OVERALL RATING

STRONG

Challenger Guaranteed Income Plan (Liquid Lifetime)

STANDARD & POOR'S

Analyst(s): Rodney Lay, Toby Lewis

Standard & Poor's View

Standard & Poor's Fund Services rates Challenger Guaranteed Income Plan (Liquid Lifetime) as 'STRONG'. The rating reflects the product's attractive income profile and its ability to deliver a constant real income level for the rest of investor's life.

In S&P's view, Liquid Lifetime is not appropriate for funds that retirees may wish to bequest to their children or estate. Liquid Lifetime is purely a solution to the problem of investors funding their retirement. They may wish to use other parts of an overall portfolio for estate planning purposes. In the event of death, or if an investor chooses to withdraw early, Liquid Lifetime will only have a commutation value (CV) in the first 15 years.

Liquid Lifetime is a single premium immediate lifetime annuity that provides a guaranteed regular income for the rest of the investor's life and, if selected, the lifetime of a second person.

The income payment amount is set at the issue date of each policy, and increases annually in line with the consumer price index (CPI). The income rate is dependent on the age and sex of the policyholder(s) and the payout option selected. Published income rates will vary over time, but at the publication date of this report ranged from 4.2% p.a. for a 55-year old joint lifetime option to 8.2% p.a. for an 80-year old male.

We consider the guarantee minimum withdrawal benefit for life (GMWB for life) products to be the most sophisticated alternative retirement solution. On a relative basis, what Liquid Lifetime delivers to investors is income certainty and the certainty that income payments will keep pace with inflation. It also provides a superior expected income profile in most market scenarios, based on S&P analysis.

However, if the CV is taken into consideration, the internal rate of return (IRR) of Liquid Lifetime is likely to be less than a representative GMWB for life product.

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Investor Suitability

- In the event of death, the annuitant's estate will not receive a CV after year 15. Investors may wish to use other parts of an overall portfolio for estate planning purposes.
- S&P considers Liquid Lifetime a strong expense-requirement solution. It is well suited to meeting a retiree's basic living expenses for the rest of their life.
- The return on a lifetime annuity increases the longer the investor lives. It is best suited to those in good health, with a history of family longevity, who are concerned about outliving their income.
- The relative attractiveness of the annuity rate will increase in a declining interest rate environment, and vice versa. Investors should consider their view on the interest rate cycle before investing.
- Plans are highly inflexible once begun. Payment frequency, income splitting amounts, and a range of options cannot be changed.

Key Strengths

- The income profile of Liquid Lifetime is competitive relative to alternative lifetime annuity products currently available in Australia, according to a Monte Carlo analysis undertaken by S&P.
- Annuities are a core and strategically important business for CLC. We expect the manager to maintain competitive rates.
- Liquid Lifetime provides a guaranteed income outcome and hedges the three major retirement risks—market risk, longevity risk, and inflation risk.
- Based on S&P analysis, Liquid Lifetime provides a superior expected income profile relative to a representative GMWB for Life product.

Key Weaknesses

- Liquid Lifetime ceases to have a withdrawal benefit after the first 15 years. In the event of death, the annuitant's estate will not receive any value. Currently, in Australia, GMWB for life products are expected to have a material withdrawal benefit beyond year 15.
- If the CV is taken into consideration, the internal rate of return (IRR) of Liquid Lifetime is likely to be less than a representative GMWB for life product.
- Once purchased, Liquid Lifetime is relatively inflexible as payments cannot be altered and one-off withdrawals cannot be made.

Risks

- In the unlikely event of insolvency, Challenger Life Company Ltd. (CLC) may not be able to fulfil its income obligations.
- A potentially significant capital loss in the event of an early withdrawal, particularly in an environment of increasing expectations of rising interest rates. The converse also applies.

Name:	Challenger Guaranteed Annuity (Liquid Lifetime)	**Open date:**	Open
Portfolio manager:	Challenger Life Company Ltd.	**Close date:**	Open-ended
Protection Provider:	Challenger Life Company Ltd.	**Distribution frequency:**	Monthly, quarterly, semi-annually, or annually
Minimum investment:	$10,000	**Liquidity**	Daily (up to the first 15 years)
		Term:	Investor's lifetime

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Product Structure

Liquid Lifetime is a single premium immediate annuity that provides a guaranteed regular income for the annuitant's lifetime and, if selected, the lifetime of a second person.

