

Enhanced Commodity Fund Monthly Commentary

December 2011

Investment objective

To provide a total return in excess of the Goldman Sachs Commodity Index (GSCI) hedged in AUD.

The Fund will have exposure to the GSCI through the purchase of commodity linked derivative instruments. The Fund aims to generate a total return derived from three sources.

1. Spot return – performance will largely result from the change in prices of commodities within the GSCI
2. Roll return is captured by rolling the expired derivative contracts forward which is the difference between entry and exit prices, and
3. Collateral return or cash rate is the return on investing in cash and cash like securities. The Fund assets are posted as collateral for the derivatives contracts.

An enhanced index approach is used to manage the Fund. The strategy is designed to outperform the GSCI by actively managing two components of the strategy – the roll yield and the collateral yield, while the spot return is managed neutral to the GSCI. Challenger Investment Services Limited is the Responsible Entity (RE) of the Fund and has formally appointed Credit Suisse Asset Management, LLC, based in New York, on arms length terms as sub manager to the Fund. The Fund will be as close to fully currency hedged into Australian dollars as is practicable.

Fund facts

Suggested investment time frame	Medium to long term – 3 years plus
Return potential	High
Volatility/risk level	High
Income distribution frequency	Quarterly
Fund details	
Inception date	October 2006
APIR code	CRS0063AU
Fund size	AUD 326.86 million as at 31 December 2011
Initial investment	AUD 25,000
Additional investments	AUD 10,000
Withdrawals	AUD 10,000
Management costs	0.66% p.a.
Buy/sell spreads	Nil

Fund performance

Performance as at 31 December 2011

	1 mth %	3 mth %	1 yr %	3 yrs % pa	5 yrs % pa	Incept % pa
Total returns	-1.81	9.10	-0.36	8.55	-3.33	-3.76
Gross Returns	-1.76	9.28	0.30	9.27	-2.69	-3.15
Benchmark returns	-1.74	9.41	0.87	8.30	-1.06	-1.36
Relative performance	-0.07	-0.30	-1.23	0.25	-2.27	-2.39

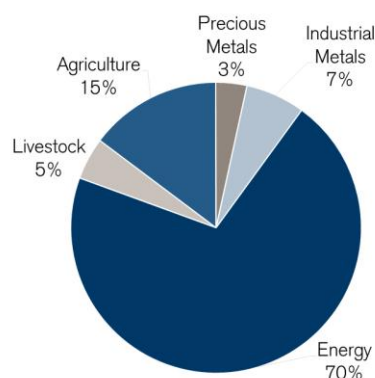
Source: CSISAL

Total Returns are calculated using pre-distribution month end withdrawal unit prices, and assumes all income is reinvested in additional units (and exclude any contribution fees and taxes). Gross returns are calculated by adding back the Management Costs deducted. Distribution returns are the total distribution from the fund. Growth returns is the change in initial capital value for the period. **Past performance is not necessarily indicative of future performance. Returns may be volatile and may vary from year to year.**

Distribution history (cents per unit)

	Mar	June	Sep	Dec
2006	-	-	-	1.15
2007	0.00	5.03	1.40	3.01
2008	2.41	94.48	-	-
2009	-	-	-	-
2010	-	0.069	-	-
2011	-	0.069	-	-

Asset allocation as at 31 December 2011



Source: Credit Suisse

(Please note, all references to performance are in \$US terms)

Commodities were lower in December, with the S&P Goldman Sachs Commodity Index Total Return down 2.11%. Macroeconomic sentiment continued to weigh on risky assets and supported a stronger US dollar. Kansas City Wheat experienced the largest increase, gaining 8.47%, due to an evolving La Niña event causing hot and dry temperatures across South America in a crucial pollinating period which could potentially curb production. Corn was boosted by the same effect, increasing 6.33% for the month. Nickel was also a top performer, gaining 6.85%. London Metals Exchange inventories flattened after increasing the previous month, and Chinese Nickel Pig Iron production was cut in reaction to continuously falling prices, providing some support. Natural Gas experienced the largest decline, losing 16.72%, due to continued warmer-than-normal temperatures across the US, exacerbating already comfortable supply levels. Silver declined 14.90% while Gold declined 10.48% due to strong demand for US dollars, disappointment that the Federal Reserve did not announce further easing measures, and weakened Asian demand. Zinc also declined, losing 11.40% amid increasing inventory levels and continued macro-economic induced demand concerns.

Notable S&P GSCI Component Returns and Weights as of 31/12/2011			
Commodity	Total Return in December 2012	Weights	Comments
KC Wheat	8.47%	0.73%	Potentially reduced production of Corn and Soybeans was supportive for Wheat.
Nickel	6.85%	0.59%	London Metals Exchange inventories ceased increasing and Chinese Nickel Pig Iron production was cut in reaction to continuously falling prices, providing some support.
Corn	6.33%	4.49%	La Niña is causing hot and dry temperatures for key South American producers in a crucial pollinating period which could potentially curb production
Natural Gas	-16.72%	2.12%	Continued warmer-than-normal temperatures across the US are exacerbating already comfortable supply levels.
Silver	-14.90%	0.45%	Strong demand for US dollar assets curbed the demand for currency alternatives.
Zinc	-11.40%	0.48%	Inventory levels increased amid concerns over demand.

Portfolio Themes

The S&P Goldman Sachs Commodity Index performance decreased for the month, with 16 out of 24 Index commodities trading lower. Precious Metals was the worst performing sector, down 11.08% for the month, as a result of strong demand for US dollars, eroding demand for currency alternatives. Industrial Metals ended the month down 4.02% in response to the potential impact of macroeconomic headwinds on Chinese demand. Livestock was lower, down 3.55% for the month, despite the release of the USDA's November Cold Storage Report which revealed the lowest level of frozen meat and poultry inventories since 2003. Energy was also lower, down 2.51%, as Natural Gas weighed on the sector. Warmer-than-normal temperatures for the start of the heating season in the US increased expectations for increasingly bloated inventory levels. Agriculture was the best performing sector, up 3.83% for the month, supported by hot and dry weather in Argentina and Brazil during the critical pollination period.

Outlook

The market remains focused on the ongoing debt crisis in Europe and its potential impact on global economic growth. However, there were some encouraging signs in December, including better than expected US economic data. Sentiment appears to have improved, as evidenced by The University of Michigan Survey of Consumer Confidence, which rebounded to its highest level since the spring. The Philadelphia Federal Reserve Business Outlook Survey also improved sharply to its highest level since the

second quarter. The People's Bank of China has signaled a shift from tightening to easing and major global central banks cooperated to bring down European bank borrowing costs.

The global manufacturing Purchasing Managers Index ("PMI") improved in December, indicating that Europe's problems may not completely curtail global economic growth. In the US, the December Institute for Supply Management ("ISM") Manufacturing index rose to a six-month high, with both leading new orders and coincident production indices hitting eight-month highs. Even in Europe, the PMI reports showed small improvements across the board. The Euro area manufacturing PMI stopped falling and rose slightly in December. PMI surveys in the emerging markets are also encouraging and shifts to more accommodative policies should be supportive.

Despite these improvements, the European debt crisis will likely continue to weigh on economic growth and investor sentiment. However, fundamentals for key commodities largely remain supportive, with generally tight inventory levels and continued strong demand. The threat of supply shocks is particularly acute for the crude complex and Agriculture. While Precious Metals have lost their luster of late, demand for currency alternatives and hard assets is likely to remain strong amid continued loose monetary policies. We believe investors may derive long-term diversification benefits in conjunction with potential inflation protection through a strategic allocation to commodities.

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