

# Challenger Limited

## Investor Day

13 June 2019



# Overview

## Providing our customers with financial security for retirement

10:00 – 10:10



### **Vision and strategy**

Richard Howes – Managing Director and Chief Executive Officer

10:10 – 10:40



### **Distribution, Product and Marketing**

Angela Murphy – Chief Executive, Distribution, Product and Marketing

10:40 – 11:10



### **Life**

Chris Plater – Chief Executive, Life

11:10 – 11:20

### **Break**

11:20 – 11:50



### **Funds Management**

Ian Saines – Chief Executive, Funds Management

11.50 – 12:30



### **Financial outlook, wrap up and Q&A session**

Richard Howes – Managing Director and Chief Executive Officer

# Vision and strategy

**Richard Howes**

Managing Director and  
Chief Executive Officer



# Vision and strategy

A clear plan for sustainable long-term growth

To provide our customers with financial security for retirement



Increase the use of  
secure retirement  
income streams



Lead the retirement  
incomes market and be  
the partner of choice



Provide our customers  
with excellent funds  
management solutions



Maintain leading  
operational and  
people practices

# Priorities to drive long-term growth

## Fundamentals remain strong

### Industry trends

#### Long-term structural tailwinds

- World class accumulation super system
- Ageing demographics
- Retirement phase developing

#### Near-term headwinds

- Financial advice market disruption
- Increased market volatility
- Profit-for-member funds internalising FUM

### Priorities

- Engage, educate and deepen customer connections
- Improve adviser experience
- Thought leadership to build industry support
- Strengthen relationships with profit-for-member funds
- Build on FM product offering
- Continue leading operating and people practices
- Maintain financial discipline and strong capital position

# Expanding strategic relationship with MS&AD

## Diversifying and increasing access to Japanese market

### MS Primary annuity relationship

- Currently Australian dollar product reinsurance
  - commenced November 2016
- Expanding reinsurance to include US dollar product<sup>1</sup>
  - expected to commence 1 July 2019<sup>2</sup>
  - at least ¥50 billion (~A\$660 million) in total A\$ and US\$ sales per year for minimum of five years<sup>3</sup>
  - provides reliable and diversified sales contribution

### MS&AD strategic relationship

- Intention to increase Challenger ownership above 15%<sup>4</sup>
- Representative to join Challenger Board<sup>4</sup>
- Growth opportunities for both companies

**MS&AD**

**MS&AD Insurance Group**

~A\$27bn market cap  
Total assets ~A\$280bn

41,733 employees  
5 business domains

(as at 30 September 2018)

1

Japanese general insurer  
#1 market share

MS&AD

Mitsui Sumitomo Insurance

MS&AD

Aioi Nissay Dowa Insurance

MS&AD

Mitsui Direct General Insurance

2

Japanese life insurer  
#7 market share  
Leading foreign currency annuity provider

MS&AD

Mitsui Sumitomo Aioi Life Insurance

MS&AD

Mitsui Sumitomo Primary Life Insurance

3

International operations  
operations in 45 countries  
#1 ASEAN general insurer

MS&AD

amlin

A Member of 

MS&AD

 INSURANCE GROUP

MSIG

Box Innovation

### 2019 Investor Day – Vision and strategy

1. Challenger Life has entered into a new agreement with MS Primary to commence reinsuring the US dollar version of the 20-year term product. Challenger will provide a guaranteed interest rate and assume the investment risk in relation to those policies issued by MS Primary and reinsured by Challenger.

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

3. Subject to review in the event of a material adverse change for either MS Primary or Challenger Life and based on exchange rate as at 7 June 2019.