It can be purchased by investors aged 60 and over with superannuation funds; investors aged 18 and over with private funds; or companies, trusts, and superannuation funds. Regular payments are indexed in line with CPI.

The ability of CLC to fulfil its income and CV obligations is ultimately determined by its solvency. S&P considers CLC's financial position as strong.

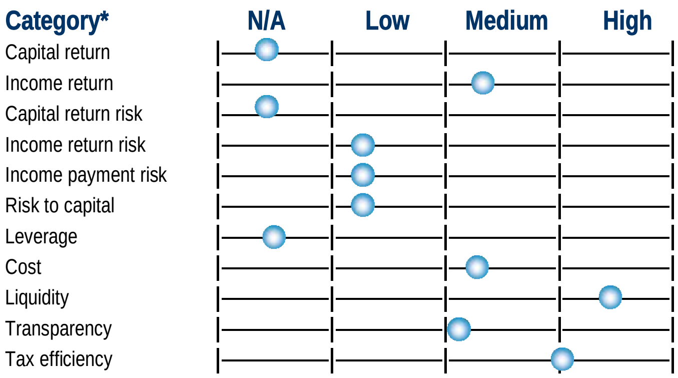
⇨ Taxation

From a taxation perspective, if an investor wishes to invest in the product with super money, they must be in the drawdown phase. As such, income will be subject to a 0% marginal tax rate.

For investors eligible for the age pension, the previously favourable tax treatment under the asset test was withdrawn in September 2007 as part of the wider superannuation reforms. A fixed-term income stream is not a complying income stream for the age pension and as a result is fully assessed under the assets test.

S&P advises that tax consequences depend on individual circumstances and investors should seek their own taxation advice. The above comments are based on S&P's understanding, but cannot be considered tax advice.

Risk-Return Profile



Refer to Glossary of Terms for certain definitions.

⇨ Fees

No explicit fees are charged to investors. Product fees are implicit in the determination of the annuity earnings rates, generating a lower rate than would otherwise be the case.

Liquid Lifetime does not incorporate adviser commissions. However, advisers may charge upfront and/or trailing advice fees as determined by the commercial terms between adviser and investor.

Table 1: Fees And Costs

Type	Amount
Upfront commissions*	0.0% to 3.3% (incl. GST)
Trailing commissions*	0.0% to 0.55% p.a. (incl. GST)
MER	Nil

**Actual amount is subject to terms between investor and adviser.*

Payment Options And In The Event Of Death

The payment amount and what happens in the event of death are a function of the payment option selected. There are five options.

⇨ Single Lifetime

This option provides payments for the investor's lifetime. If the investor dies within the first 15 years, the withdrawal value is paid to the last surviving owner's estate. After the first 15 years, there would be no payment to the last surviving owner's estate in the event of death.

⇨ Single Lifetime With Reversionary Annuitant

On the investor's death, ownership of the policy will pass to the reversionary annuitant, if they are still alive, and payments continue for their lifetime. A reversionary annuitant can only be selected when a plan is started and once selected cannot be changed (although the nomination can be revoked). For plans purchased with superannuation funds, only the investor's spouse can be a reversionary annuitant. If the investor dies, the plan reverts to the reversionary annuitant and continues for their lifetime irrespective of the withdrawal benefit period.

⇨ Joint Lifetime (Private Funds Only)

This option provides income for the life of the investor and nominated second person as long as one person is alive. The investors have the flexibility to choose how income payments are split. Once selected, the income split cannot be changed. In the event of death of both persons within the first 15 years, the withdrawal value is paid to the last surviving owner's estate. After the first 15 years, there would be no payment to the last surviving owner's estate in the event of death.

