

**Market
release**

**Chairman
and
CEO
address**

**Challenger
Limited**

**CHALLENGER LIMITED
ANNUAL GENERAL MEETING
CHAIRMAN AND CEO ADDRESS
27 OCTOBER 2016**

CHAIRMAN ADDRESS

Ladies and gentlemen.

I hope you enjoyed the advertisements we played earlier from our latest brand campaign.

They paint a clear picture of the need for retirement income solutions in Australia and they are cutting through with our audience. Research has found that 52% of surveyed 55 to 64 year olds are now asking financial planners about annuities.

Moving on to today's presentation.

2016 has been a significant year for your company and it marks, I believe, a tipping point for the retirement incomes market in Australia.

Your company continues to grow strongly reflecting the demand for retirement income products from the rapidly-increasing number of Australian retirees.

We are well positioned to fulfil Challenger's vision – to provide our customers with financial security for retirement.

Over the past two years we have formed a number of relationships with superannuation industry players and investment administration platform providers in Australia. These relationships have created strong momentum and assisted us to expand our business and meet the changing needs of our customers.

Today we have announced another two new key relationships. One with AMP where our full range of annuity products will be made available through their investment administration platforms and, an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited, a leading provider of Australian dollar life insurance products in Japan.

These opportunities will expand our base and facilitate further growth over the long term.

Our Chief Executive Officer, Brian Benari will provide more details regarding these new relationships during his address.

Government reform

Throughout the year, Challenger contributed meaningfully to help shape public policy reform in an attempt to create a world-class retirement income system.

The government has recognised the fiscal and social challenges presented by our ageing population and the short-comings of our current system.

In this regard, in the recent Federal Budget, the government outlined a series of reforms.

At the heart of these was the government's proposed objective of superannuation, being to provide income in retirement to substitute or supplement the Age Pension.

This made it clear that the purpose of super is to create sustainable income streams. This provides direction for policymakers, industry participants, superannuation funds and for people planning for retirement.

At the same time, it announced changes that will expand the availability of a new range of lifetime income products for retirees. New rules planned to come into effect in July 2017 will allow for a wider range of retirement income products, including Deferred Lifetime Annuities.

It will facilitate the building blocks for superannuation funds to develop Comprehensive Income Products for Retirement, or CIPRs. They were proposed by David Murray's Financial Systems Inquiry, supported by Challenger, and now endorsed by the government.

CIPRs provide a more seamless transition to the retirement phase of superannuation. They are designed to generate regular and stable income whilst providing flexibility and protection against the risk of outliving one's savings.

Through our commitment to and investment in research and thought leadership, Challenger has helped shape the reform agenda. We will continue to be at the forefront of what we expect to be a larger and more innovative superannuation and retirement incomes market.

Financial results

Turning to our financial performance for the 2016 year, I am pleased to report that Challenger continued to grow strongly.

Total assets under management, a key driver of financial success, grew by 10% to \$60 billion.

Normalised profit after tax increased 8%, building on our track record of sustained profitable growth.

Dividends

As a result the Board declared a final dividend of 16.5 cents, making the full-year fully franked dividend 32.5 cents a share, which was up 8% on last year.

These distributions represented a dividend payout ratio at the top of our target range, which is between 45% and 50% of normalised earnings per share.

And I'm pleased to note that over the past five years dividends have doubled and are now fully franked.

We've had a strong response to our Dividend Reinvestment Plan which gives shareholders the option to receive some or all of their dividends as Challenger shares, instead of in cash, without any brokerage and associated costs. It remains an efficient way for shareholders to reinvest their dividends and increase their holding.

Total shareholder return

I am sure you are well aware that, Challenger's share price has demonstrated superior performance over the long term.

Over three and five years the total shareholder returns have been 136% and 101% respectively, which compares very favourably with the market.

What's more significant is Challenger's 10 year total shareholder return which was 231% compared to the ASX100's 65% for the same period.

Board remuneration

Your Board is focused on ensuring there continues to be strong and clear alignment between remuneration outcomes and the Company's performance.

Our executives are rewarded for performance in a way that is directly aligned to the value they provide shareholders. This means financial incentives are dependent on achieving superior returns for you, our shareholders.

The alignment between executive remuneration and shareholder interests was again recognised this year. All proxy advisory firms recommended shareholders vote in favour of Challenger's 2016 remuneration report.