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

# World class accumulation system

## Significant retirement savings but not delivering retirees financial comfort

### World class accumulation system



Contribution rate increasing to 12%<sup>1</sup>



4<sup>th</sup> largest global pension market<sup>2</sup>



Assets to double over next 10 years<sup>3</sup>

### Significant retirement savings



1 in 4 super dollars supporting retirement<sup>4</sup>



Wealth at retirement \$350k to \$500k<sup>5</sup>



~\$67bn transferring to retirement each year<sup>6</sup>

### Not delivering retirees financial comfort

National Seniors Australia survey (April 2019)<sup>7</sup>



Financial comfort not defined by a \$ figure



53% worry about outliving their savings



Risk appetite conflicts with risk taking

#### 2019 Investor Day – Vision and strategy

1. Increases to 10% on 1 July 2021 and increases by 0.5% p.a. until reaching 12% on 1 July 2025.
2. Willis Towers Watson Global Pension Study 2018.
3. Rice Warner superannuation projections.
4. Based on APRA and ATO data.

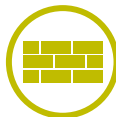
5. Average household wealth includes superannuation and non-superannuation assets and excludes the family home.

6. Australian Taxation Office.

7. <https://nationalseniors.com.au/research/retirement/feeling-financially-comfortablequestion>

# Key growth driver

## Making annuities mainstream in retirement



### Today – Strong foundations

#### Recognised retirement income leader

- Product innovator
- Strong distribution
- Leading brand
- Rated #1 by advisers
- Thought leadership

#### Established operating platform

- Scalable platform
- Investment capability
- Strong risk culture
- Highly engaged team
- Capital strength



### Next phase – Driving growth





# Distribution, Product and Marketing

**Angela Murphy**  
Chief Executive,  
Distribution, Product and  
Marketing



# Responding to disruption and driving growth

## Making annuities mainstream in retirement

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### **Continued focus on strategic initiatives**

Expanding distribution channels including access to more IFAs

Partnering with profit-for-member funds

Maintaining thought leadership

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### **Active response to current operating environment**

Significant financial advice market disruption

Implementing targeted initiatives to mitigate advice disruption

Supporting introduction of new means test rules

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### **New investment to drive ambitious growth**

Significantly enhancing brand, education and engagement to build customer demand

Improving adviser experience to increase allocation to annuities

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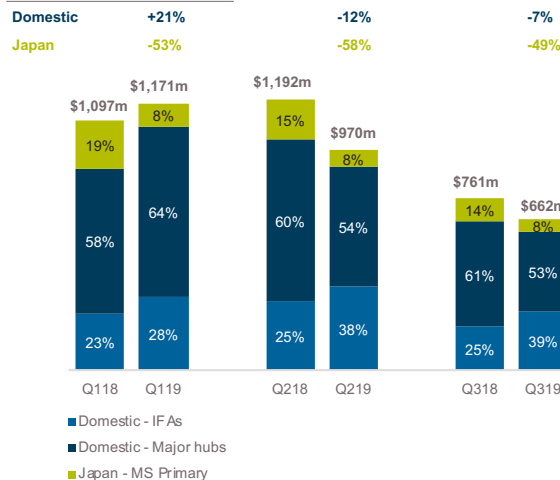
# Significant financial advice market disruption

## Impacting Challenger annuity sales

- Challenger sales impacted by lower adviser productivity
- Major hubs more impacted than IFAs – Q219 and Q319 domestic annuity sales
  - major hub sales -25%<sup>1</sup> on pcip
  - IFA sales +26%<sup>2</sup> on pcip
- Impact of advice market disruption increasing in Q419
- Fundamental need for financial advice remains

Quarterly annuity sales by channel (\$m)

Growth rate compared to pcip



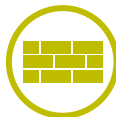
### 2019 Investor Day – Distribution, Product and Marketing

1. Major hubs include AMP, IOOF and wealth management operations of major Australian banks. Comparison shown is combined Q219 and Q319 annuity sales compared to the prior period.

