

CHALLENGER THIRD QUARTER PERFORMANCE

- Total assets under management \$81 billion, up 4% in the quarter
- Funds Management FUM, up 4% in the quarter
- Total annuity sales \$662 million, down 13% on pcp
- Australian annuity sales, down 7% on pcp
- Japanese annuity sales, down 49% on pcp
- Total Life net book growth -1.2% for the quarter
- Progressing MS&AD strategic relationship expansion

Challenger Limited (ASX:CGF) today reported third quarter results, with total assets under management (AUM) increasing by 4% (\$3 billion) to \$81 billion, driven by the rebound in investment markets.

Managing Director and Chief Executive Officer Richard Howes said while lower Japanese sales and industry disruption continue to impact sales, Challenger has made good progress implementing strategies to build further resilience through an expanded relationship with MS&AD in Japan and new domestic distribution relationships.

“Annuity sales continue to be impacted by lower Japanese sales and general disruption in the Australian financial advice market. However, while annuity sales via the major hubs were down, we are seeing resilience in other sectors of the advice industry with strong growth in sales by independent financial advisers (IFAs).

“Growth in IFA sales reflects the evolution of the advice industry over the past 12 months, and supports our strategy to expand our distribution reach through IFAs. We expect Challenger annuities to be launched on leading independent platforms, Hub24 and Netwealth, before the end of the financial year.”

Mr Howes said the significant expansion of the strategic relationship with MS&AD announced in March was progressing well. The relationship will see Challenger reinsure US dollar denominated annuities distributed by MS Primary from 1 July, supporting Challenger’s strategy for growth in Australia and internationally.

“While we continue to see a reduction in the contribution from Japanese annuity sales reflecting lower Australian interest rates relative to the United States, the new agreement with MS Primary will significantly increase our Japanese sales and also diversify our Japanese product offering.”

Life

Total Life net flows for the quarter were an outflow of \$170 million, representing annuity net inflows of \$66 million offset by net institutional outflows of \$236 million. As a result, Life's total book growth for the quarter was -1.2% of opening FY19 liabilities¹.

Total annuity sales of \$662 million were down \$99 million (13%) on the prior corresponding period (pcp), driven by a lower contribution from MS Primary (Japanese) sales (down \$54 million) and lower Australian annuity sales (down \$45 million).

MS Primary sales represented 8% of total third quarter annuity sales, down from 14% in the pcp. MS Primary sales of \$55 million reduced by 49% on the pcp as a result of higher US interest rates relative to Australia, reducing demand for Australian dollar denominated products in Japan.

Under a new arrangement with MS Primary, Challenger will commence reinsuring US dollar denominated annuities issued into the Japanese market by MS Primary, from 1 July 2019². MS Primary will provide to Challenger Life an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (currently ~A\$640 million³) per year for a minimum of five years. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

MS&AD also intends to increase its ownership in Challenger above 15% of issued capital, and will seek to appoint a representative to the Challenger Board⁴.

Australian annuity sales of \$607 million were down 7% on the pcp. Australian term annuity sales were \$448 million, up 3% on the pcp, and lifetime annuity sales were \$159 million, down 27% on pcp.

Australian annuity sales continue to be impacted by disruption in the retail financial advice market following the Royal Commission, which has seen a reduction in new client acquisitions and increased adviser churn.

Annuity sales by major advice hubs⁵ were \$352 million in the third quarter and reduced by 24% on the pcp. These results were partially offset by strong growth in IFA sales of \$255 million, increasing by 33% on pcp.

Australian lifetime annuity sales were \$159 million, down from \$217 million in the pcp. New means test rules applying to lifetime income streams from 1 July 2019. Challenger is working with advisers through the transition to the new means test rules which are ultimately expected to support take up of lifetime retirement income streams.

Net Life annuity sales were \$66 million, down from \$316 million, reflecting lower annuity sales and higher maturities. Maturities increased in part due to a larger annuity book compared to the pcp. Annuity book growth for the quarter represented 0.6% of the opening FY19 Life annuity book.

Sales of Other Life products, representing lower margin institutional Guaranteed Index Return and Challenger Index Plus products, were down \$130 million on the pcp to \$208 million, with sales

¹ Based on opening FY19 opening annuity liability and other products (Guaranteed Index Return and Challenger Index Plus).

² Subject to necessary approvals including regulatory, compliance and contractual requirements.

³ Based on exchange rate of 0.012839 as at 25 March 2019. Exchange rates may change over time.

⁴ Subject to necessary regulatory approvals (including the Australian Prudential Regulation Authority and Treasurer's approval under the Finance Sector (Shareholdings) Act) and market conditions.

⁵ Wealth management operations for the four major Australian Banks, AMP and IOOF.

largely representing the reinvestment of maturities from existing clients. Institutional maturities of \$444 million resulted in lower Other Life net flows.

Life's investment assets at 31 March 2019 were \$18.6 billion and were unchanged for the quarter. The movement in Life's investment assets reflect net book growth and changes in retained earnings net of dividends paid to Group.

Challenger continued to reduce its exposure to property during the quarter, with several properties expected to settle during the fourth quarter. As previously announced, Challenger's allocation to property is expected to reduce to mid-teens percentage by the end of FY19.

Funds Management

Funds Management FUM at the end of the quarter was \$78.1 billion, an increase of \$3.1 billion or 4% for the quarter. FUM benefited from positive investment markets, partially offset by net outflows of \$37 million for the quarter.