We will continue to ensure that our remuneration policies reflect good governance, market practice and, are directed to driving excellence and rewarding long-term performance.

Sustainability

Underpinning our purpose as a business is sustainability. Most importantly, it addresses the sustainability of our customers' lifestyles in their older years when financial security is paramount.

Key elements of sustainability for Challenger are our business practices. This is highlighted in our risk management framework; initiatives aimed at reducing our environmental impact; and our diversity policy.

Challenger is committed to providing an inclusive workforce and values the capability and experience diversity brings to the organisation. A key aspect of Challenger's diversity policy is our focus on gender equality.

The Board has committed to measurable diversity objectives and in 2016, Challenger undertook a number of initiatives in support of this.

Some of these included:

- setting gender targets to increase the representation of women in senior leadership;
- continuing to drive gender pay equity;
- expanding flexible work practices;
- paying the Superannuation Guarantee to employees on parental leave; and
- sponsoring a diversity scholarship program for high-potential women.

Challenger adheres to a robust risk management framework that engenders trust and transparency for all of our stakeholders.

Risk is everyone's business at Challenger. It is measured and permeates from the Board and management team to all levels within the organisation. The culture and behaviours continually seek to identify, articulate and mitigate risk.

We strengthened our commitment to environmental sustainability over the past 12 months.

Central to this was moving Challenger's head office in Sydney to new, more environmentally friendly premises in Martin Place. These premises have a five star greenhouse rating.

In addition, we've again disclosed our carbon emissions through the internationally recognised Carbon Disclosure Project and have offset relevant greenhouse gas emissions, making our business operations carbon neutral.

Summary

To summarise, Challenger has dedicated itself to retirement incomes through our vision of providing our customers with financial security for retirement.

Our strategic direction and performance is being driven by a number of forces.

Australia's baby boomer generation, which is the largest and wealthiest generation in Australia's history, is moving into retirement. Over the next 40 years the number of Australians aged over 65 will double to seven million.

In responding to this demographic shift, the government has announced reforms to create a more sustainable superannuation system. These changes put the creation of retirement income at the centre of superannuation and allow for a wider range of retirement income products.

The superannuation industry is recognising the importance of retirement income to retirees and is looking at ways to make annuities more readily available to its members. Challenger has capitalised on this by forming new relationships with a number of financial services organisations.

Your company has achieved leading shareholder returns and has sustainable and robust business practices.

I would like to thank the Board, the company's management, and all of Challenger's employees.

They are a committed team whose tireless effort, passion for our business and disciplined approach have delivered another great result and positioned Challenger for future growth and success.

It is a pleasure to work with such a focused group whose dedication to excellence is outstanding.

I would also like to thank you, our shareholders, for your ongoing support and commitment to Challenger.

I will now hand over to our Chief Executive Officer Brian Benari, to provide more detail on the operational and financial performance.

CEO ADDRESS

Thank you Peter and good morning to everyone joining us today.

It's a pleasure to provide you with an update on Challenger's 2016 performance.

Before I deliver my shareholder address I'd like to play for you a video showcasing Challenger's 2016 performance that we recently shared with our staff.

Video

<https://www.youtube.com/watch?v=sNCUTzp736s>

I hope you all enjoyed the video which shows the progress we are making both in terms of this year's financial performance and also in building for the future.

It also highlights how our people are critical to our company's results and the continuing track record of growth we've achieved over many years.

Today I will talk about the key factors driving that performance and, later in my presentation, provide some detail on the two new annuity relationships that we've announced this morning.

Capturing market opportunities

Challenger has a clear and focused strategy to provide our customers with financial security for retirement.

In Funds Management we're focused on the accumulation stage that builds the financial savings people need for their future retirement needs.

In Life, we're focused on converting those savings to income ensuring retirees can maintain their lifestyle, protected from market, inflation and longevity risks.

Multiple forces continue to propel our growth.

These include:

- the rising wave of people moving into retirement with larger superannuation balances;
- the need for stable incomes in retirement and an increased focus on self-reliance; and
- a better understanding of the likelihood of living longer in retirement.

Challenger has developed strong internal capabilities over many years to capture the growth opportunities we see today. These entrench our competitive advantage as Australia's retirement income market leader.

2016 financial results

Let me spend a few minutes talking to you about our financial performance.