Table 2: Death Benefits Payment

Plan Type	In Withdrawal Period	Out of Withdrawal Period
Single lifetime	CV payable to estate. Plan ceases	No CV. Plan ceases.
Single lifetime w/ reversionary annuitant	Reverts to reversionary and plan continues for their lifetime. If reversionary has predeceased investor, CV paid to estate. Plan ceases.	Reverts to reversionary and plan continues for their lifetime. If reversionary has predeceased investor, no CV. Plan ceases.
Joint lifetime	Plan ownership reverts to the surviving owner and continues for their lifetime. If both owners die, plan ceases and CV is paid to last surviving owner's estate.	Plan ownership reverts to the surviving owner and continues for their lifetime. If both owners die, plan ceases. No CV is paid.

⇨ Benefit Reduction Option

This option is available to the joint lifetime and single lifetime plans with reversionary annuitant only. At the start, the investor can select that if they die, a reduced level of benefits be paid to the surviving joint owner or reversionary annuitant. Benefits can be reduced by 25% or 50% to take into account any reduction in income needs. Both income payments and the withdrawal guarantee benefit reduce by the selected reduction factor.

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Choosing the benefit reduction option means a higher income payment from the start of the plan compared with a plan purchased without this option.

⇨ No Commutation Option

The annuitant can choose to remove the ability to be paid a CV in circumstances other than death. This option is suitable for investors who want to provide a lifetime income stream while protecting the capital amount invested from early withdrawal.

Early Withdrawal Value (Commutation Value)

During the first 15 years of the plan (called the withdrawal benefit period) it has a CV. The calculation of the CV depends on whether the early withdrawal occurs during the withdrawal benefit period or at the end of the period.

If the withdrawal occurs at the end of the period, the CV amount paid depends on the annuitant's age when the plan was purchased. The withdrawal benefit is equal to the withdrawal guarantee percentage multiplied by the withdrawal value amount, as detailed in table 3.

Table 3: Withdrawal Guarantee Percentage

Age At Start	Single Lifetime (%)		With Reversionary (%)
	Male	Female	
Younger than 66	85	100	100
66–70	70	90	100
71–75	40	50	80
76–80	20	30	50
81 and older	10	15	20

For joint lifetime and single lifetime plans with a reversionary annuitant, it is the oldest person's age and gender that is used for determining the withdrawal guarantee percentage.

If the withdrawal occurs during the 15-year period, the determination of the CV is based on what approximates a straight-line schedule.

Returns

⇨ Earnings Rate

The earnings rate is set at the start of a plan and remains fixed for its life. The earnings rate is essentially an inverse function of how long the issuer is expected to make payments to the investor(s). The rate varies according to age, gender, the joint lifetime option, and whether the benefit reduction or no commutation option has been selected.

Earning rates for new investors will vary over time (but are fixed for term for an existing investor) according to life expectancy, interest rates, competitor pricing, and the issuer's product strategy. Table 4 details the rates that applied in December 2010. Investors should refer to Challenger's website (www.challenger.com.au) for current rates.

With regard to maintaining competitive rates, CLC states it is committed to doing so given annuities represent a strategic focus for the company.

Table 4: Earnings Rates – Male (December 2010)

Age	Commutable (%)	No Commutation (%)
55	4.91	5.28
60	5.23	5.68
63	5.44	5.94
65	5.60	6.13
68	6.07	6.51
70	6.26	6.74
75	7.18	7.59
80	8.15	8.40

Source: Challenger

Table 5: Earnings Rates – Female (December 2010)

Age	Commutable (%)	No Commutation (%)
55	4.61	5.03
60	4.89	5.38
63	5.09	5.63
65	5.23	5.81
68	5.64	6.13
70	5.81	6.34
75	6.61	7.10
80	7.46	7.83

Source: Challenger

Table 6: Earnings Rates – Joint Lifetime (December 2010)

Age	Commutable (%)	No Commutation (%)
55	4.25	4.77
60	4.49	5.08
63	4.67	5.31
65	4.81	5.49
68	5.27	5.82
70	5.46	6.06
75	6.17	6.72
80	6.96	7.41

Source: Challenger

⇨ Investor's Return

Returns on a lifetime annuity can be viewed from several different angles—specifically, the income payment at a point in time; the average payment amount over time; and the total return based on the income payments plus the CV paid to the estate in the event of death.

