

Five Oceans Wholesale World Fund

Fund report and commentary – 31 March 2009

Performance						
	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (%) p.a	Inception ¹ (%) p.a
Fund return (gross) [^]	-0.70	-6.58	-10.97	-9.41	-4.77	-2.05
Fund return (net) [†]	-0.81	-6.88	-11.54	-10.55	-6.38	-3.52
MSCI Unhedged \$A	-1.06	-11.48	-21.53	-24.05	-19.16	-12.38
Difference	+0.25	+4.60	+12.51	+13.50	+12.78	+8.86

¹Inception date: 3 July 2006.

[^]Gross returns assume the reinvestment of distributions and exclude the impact of ongoing management fees. No allowance is made for tax.

[†]Net fund returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax.

Past performance is not a reliable indicator of future performance.

Market Review

The quarter started in ominous fashion as the Dow Jones Industrial Average finished down 8.8% for the month of January, a record. Previously, the worst January for the Dow had been that of 1916, when it fell 8.6%. This with other dire predictions for global growth did not augur well for the coming year and the market drifted to a March low that marked the lowest point for the S&P 500 in over 12 years.

However, optimism returned to markets in late March, when global markets in general, commenced a rally, which carried us through to the start of the second quarter. Signs of stabilisation in banks and broader financial stocks helped underpin this confidence, in the knowledge that without a repaired and functioning financial system the wheels of commerce will not turn.

The quarter was defined by Governments and Central Banks continued efforts to stimulate their respective economies. The Bank of England cut interest rates to a record low of 1% from 1.5%, the fifth interest rate cut since October. US President, Barack Obama, signed his US\$787bn economic stimulus plan into law, calling it "the most sweeping recovery package in our history". Australia implemented its own version through a A\$42bn plan targeting infrastructure and low income earners.

The Leaders of the world's largest economies reached an agreement at the G20 summit in London to tackle the global financial crisis with measures worth US\$1.1 trillion.

The S&P finished the quarter down -11.7%, the Japanese Nikkei down -8.5% and the UK FTSE 100 down -11.5%. The Australian dollar finished the quarter barely changed against the USD at 69.5 cents but this masked the roller coaster that took it to below 63 cents in March.

Fund Performance

The fund was down -6.6% for the quarter which compares to the average move of global equity markets, as measured by the MSCI World Index in \$A, which was down -11.5%. We commenced the quarter with a net exposure to equities of 64% and ended the period with our exposure at 77%, our highest level of exposure to shares for over a year.

The fund benefited again from its defensive positioning during the quarter, specifically cash holdings as well as specific stock positioning. Portfolio stocks that rose during the quarter, against the trend, included materials holdings, Rio Tinto, IAMGold and Centennial Coal. Other positive contributors included previously spurned consumer discretionary stocks, Best Buy Co and Next Plc, and Information Technology stocks Apple and Intel.

Detractors included AXA SA, Rexam Plc and YUM! Brands Inc.

Portfolio Positioning and Strategy

The key question now is about the recovery and how this will look. Currently there is some excitement about an economy that is starting to perform less badly. Leading economic indicators while still at low levels appear to be bottoming and with a lot of stimulus in the pipeline it is easy to get excited, but the earnings outlook continues to look problematic so we continue to proceed cautiously.

In general, the main changes to portfolio composition during the quarter manifested in an overall increase to existing stock positions and an increased sector exposure to energy and materials.

Asia

The Chinese economy has started to show significant signs of improvement during the quarter, and particularly during March. This is across a number of leading indicators including the "official" Purchasing Managers Index, (PMI), which turned positive for the first time since June 2008 with a March reading of 52.4, where above 50 is the threshold for expansion. Automobile sales, power demand and March property transactions also recovered significantly. Perhaps the most startling statistic was the China bank lending and M2 money supply growth in excess of 40% year on year during March. New bank loans of Rmb 4.6 trillion in the first quarter are already 92% of the Government's full-year target. Though some of this surge in liquidity seems to have found its way into the domestic A share market (and flattered the A share market's very strong year-to-date returns in excess of 40%) the market has taken it as a strong sign that the government's stimulus program is working.

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Though there is clear evidence of a rebound in activity in China the obvious concern remains the export environment. This could still mean any recovery in China remains problematic given exports plus imports are 70% of China's GDP. Primarily as a result of the external weakness, there remain numerous concerns on profitability, business investment, and overcapacity across a wide range of industries in China (e.g. property, steel, aluminium, autos, etc) which have a degree of external sensitivity. As in the rest of the world, the market leaders in China and Asia during the latter stages of the quarter have been a combination of cyclical, high beta, and oversold stocks whereas the laggards have been the defensive, lower beta, and / or higher quality stocks. This highlights the risks in chasing the current rally despite the obvious sign of improvement in economic conditions during March.

Energy and Minerals

This quarter was significant as it marked a turnaround from the second half 2008 trend of lower spot prices across base metals, bulk commodities and the energy sector. The end of broad based de-stocking drove buyers back into physical markets, which created bottoming formations in a number of commodities. During the quarter it became apparent that Chinese government buying of copper, aluminium, lead and zinc, as well as stimulation of the domestic economy and credit support for Chinese companies, created a significant and positive foundation for mineral commodities. This is in contrast to second half 2008, when trade financing had all but collapsed.