What's pleasing is not only the improvements in all our key financial metrics, some of which have shown double-digit increases; it's also that we've done this over an extended period of time.

Looking at the headline 2016 numbers, our results are driven by continued growth in assets under management, which was up 10% to \$60 billion.

Normalised profit after tax was up 8% to \$362 million while statutory profit after tax was up 10%.

There were more Challenger shares on issue with the success of our Dividend Reinvestment Plan resulting in normalised earnings per share rising 6% to 64.6 cents. Over the past five years earnings per share has risen 30%.

Our 2016 results were underpinned by strong growth in annuity sales and that momentum has continued. Last week we announced record first quarter annuity sales of over \$1 billion, up 46% compared to the first quarter last year, and Funds Management recorded nearly \$1 billion of new net flows.

Funds Management

In Funds Management we have a stable of boutiques run by some of the best managers in Australia, and we are now represented in Europe. We have a good mix of equity, fixed income and alternative asset managers and our strategy is to continue to add scale and further diversify this offering.

Our managers continue to attract new fund flows in what has been a challenging year for many industry players. In the 2016 financial year, average funds under management grew to \$57.2 billion, up 11% on an underlying basis, once allowing for the sale of our interest in Kapstream Capital.

Funds under management increased by a further \$2 billion in the first quarter of this financial year.

Over an extended period Fidante Partner's funds under management have grown at twice the rate of the overall market. An annual compound growth rate of 19% has been achieved over the last five years. By any measure this is an impressive track record.

The acquisition last year of what is now Fidante Partners Europe has enhanced our global funds distribution capability as it provides us with a channel to UK and European alternative asset investors.

While activity in Fidante Capital was minimal due to Brexit uncertainty, Fidante Partners' funds under management in Europe has tripled to \$1.5 billion in the past 12 months.

In Challenger Investment Partners, which manages property and fixed income investments for institutions, we've continued to diversify our client base attracting new third party funds from offshore clients.

Life (annuities)

In our Life or annuities business, shareholders benefited from a stable margin that meant strong asset book growth fed directly through into earnings growth.

Overall annuity sales grew 22% to a record \$3.4 billion for the year, with sales of our lifetime annuities up 21% to \$581 million.

There has also been growth in sales of our CarePlus product, which is designed to help deal with the cost and complexity of aged care. In August, CarePlus was launched on Colonial First State's FirstChoice platform, making it more readily available to over a thousand financial advisers across Australia.

The superannuation industry is already moving ahead of the government reform that our Chairman spoke about and is now beginning to focus more closely on and adapt to the needs of its retiring members. We are seeing this most noticeably through our strategic relationships.

A key part of our results has been growth in sales via investment and administration platforms.

Over the past 16 months Challenger has formed several relationships to make Challenger annuities more readily available to financial advisers and super fund members. A number of these relationships are already bearing fruit.

VicSuper was our first building block in the profit for member sector and we've seen sales momentum build.

Colonial First State was our first major retail hub to go live with annuities on its FirstChoice and FirstWrap platforms, which are used by half of all financial advice firms in Australia.

At last year's AGM we announced that three industry funds would commence selling guaranteed income products backed by Challenger through our strategic relationship with Link Group. Local Government Super went live in July and sales have already started. We expect to launch with CareSuper and Legal Super before the end of November.

Challenger annuities are now also available through ClearView Wealth Solutions and, from next month, Suncorp will begin selling Suncorp-branded Challenger annuities through its national branch network.

This reflects the momentum in the business.

On top of this, today Challenger announced two very important new relationships.

- an annuity relationship with AMP to provide Challenger's full range of annuity products through AMP's investment and administration platforms; and
- an annuity relationship with Mitsui Sumitomo Primary Life (MS Primary), a leading provider of Australian dollar annuity and life insurance products in Japan.

From the first quarter of the 2018 financial year, Challenger's full range of annuities are planned to be available to AMP advisers and customers through their North, MyNorth and AMP Flexible Super platforms. These are market-leading platforms which service the needs of retail customers.

Challenger annuities will also be available through SignatureSuper, AMP's super fund offering for large corporate clients.

Between them, these platforms have about \$54 billion of assets under management and AMP has the largest retail adviser network in Australia with more than 3,700 financial advisers.