Fidante Partners' FUM was \$59.3 billion, an increase of 5% (\$3.0 billion) for the quarter. Fidante Partners' net flows for the quarter were an outflow of \$46 million, with equity inflows offset by lower margin fixed income outflows.

Fidante Partners also welcomed a new boutique in April, Eiger Capital. Eiger is a new Australian boutique manager specialising in small caps.

Challenger Investment Partners' FUM was \$18.8 billion and increased by 1% for the quarter.

Outlook

Challenger reaffirms the guidance provided in February 2019 for normalised net profit before tax to be between \$545 million and \$565 million in FY19.

ENDS

About Challenger

Challenger Limited (Challenger) is an investment management firm focusing on providing customers with financial security for retirement.

Challenger operates two core investment businesses, a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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Challenger Limited

Life financial results

Life – quarterly sales and investment assets

\$m	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18
Life sales					
Fixed term sales	503	750	949	735	544
Lifetime sales ¹	159	220	222	216	217
Life annuity sales	662	970	1,171	951	761
Maturities and repayments	(596)	(846)	(801)	(632)	(445)
Life annuity flows	66	124	370	319	316
Annuity book growth²	0.6%	1.0%	3.2%	3.1%	3.1%
Other Life sales	208	205	395	182	338
Other maturities and repayments	(444)	(170)	(340)	(281)	(25)
Other Life flows	(236)	35	55	(99)	313
Other Life net book growth²	(11.1%)	1.6%	2.6%	(5.8%)	18.5%
Total Life sales	870	1,175	1,566	1,133	1,099
Total maturities and repayments	(1,040)	(1,016)	(1,141)	(913)	(470)
Total Life net flows	(170)	159	425	220	629
Total Life book growth²	(1.2%)	1.1%	3.1%	1.9%	5.2%
Life					
Fixed income and cash ³	12,116	12,015	11,913	11,728	11,413
Property ³	3,582	3,739	3,504	3,840	3,718
Equity and other	2,116	2,113	2,188	1,799	1,868
Infrastructure ³	825	757	742	718	673
Total Life investment assets	18,639	18,624	18,347	18,085	17,672
Average Life investment assets⁴	18,659	18,380	18,217	17,824	17,362

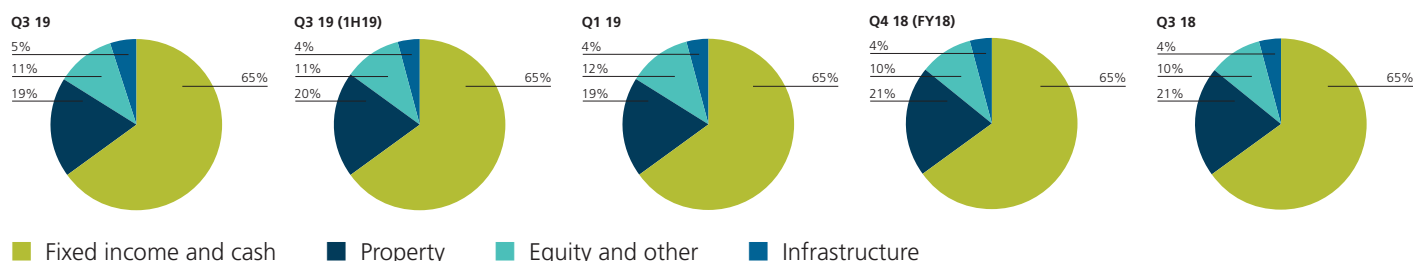
¹ Lifetime sales includes CarePlus, a lifetime annuity specifically designed for the aged care market.

² Book growth percentage represents net flows for the period divided by opening book value for the financial year.

³ Fixed income, property and infrastructure reported net of debt.

⁴ Average Life investment assets calculated on a monthly basis.

Life asset allocation



Challenger Limited

Life financial results

Funds Management – Funds Under Management and net flows

\$m	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18
Funds Under Management					
Fidante Partners					
Equities	26,463	23,806	26,578	26,349	24,373
Fixed income	24,527	24,334	24,611	25,036	24,699
Alternatives	8,290	8,190	8,337	8,245	8,275
Total Fidante Partners	59,280	56,330	59,526	59,630	57,347
Challenger Investment Partners					
Fixed income	13,082	12,839	13,053	12,346	13,134
Property	5,723	5,845	5,654	6,008	5,876
Total Challenger Investment Partners	18,805	18,684	18,707	18,354	19,010
Total Funds Under Management	78,085	75,014	78,233	77,984	76,357
Average Fidante Partners	58,083	57,634	59,834	58,489	56,575
Average Challenger Investment Partners	18,717	18,814	18,670	18,807	17,921
Total average Funds Under Management¹	76,800	76,448	78,504	77,296	74,496
Analysis of flows					
Equities	231	(67)	(44)	(188)	404
Fixed income	(238)	(167)	(447)	230	242
Alternatives	(39)	(166)	(155)	(71)	758
Total Fidante Partners	(46)	(400)	(646)	(29)	1,404
Challenger Investment Partners	9	(155)	224	(685)	677
Net flows	(37)	(555)	(422)	(714)	2,081

¹ Average total Funds Under Management calculated on a monthly basis.

Group – Reconciliation of total group assets and Funds Under Management

\$m	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18
Funds Management (FUM)	78,085	75,014	78,233	77,984	76,357
Life investment assets	18,639	18,624	18,347	18,085	17,672
Adjustments to remove double counting of cross-holdings	(15,311)	(15,252)	(15,308)	(14,926)	(15,476)
Total Assets Under Management	81,413	78,386	81,272	81,143	78,553