2. IFA include dealer groups outside of the major hubs.

# Key growth driver

## Making annuities mainstream in retirement



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### Next phase – Driving growth

#### Key growth driver

- Build bottom-up customer demand
- Deeper integration with advice process
- Enhance product offering
- Partner with profit-for-member funds



2019 Investor Day – Distribution, Product and Marketing

# Short term priorities

## Mitigate advice market disruption and support move to new means test rules

- Mitigate adviser disruption
  - continue growth through building new cohorts of IFA advisers using annuities
  - track and support annuity advocates as they move across advice licensees
- Leverage new platform relationships providing IFA access
- New means test rules support lifetime income streams, including deferred lifetime annuities
  - commence 1 July 2019
  - support advisers to identify and communicate customer benefits
  - transition lifetime sales from Regular Income to Flexible Income (54%<sup>1</sup> of advisers only write Regular Income)

**HUB<sup>24</sup>**

Launched May 2019

**netwealth**

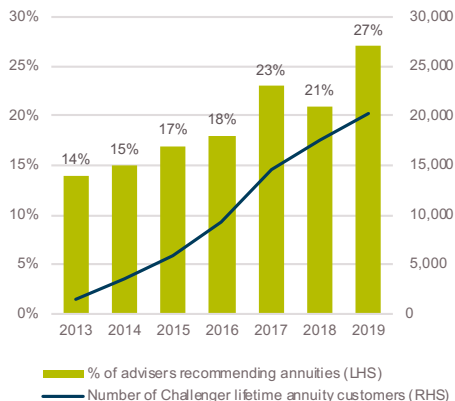
Launched June 2019

# Driving ambitious growth

## Making annuities mainstream in retirement

## Investing up to \$15m on new customer and adviser growth initiatives

Adviser usage of annuities<sup>1</sup>  
Organic growth in lifetime customers<sup>2</sup>



**Build bottom-up customer demand for annuities**

- Engagement
- Education
- Brand



**Increase the allocation made to annuities through financial advice**

- Simplification
- Segmentation
- Integration

2019 Investor Day – Distribution, Product and Marketing

1. Wealth Insights, Challenger Survey Level Reports 2013 through 2019.

2. Challenger organic lifetime annuity customers (excludes customers acquired through the purchase of the AXA and MetLife annuity books).



# Research informs customer strategy

Increased customer understanding leads to higher consideration of annuities



**Retirees have a grounded retirement vision:** most aspire to the continuation of their current standard of living



**Product understanding:** limited understanding of annuities and mispricing of risk / inappropriate product comparisons are a barrier to purchase



**Continuity of income is a priority:** retirees are looking for a known and consistent income stream



**Customers are looking for greater intimacy:** existing customers would welcome more communication and interaction with Challenger



**Customer satisfaction and annuity appeal:** customers with annuities were very satisfied with their purchase and the appeal of annuities spans different levels of financial literacy and wealth



**Annuities are not in the standard consideration set:** retirees have low familiarity of annuities as a potential retirement income solution

2019 Investor Day – Distribution, Product and Marketing

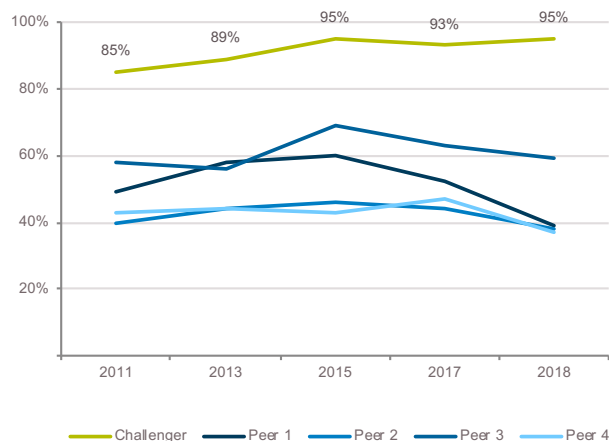
Source: Customer research CoreData, June 2018