As a leading specialist wealth management company, AMP is already a major distribution partner of Challenger. This new annuity relationship will make it easier for AMP's financial advisers to access guaranteed income products and it will help them implement more comprehensive retirement income solutions. Challenger's tools and calculators will be available to support AMP advisers in building their clients' retirement portfolios.

The AMP relationship is further evidence of how progressive superannuation industry participants are moving ahead of expected regulatory reforms to meet the needs of customers moving into retirement.

Our new annuity relationship with MS Primary is an exciting opportunity which gives us access to the world's largest savings pool, which also has an established and growing Australian dollar annuity market.

We have formed a relationship with one of Japan's leading Australian dollar annuity providers, who are focused on innovating to meet the needs of aging customers and to respond to Japan's negative interest rate environment.

This initiative breaks new ground opening us to a whole new market so I would like to give you some background on the Japanese opportunity. Challenger has been investing in long-term assets in Japan for over 10 years and that experience enabled us to develop long-term business relationships which led to this opportunity.

Like Australia, Japan faces a demographic challenge with a rapidly increasing proportion of the population moving into retirement. As many of you will know Japan's challenge is even more acute, with 25 per cent of the population already over 65 and this is expected to reach 36% by 2040.

This ageing population is looking for income from longer dated products and that's been accentuated by the negative interest rate environment in Japan. This has spurred the growth of a substantial market for Australian dollar annuities in Japan in recent years. Last year the sales of fixed Australian dollar annuities in Japan was estimated to be seven times the level of total annuity sales in Australia.

Through our relationship with MS Primary, starting next month Challenger will issue Australian dollar fixed rate annuities with a 20 year term to support a reinsurance agreement with MS Primary. Challenger will provide a guaranteed interest rate and assume the investment risk initially on half of each new policy issued by MS Primary.

The investment portfolio will be invested in the same asset classes as our current investment portfolio and accounted for and reported in the same way as our existing annuity business.

This new initiative is consistent with our strategy to create a broader range of products and expand our relationships. It leverages our proven risk management and investment capabilities in sourcing and managing long-term assets and is testament to our leadership in Australian annuities.

I look forward to updating shareholders on the progress of this new relationship at our next financial results briefing in February.

Outlook

To summarise today's presentation, the Chairman and I have talked about the strong results achieved by Challenger in 2016.

We have discussed the ongoing policy reform that puts retirement income at the heart of our superannuation system. This will lead to a larger market with a wider range of products.

Being positioned as a market leader in the growing retirement incomes market, Challenger is increasingly differentiated from a number of other financial services companies. We have strong momentum and expanding market opportunities.

Our strategy and vision remain consistent – to provide our customers with financial security for retirement – and we continue to work to achieve this goal.

We are also delivering very strong shareholder outcomes.

Challenger remains strongly capitalised with excess capital towards the upper end of our capital target range. We have ambitions to continue to grow and last week announced our intention to issue qualifying Additional Tier 1 capital notes before the end of the 2017 financial year, subject to prevailing market conditions. This will provide us with additional capital flexibility as we grow.

I would like to take this opportunity to reaffirm Life's 2017 Cash Operating Earnings guidance range of \$620 million to \$640 million and note that our strong start to the year was considered in setting that guidance in August.

In concluding I want to again thank our employees for their commitment and outstanding contribution to another strong year for your company.

To our shareholders, thank you for your continued commitment and support.

I'd now like to hand back to our Chairman.

