality investment opportunities)
Investment timeframe	At least five years

To find out more about how investing in the Challenger Select Australian Share Fund may be suitable for your portfolio, contact your financial planner, visit our website [www.challenger.com.au](http://www.challenger.com.au) or call the Challenger Investor Services Team on **13 35 66**.

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The information in this flyer is correct at 30 June 2008.

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