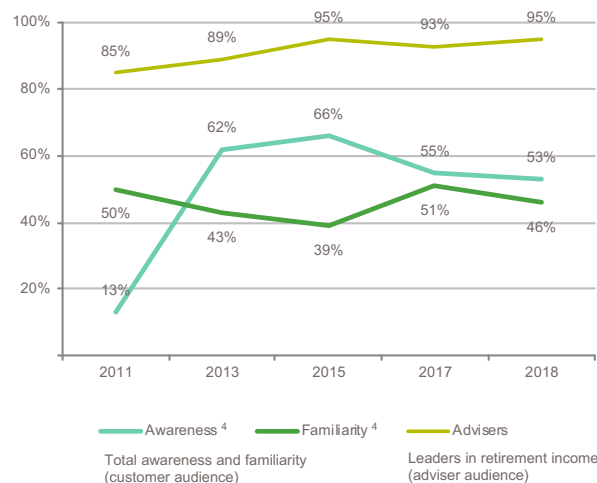
# Leveraging brand and expertise

## Opportunity to grow consumer familiarity

Recognised by advisers as leader in retirement income<sup>1</sup>



Brand strength<sup>1,2,3</sup>



### 2019 Investor Day – Distribution, Product and Marketing

1. Adviser – Marketing Pulse Adviser Study April 2011 to December 2018. Peers include major Australian wealth managers.
2. Customer – Newspoll Consumer study (2011) – different question & methodology used prior to 2013.
3. Customer – Hall & Partners Open Mind Consumer Study (2013 to 2018) – people aged 55 to 64 years old.
4. Customer – Awareness measures % of those surveyed who have heard of Challenger; Familiarity is the subset of those “Aware” who know at least a little about Challenger.

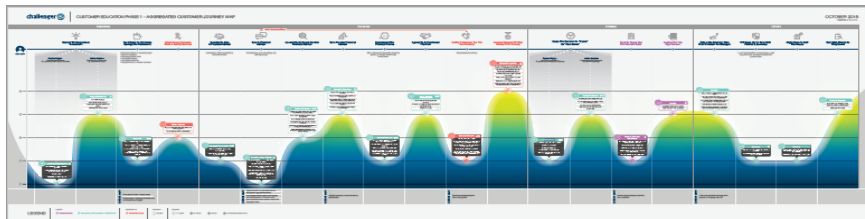




# Engage and educate consumers

Increased consumer understanding to drive bottom-up demand

## Targeted initiatives along customer retirement journey



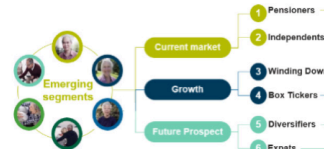
Develop engagement and education initiatives based on customer insights



Track customer engagement and nurturing prospective customers



Segment customers to allow targeted messaging





# New brand campaign

## Increase brand awareness and product familiarity

2011  
'Real Stories'



2013  
'On Paper'



2016  
'Lifestyle Expectancy'



2019  
'Look forward with confidence'

In addition to promoting the Challenger brand, the new brand campaign seeks to address some of the misconceptions around annuities

### Key messages

1. Complements other income sources
2. Use part of your super or savings
3. Enjoy guaranteed income for life

Launching 17 June 2019

The cost of living certainly isn't getting any cheaper. A Challenger lifetime annuity gives you guaranteed income for life that can keep pace with inflation. It can complement your other income sources, like your super and the Age Pension.

To find out more, go to [challenger.com.au](http://challenger.com.au) or speak to your financial adviser.

**challenger**  
Look forward with confidence



# Evolving financial advice landscape

## Opportunities to improve adviser experience



Improve adviser experience as identified through research



Evolve service model for increased number of independent and non-aligned practices