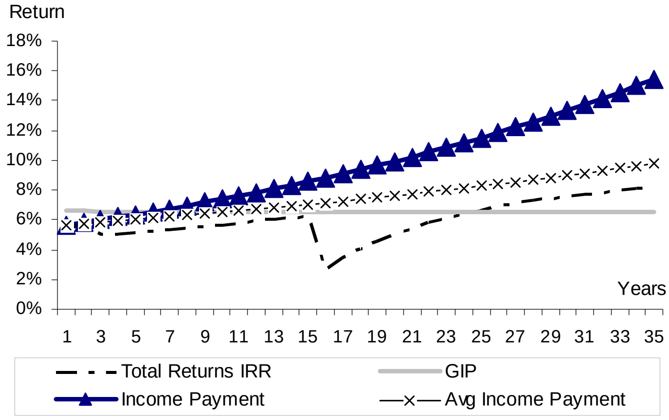
To illustrate this, chart 1 below presents the payout of Liquid Lifetime from several perspectives. The chart is based on a 70-year male (6.24% earnings rate) who selects the CV option.

The top line, the income payment line, shows the income payment as a percentage of the original investment amount, with the amount increasing at CPI. The line below that plots the average of the income payment since the start date.

The total returns IRR (internal rate of return) line plots the IRR of the income payments plus the CV (applicable during the withdrawal benefit period only).

The GIP line represents the fixed-income rate that currently applies to the fixed term Challenger Guaranteed Income Plan product. This product, along with longer-term term deposits (TDs), may represent an alternative investment option. It has been included to illustrate how the investment merit of a lifetime annuity changes the longer the investor lives.

Chart 1: Returns Profile



Source: S&P Fund Services

In the example above, the income payment amount will exceed a fixed-rate product, such as the fixed-term GIP or a TD, relatively quickly due to indexation (five years in this example). However, as the initial payment amount of Liquid Lifetime is below the rates that currently apply to both GIP and competitive TDs, the average income amount of Liquid Lifetime will only hit parity by year 10.

When assessing total returns, income payments, and the CV, the IRR drops significantly after year 15 as the CV ceases. Subsequently, as income payments continue to increase and the net present value of the forgone CV diminishes the further out, the IRR increases. The breakeven point with GIP is year 25.

From this, it should be clear that Liquid Lifetime is well suited to address real income needs over the long term and is not suitable for funds that retirees may wish to bequest to their children or estate.

Comparative Analysis

Following the GFC and with the demographic wave either approaching retirement or in retirement, the interest in products that preserve and provide stable income increased significantly.

In response to this, three lifetime annuities have been issued recently in Australia—North Protected Retirement Guarantee (issued by AXA), ING Money for Life (ING), and Lifetime Income Guarantee (Macquarie Life). All three products are referred to as GMWB for life.

At inception, the products provide an income payment based on an earnings rate multiplied by the investment amount (the income base). The former is based on age, gender, etc. The products are market-linked. Over time, the income base may increase based on the net performance of the underlying asset(s), which is typically a choice of managed funds. The income base can increase, but never decrease in response to negative performance in the underlying asset.

The risk-return profile of the underlying asset(s) can vary significantly, but generally these GMWB for life products are a higher risk option than Liquid Lifetime. Liquid Lifetime guarantees that real income payments will remained fixed with the payments increasing at CPI.

In contrast, the GMWB for life products may outperform Liquid Lifetime in a strong market, yet underperform in a weak market. Investors need to consider their appetite for risk when assessing product suitability.

Table 7 compares Liquid Lifetime with the GMWB for life products based on a range of features and expected risk-return profile. The absence of a particular feature is not necessarily a negative, as the products may be designed for different investor target markets and financial goals.

Table 7: Features Of Liquid Lifetime vs. GMWB For Life Products

Feature	Liquid Lifetime	GMWB for Life
Withdrawal benefit / event of death	First 15 years only and based on age-dependent CV calculation	Any time based on account value
Income growth	CPI indexed	Market-linked
Conversion age	55–80	60–70
Income rates	4.5%–8.4%	3.5%–5%
Partial withdrawals	No	Yes
Ongoing contributions	No	No
Early withdrawal fee	No	No
Fees	No direct fees. Implicit in earnings rate	Yes, generally applied to account value only
Real income risk	No	Yes
Real income growth	No	Market-linked

Source: S&P Fund Services

⇨ Early Withdrawal Benefit / Event Of Death

A significant difference between the two product types is that a withdrawal benefit is determined by the account value. Hence, it is market-linked in the GMWB for life products, but is known and will terminate after 15 years in Liquid Lifetime.