ENDS

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Challenger Limited

Providing our customers with
financial security for retirement

Annual General Meeting 2016

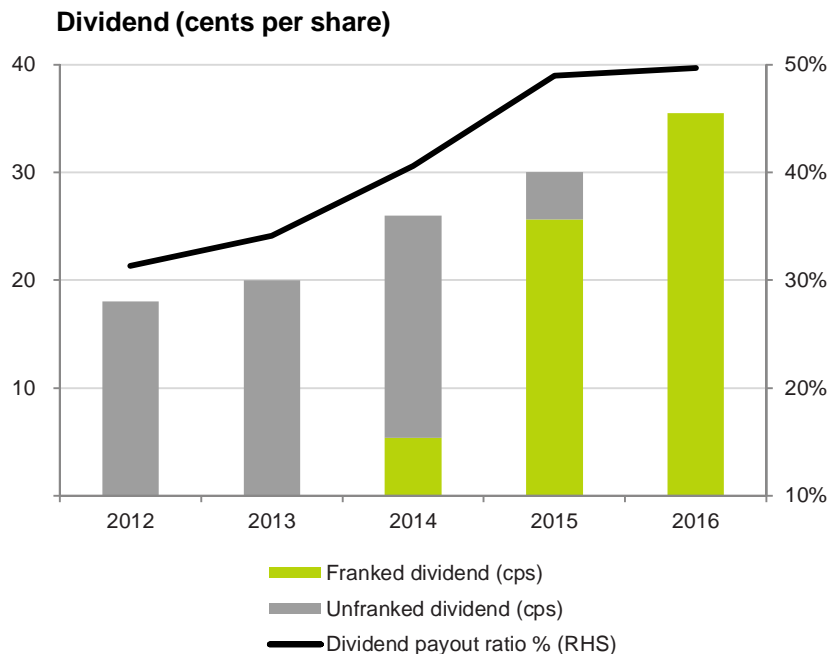
27 October 2016



Challenger

Sustainable dividend growth and fully franked

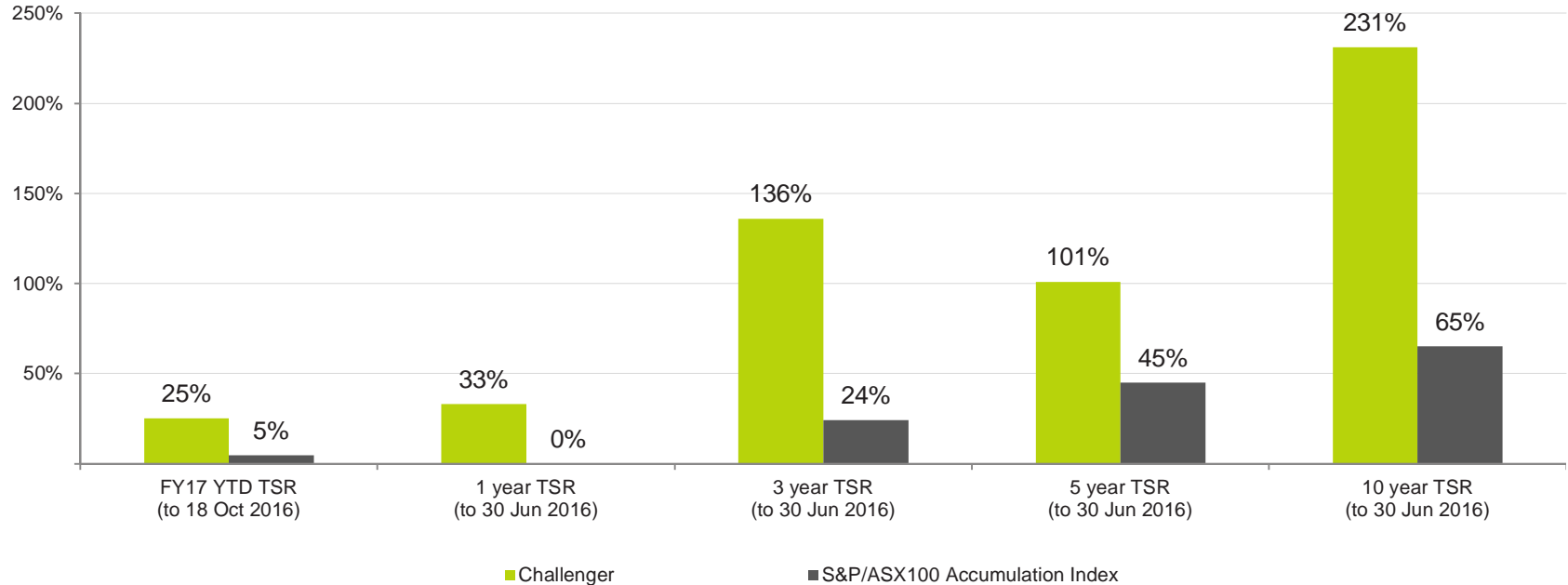
- 2016 dividend
 - 32.5 cents per share
 - 100% franked
 - up 8% on last year
 - 50% payout ratio – within guidance range
- Dividend Reinvestment Plan in place
- Dividend guidance¹
 - target dividend payout ratio 45% to 50%
 - expect future dividends to be 100% franked



1. Dividend payout ratio based on normalised EPS. Dividend payout ratio and franking levels subject to market conditions and capital allocation priorities.