Despite the positive coincident effect of US, European Union and Chinese stimulus plans on respective domestic infrastructure programs, not all commodities were lifted by this tide. Aluminium and US natural gas, down -13% and -35% respectively over the quarter were notably poor performers. However copper up 25%, oil up 5% and gold up 6%, highlighted the confidence of buyers that demand supply was now better balanced, or in the case of gold that the risk aversion trade was still alive and well.

We were busy increasing our long positions in a number of key minerals franchises over the quarter as we believe that the fall in share prices had overshot the reality of commodities markets. We added to Rio Tinto, backed by our belief in management's ability to create a working funding solution, strong footprints in copper and iron ore, coupled with a once in a decade valuation mismatch when compared to BHP Billiton. Given our belief in thermal coal, we also added to Xstrata and Centennial Coal, on their newly recapitalised funding base and misunderstood earnings drivers respectively. As spot gold approached \$1,000 per oz, our holding in IAMGold, further aided by strong project/operations execution, reacted very positively and we closed our core position.

The energy sector finally witnessed some stability in oil pricing, driven by larger than expected compliance to OPEC announced cuts. We significantly increased our exposure to Royal Dutch Shell, Devon Energy and initiated a new position in Basic Energy Services, the latter two on signals that the US domestic energy market was approaching a bottom, largely due to significant

Financials

Financials started the quarter under a cloud of uncertainty related to credit costs and their ongoing viability. This uncertainty was significantly exacerbated in early February when Treasury Secretary Geithner announced that the government would be conducting "stress tests" on the 19 largest banks in the US. This announcement resulted in panic as many took the view that the undertaking was aimed at justifying the nationalisation of the US banking system. Banks were indiscriminately sold to levels which seemed to imply significant dilution to existing shareholders. The selling reached its peak in early March with the broad sector down by half from the beginning of the year.

It was at this moment that hope was kindled when Citigroup and Bank of America indicated that they were profitable in the first two months of the year, and large regional banks such as Wells Fargo and US Bancorp implied that loan and deposit growth were very strong year to date. The resulting rally has sent most financials stocks up 50 to 100%.

The fear of nationalisation has now subsided, at least for the moment, which still leaves us with questions regarding ongoing credit write-downs and capital adequacy. Our position has been that many banks can earn their way out of their current problems, especially as high quality banks appear to be gaining significant market share versus weaker banks.

In particular, two banks that we own, in Wells Fargo and US Bancorp, have significant earnings power, through fee income, and below average funding costs through their retail franchises. We currently maintain core positions given our belief in the underlying profitability of certain key bank franchises but remain cautious given the continued risk of credit write-downs and detrimental government intervention.

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Top five long positions

	Region	Sector	Weight (%)
Johnson & Johnson	United States	Healthcare	2.64
Royal Dutch Shell PLC	Netherlands	Energy	2.62
Carrefour SA	France	Consumer Staples	2.60
Rio Tinto PLC	United Kingdom	Materials	2.46
Inditex SA	Spain	Consumer Discretionary	2.32

Regional exposures

Country Name	Long	Short	Net weight* (%)
Australia	1.35%	-0.15%	1.20%
Canada	0.97%	0.00%	0.97%
Eurozone	1.29%	0.00%	1.29%
Finland	0.60%	0.00%	0.60%
France	8.27%	-0.61%	7.67%
Forwards	3.42%	-3.13%	0.30%
Germany	7.82%	-0.64%	7.18%
Hong Kong	1.22%	0.00%	1.22%
Japan	2.54%	0.00%	2.54%
Netherlands	6.09%	0.00%	6.09%
Spain	2.32%	0.00%	2.32%
Sweden	0.48%	-0.54%	-0.07%
United Kingdom	9.69%	-2.11%	7.58%
United States	40.11%	-5.04%	35.07%
South Africa	0.76%	0.00%	0.76%
Switzerland	1.88%	0.00%	1.88%
Grand Total	88.80%	-12.22%	76.58%

Sector exposure summary

Sector Name	Long	Short	Net weight* (%)
Consumer Discretionary	15.22%	-3.70%	11.53%
Consumer Staples	7.58%	0.00%	7.58%
Energy	8.83%	0.00%	8.83%
Financials	10.61%	-0.47%	10.14%
Health Care	8.91%	-0.33%	8.58%
Industrials	5.20%	0.00%	5.20%
Information Technology	12.38%	-0.93%	11.45%
Materials	5.65%	-2.49%	3.16%
Sector/Market Hedges	9.41%	-3.28%	6.13%
Telecommunication	5.00%	-1.01%	3.98%
Services			
Utilities	0.00%	0.00%	0.00%
Grand Total	88.80%	-12.22%	76.58%

Currency summary exposure

	Weight (%)
AUD	27.26
GBP	0.34
USD	43.47
EUR	18.72
JPY	9.81
Other	0.40
Grand Total	100.00%

Portfolio exposure summary

	Weight (%)
Long positions	88.80
Short positions	-12.22
Net equity exposure★	76.58
Gross equity exposure●	101.02

*May not add to 100% due to rounding.

★Net equity exposure is the net equity exposure of the portfolio after short equity positions are deducted from long equity positions. ●Gross weight is the percentage of the gross equity exposure of the portfolio. Gross equity exposure is the total of the long and short equity positions in the portfolio.

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