In the GMWB for life products, a CV may persist for the rest of the annuitant's life or it may cease at any time during the annuitant's life.

When assessing the total return of an annuity investment, the CV should be taken into consideration. An investor should consider whether they want the possibility of having an investment value passed on to a beneficiary/estate past a 15-year period.

The "Expected Performance" section of the report assesses the expected withdrawal benefit amount (account value) of the GMWB for life product at the end of 15 years.

⇨ Partial Withdrawals

Partial withdrawals provide for greater flexibility to meet changing financial circumstances. The GMWB for life products typically permit withdrawals up to a specified limit.

This flexibility, however, may not be suited to all investors, with some preferring the discipline imposed by a long-term product that provides no such flexibility.

⇨ Earnings Rates

For any given age, GMWB for life income rates are lower; however, the upside is also higher. These products are a higher risk option, with returns linked to market performance net of fees and income payments.

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In the absence of account value growth, investors in GMWB for life products may experience a deterioration in real income payments. In the case of Liquid Lifetime, real income payments will remain constant.

Table 8: GMWB for Life Earnings Rates (%)

	Challenger				GMWB for Life		
	Male		Female		AXA	ING	MQG
Age	CV	NoCV	CV	NoCV			
60	5.0	5.5	4.7	5.2	4.0	4.0	3.5
61	5.1	5.6	4.8	5.3	4.2	4.0	3.5
62	5.2	5.7	4.8	5.4	4.4	4.0	3.5
63	5.2	5.7	4.9	5.4	4.6	4.0	3.5
64	5.3	5.8	5.0	5.5	4.8	4.0	3.5
65	5.4	5.9	5.0	5.6	5.0	5.0	4.0
66	5.7	6.1	5.3	5.7	5.0	5.0	4.0
67	5.8	6.2	5.4	5.8	5.0	5.0	4.0
68	5.8	6.3	5.4	5.9	5.0	5.0	4.0
69	5.9	6.4	5.5	6.0	5.0	5.0	4.0
70	6.0	6.5	5.6	6.1	5.0	5.0	4.5

Source: Product issuers

⇨ Fees

In the GMWB for life products, fees are explicitly applied to account value performance. There are not applied to income payments, but the determination of income escalation.

The costs of a GMWB for life product are generally high due to the hedging costs. In the case of Liquid Lifetime, fees are implicit.

Expected Performance

⇨ Expected Income

We conducted a Monte Carlo analysis to assess the expected level of income of three investment strategies: Liquid Lifetime, a GMWB for life product, and simply being invested in the market.

In the case of Liquid Lifetime, the analysis assumes a 65-year old male who chooses the CV option. The income payment is therefore equal to 5.4%. For the other two strategies, we assumed the investor draws a level of income equal to 5% of the value of their investment. In the case of the GMWB for Life products, the 5% assumption is consistent with the amount applied to a 65-year old investor.

The analysis is based on risk-return scenarios. In turn, these are based on growth and defensive asset allocations (investment strategies). For example, we used an 85% growth and 15% defensive asset investment strategy and a 50% growth and 50% defensive allocation.

The risk-return assumptions are based on the historical performance of the various asset classes weighted according to the particular investment strategy. The risk and return assumptions for the 85% and 50% growth asset strategies are shown in table 9. Table 10 highlights the asset class performance that underpins the risk and return figures.

For the analysis to be like-for-like, the assumed income rate for Liquid Lifetime must also be based on an appropriate historical benchmark. We have used the 10-year Australian government bond rate. Since the Liquid Lifetime product was launched in September 2010, the rate for a 65-year old male (CV option) has been an average 34 basis points above the 10-year government bond rate.

Using data dating from 1995 (approximately the same time period used for the four asset classes detailed below), the median bond rate has been 6% p.a. Therefore, an estimate of the income rate for a 65-year male over the same period would be approximately 6.3% p.a. The return scenarios for Liquid Lifetime are contained in table 11 below.