Total Shareholder Return

Outstanding long term performance

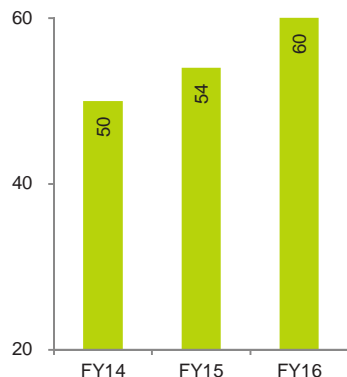


Group financial highlights

Continuing track record of growth

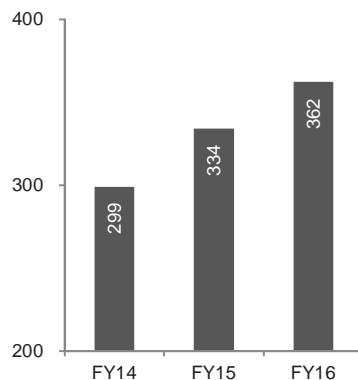
10%↑

Assets Under Management
\$60 billion¹



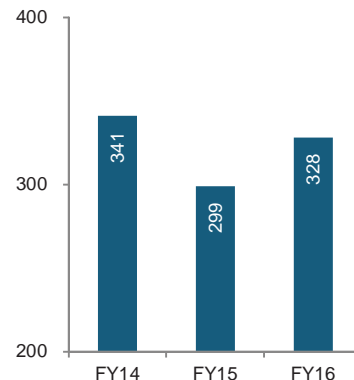
8%↑

Normalised profit after tax^{2,3}
\$362 million



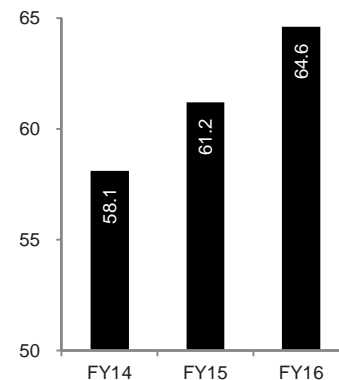
10%↑

Statutory profit after tax²
\$328 million



6%↑

Normalised EPS³
64.6 cps



1. Growth in AUM (10%) excludes derecognition of Kapstream FUM (-\$5.4bn).

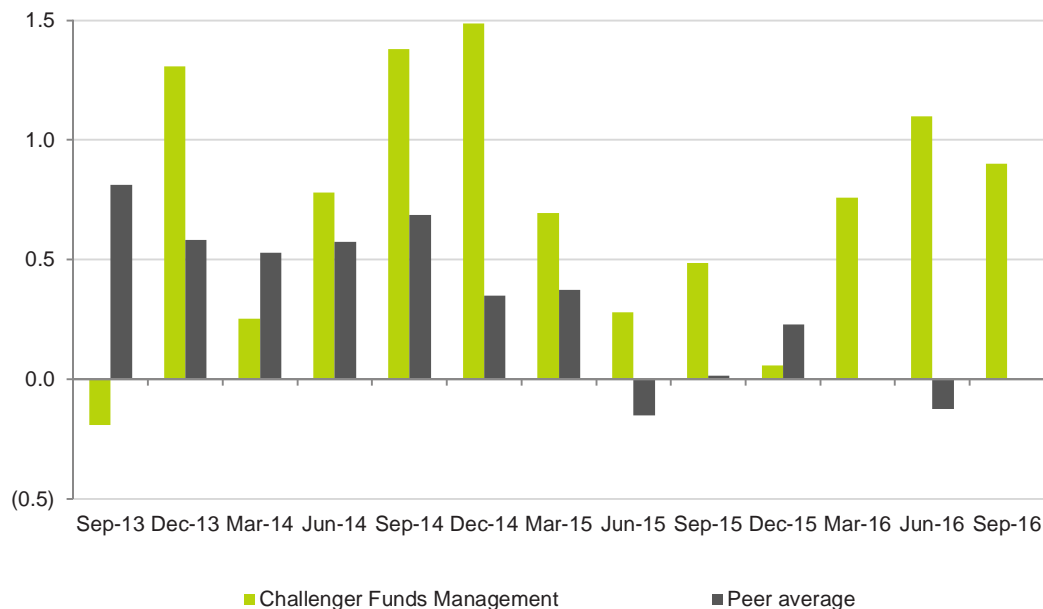
2. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in section 4.2 of the Directors' Report in the Annual Report 2016, which can be found at www.challenger.com.au/annualreport2016.