Table 9: Risk And Return Scenarios (%)

Asset Class	Weak		Historical		Strong	
	Ret.	Risk	Ret.	Risk	Ret.	Risk
Total 85%	4.1	14.2	9.8	12.8	15.4	10.9
Total 50%	5.4	10.0	9.2	8.9	13.2	7.6

Source: S&P Fund Services

Table 10: Underlying Asset Class Assumptions (%)

Asset Class	Weak		Historical		Strong	
	Ret.	Risk	Ret.	Risk	Ret.	Risk
Aust FI	6.4	4.9	7.2	3.8	9.8	3.0
Int'l FI	7.9	3.3	8.8	2.9	9.7	2.9
Aust equities	4.6	15.4	12.1	13.3	17.5	11.1
Int'l equities	2.3	16.6	7.7	16.0	15.0	13.9

Source: S&P Fund Services

Table 11: Liquid Lifetime Return Scenarios (%)

Asset Class	Weak	Historical	Strong
10-year govt. bond	5.6	6.0	6.5

Source: S&P Fund Services

The expected income performance is net of all fees in the case of the GMWB for life product. Such fees include an MER on the underlying managed fund, a guarantee fee, and a management cost. For the 85% strategy, we assumed these fees to total 3.8% p.a. and for the 50% strategy, 3% p.a. These cost assumptions approximate levels that actually apply to some GMWB for life products in the Australian market.

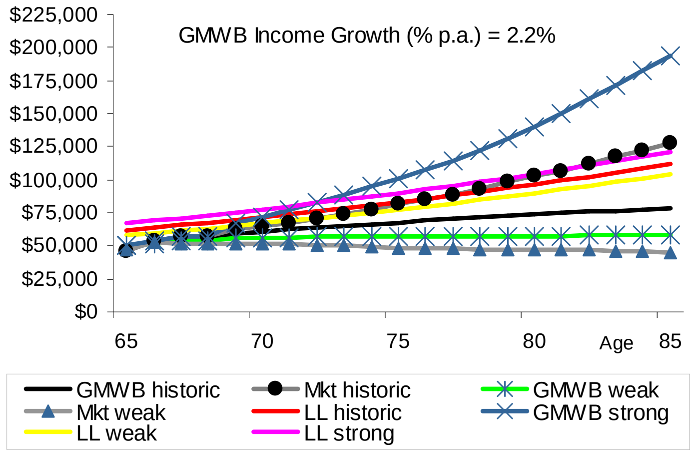
The results are shown in chart 2 (best viewed in colour), which assumes an initial investment of $1 million, delivering an initial annual income of $54,000 for Liquid Lifetime and $50,000 for the other two strategies. Over time, the annual income payment for Liquid Lifetime will increase in line with CPI. We have assumed 3% p.a. The performance of the GMWB for life product is subject to the expected market performance. The expected growth in annual income payments is shown in charts 2 and 3.

In the case of both the 50% and 85% growth asset allocation strategies and using market risk-return scenarios consistent with the long-term performance of the respective asset classes, the expected level of income for the GMWB for life strategy fails to keep up with inflation (assumed to be 3% p.a.).

While the return scenario assumption is around 9% p.a. for both strategies, the effect of fees and an annual 5% distribution leaves a nominal growth rate below the inflation rate.

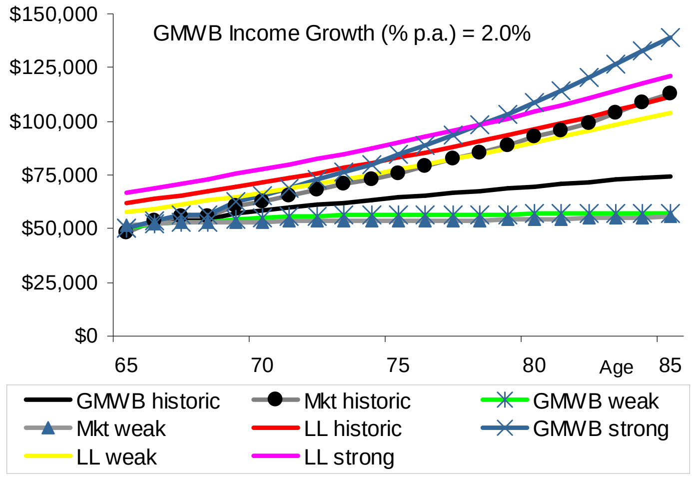
The relative performance of GMWB for life in strong and weak market scenarios illustrate how income is at risk; it may be materially higher or lower than that of Liquid Lifetime. If the investor experiences a poor market environment, the cost is lower income, potentially reduced lifestyle, and a lower CV, and vice versa.