3. 2014 normalised profit after tax and normalised EPS excludes one-off TOFA tax benefit (\$30m).

Funds Management

Net flows consistently outperforming peers

Quarterly net flows vs peers¹ (\$bn)



Challenger fund managers

Equity managers

Alphinity

GREENCAPE CAPITAL

kinetic

MERLON CAPITAL PARTNERS

TEMPO ASSET MANAGEMENT

WaveStone CAPITAL

NOVA PORT CAPITAL

Fixed income managers

Alternative managers

ARDEA Investment Management

Challenger Investment Partners

AGRICULTURAL ASSET MANAGEMENT

WYE TREE ASSET MANAGEMENT

BENTHAM ASSET MANAGEMENT

WHITEHELM CAPITAL

horizon INFRASTRUCTURE PARTNERSHIP

KAPSTREAM CAPITAL

Resonance Asset Management

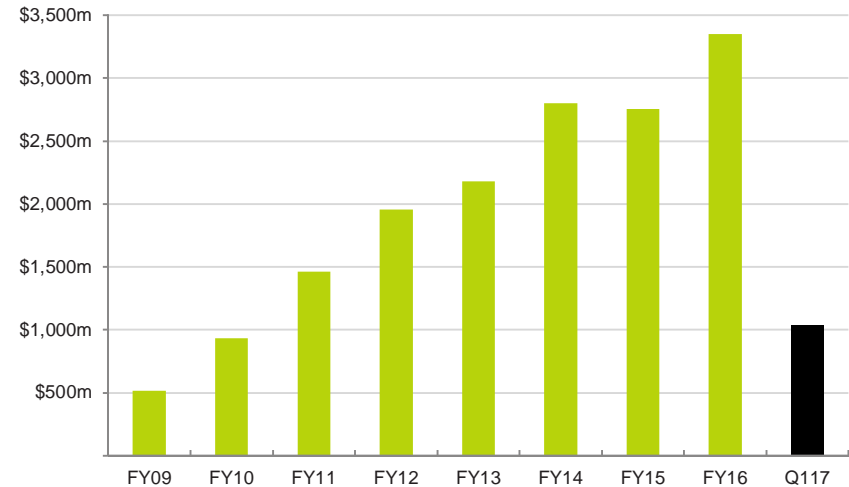
1. Quarterly net flows for peers, including Magellan, BTIM, Perpetual, AMP Capital Investors, Platinum and Pacific Current Group.

Life

Sales benefiting from demographic changes and new relationships

- Annuity sales have increased on average 31% per year since FY09
- FY16 annuity sales of \$3.4bn – up 22%¹
- Q117 annuity sales of \$1.0bn – up 46%¹
- Annuity sales benefiting from demographic changes and new distribution relationships

Annuity sales



1. Compared to prior comparative period.

Life

New relationships accelerating growth

2016 financial year



Australia's largest retail platform offering Challenger annuities



Profit for members fund providing access to Challenger annuities



Leading provider of services to Australian superannuation industry providing access to Challenger annuities

2017 financial year



ClearView Wealth Solutions platform offering Challenger annuities



caresuper

Three Link Group clients providing access to Challenger annuities



Suncorp branded term and lifetime annuities backed by Challenger



Largest adviser network in Australia offering Challenger annuities via investment and administration platforms

Mitsui Sumitomo Primary Life Insurance

MS&AD INSURANCE GROUP

Annuity relationship with a leading provider of Australian dollar annuities in Japan

Outlook

Market leader with competitive advantage

Life

Growth accelerating from demographic changes and new relationships

Funds Management

Net flows consistently outperforming peers

Outlook

Maintaining target dividend payout ratio of 45% to 50%¹

Committed to 18% pre-tax normalised return on equity target

FY17 Life Normalised Cash Operating Earnings guidance of \$620m to \$640m

1. Dividend payout ratio based on normalised EPS. Dividend payout ratio and franking levels subject to market conditions and capital allocation priorities.