Chart 2: Expected Income – 85% Growth Asset Allocation



Source: S&P Fund Services

Chart 3: Expected Income – 50% Growth Asset Allocation



Source: S&P Fund Services

For some investors, the certainty of income that Liquid Lifetime provides may be of greater value as the cost of income downside may exceed the value of income upside. But this is an issue of personal preference, which in turn is likely to be determined by the investor's financial circumstances.

This analysis shows that relative performance is subject to the underlying risk-return of the market and fees on the GMWB for life products. However, broadly speaking, the analysis indicates that the expected income performance of Liquid Lifetime exceeds a GMWB for Life.

Income is one component of total return, with the other being the CV. While the expected income may generally exceed a GMWB for life product, the expected total returns profile is adversely affected by a lower expected CV value. This analysis is detailed below.

⇨ Expected Commutation Value

What the above analysis does not indicate is the CV in the event of death or an early withdrawal period. From an overall returns perspective (returns to the annuitant and the reversionary/estate), total returns are a function of annual income plus the value of the CV.

This analysis is relevant to those investors concerned about the value that is passed on to the reversionary/estate. Such investors should consider the expected total returns rather than simply expected income levels.

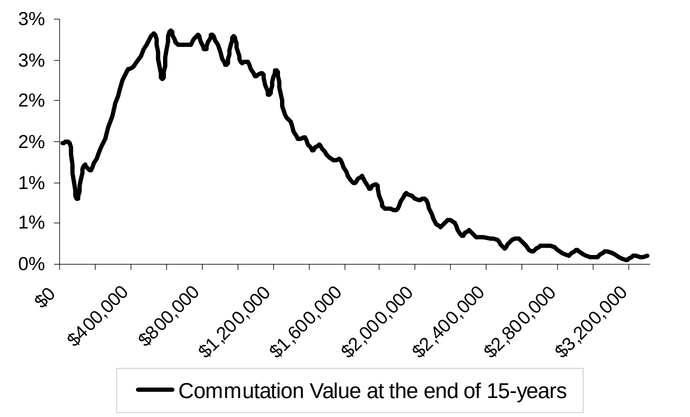
For the GMWB for life strategy, the CV is determined by the account value. The account value is based on the performance of the underlying asset net of all fees and minus the distribution of income.

We undertook a Monte Carlo analysis to determine the expected CV of the GMWB for life strategy at the end of 15 years. We selected the 15-year period as this is the date in which the withdrawal benefit is terminated in Liquid Lifetime. If the expected CV of the GMWB for life is positive at the 15-year period, then the total returns profile of the GMWB for life strategy will increase relative to Liquid Lifetime.

Chart 4 illustrates the probability distribution of CV levels at the 15-year period based on an initial $1 million investment. It assumes a 50% growth asset allocation and market growth levels in line with historical averages, as detailed in the "Expected Performance" section.

The analysis produced an expected CV of $1.02 million, i.e. an amount equivalent to the initial investment. This represents an opportunity cost associated with the Liquid Lifetime product. Investors should note, however, that there is significant variability in CV outcomes for any given simulation.

Chart 4: Expected CV At Year 15



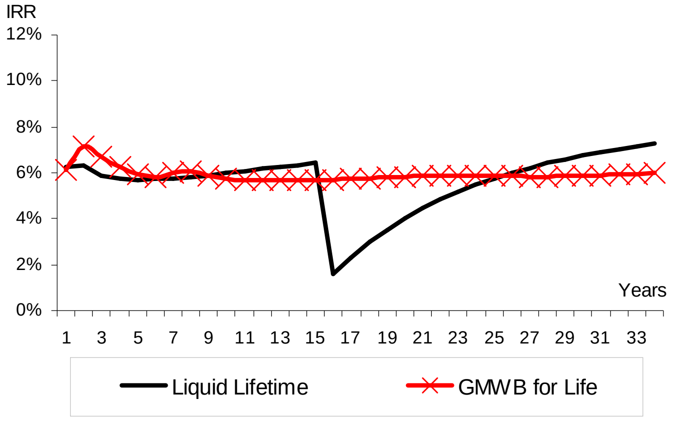
Source: S&P Fund Services

⇨ Expected Total Returns

Our analysis assessed the IRR of both the expected income and CV of both Liquid Lifetime and the GMWB for life strategies, bringing together the expected income and expected CV analysis above.

Chart 5 shows the expected IRR of both strategies. For Liquid Lifetime, the IRR dips significantly after year 15, as there ceases to be a CV, and is significantly less than the GMWB for life strategy. The IRR subsequently increases as the level of income increases and the net present value of the forgone CV diminishes the further out in time.

Chart 5: Expected Total Returns



Source: S&P Fund Services

Corporate Profile

CLC is an Australian life insurance company and the largest provider of retail annuities in Australia, with approximately $7.6 billion in assets under management and 60,000 policyholders as of June 30, 2010. CLC is a fundamental part of the Challenger Group's strategic focus on the continued growth of its annuities business.

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Structured Product Rating Philosophy

The performance of a structured product is a function of the interaction of the two separate components. Importantly, the performance will not match that of the underlying growth asset. Consequently, the rating is a product of the assessment of the two underlying components in isolation to each other plus the expected performance based on the interaction of those two components.

Structured Product Rating Definitions

OVERALL RATING VERY STRONG	S&P has assigned a 'Very Strong' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored exceptionally in a number of categories but may not be suitable for all investors.
OVERALL RATING STRONG	S&P has assigned a 'Strong' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored strongly in a number of categories but may not be suitable for all investors.
OVERALL RATING SOUND	S&P has assigned a 'Sound' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored satisfactorily in a number of categories but may not be suitable for all investors.
OVERALL RATING PASS	S&P has assigned a 'Pass' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has passed a number of categories but may not be suitable for all investors.
OVERALL RATING WEAK	S&P has assigned a 'Weak' rating to the product based on its conviction that it can not meet its objectives over the stated time period. The product has scored weakly in a number of categories and may not be suitable for most investors.
OVERALL RATING ON HOLD	An 'On Hold' designation is a suspension of a rating pending further analysis of a material change in the characteristics of a product.

Structured Product Rating Process

The evaluation of a structured product addresses: the underlying growth asset; the structural component; strengths and weaknesses; component complementarities; investment philosophy; fees and costs; expected absolute and relative risk-adjusted performance; and exogenous risks.

Glossary of Terms

Expected Risk-Return	Expected risk and return measures are based on an output of the Monte Carlo analysis using a risk-return scenario consistent with the historical performance of the underlying asset class. Returns relate to both capital and income. Risk represents the annualised standard deviation.
Income Payment Risk	The risk income is not paid on a payment date as a contingency test is not met.
Risk To Capital	The risk of a loss on invested capital. Capital protected products, for example, can be regarded as having limited risk.
Counterparty Risk	The risk that a loss will be incurred if a counterparty to a transaction does not fulfil its financial obligations in a timely manner.
Management Expense Ratio (MER)	This ratio is a calculation of investment management, marketing, trusteeship, legal, accounting and auditing costs amongst others, of an investment expressed as a percentage of the investment's net asset value. It is the ongoing charges for managing the investment.
Monte Carlo Analysis	A probability distribution of (typically) risk-return outcomes using random samples. In most cases, the random sample represents performance of the broader asset class market or the investment strategy by which the performance of the investment structure is determined. The random samples are guided by particular market risk (volatility) and return assumptions scenarios.
Standard Deviation	Measure of the variability or volatility of the monthly returns of the fund.

OVERALL RATING
STRONG

Challenger Guaranteed Income Plan (Liquid Lifetime)

STANDARD & POOR'S