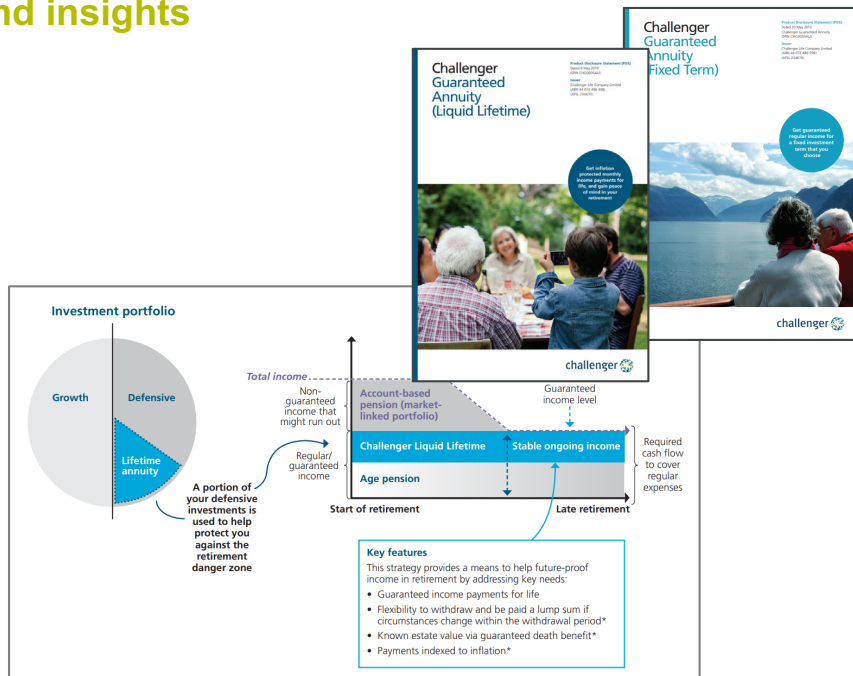
Support adviser efficiency and focus on best interest duty



# Enhancing product offering

## Based on adviser research and insights

- **Simplifying product**
  - Including 1,000+ lifetime permutations removed
- **Refining product positioning**
  - Including white labelled adviser-to-client collateral
- **Improving marketing collateral**
  - Including focused product disclosure information to support customer education



# Improving adviser experience

Making it easier to do business with us



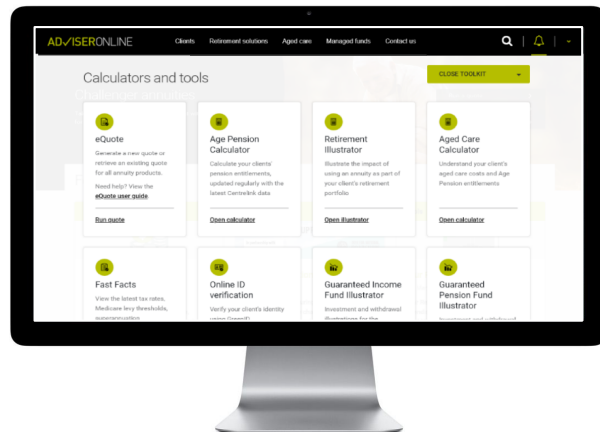
Segment advisers and deliver tailored marketing and support



Integrate into key advice process touchpoints



Enhance adviser interface with Challenger e.g. AdviserOnline



# Responding to disruption and driving growth

## Making annuities mainstream in retirement

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### **Continued focus on strategic initiatives**

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# Life

**Chris Plater**  
Chief Executive,  
Life



# Key points

## Asset allocation optimising ROE

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### Asset allocation framework

Consistently applied with strong risk management

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### Relative value and investment portfolio

FY19 – portfolio reweighted to optimise ROE

FY20 – no significant change to major asset class allocations

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### Equity & Other portfolio

Provides strong risk-adjusted and diversified returns

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### Normalised growth assumptions

Reducing Equity & Other assumption to 3.5% – no change to other asset classes

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### Life front book economics

Generating strong returns on new business

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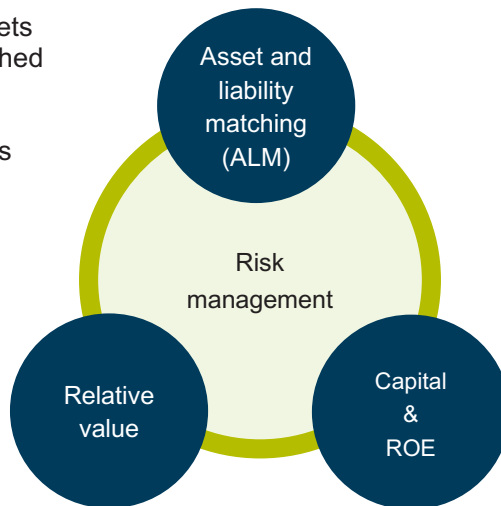


# Asset allocation framework

## Consistently applied with strong risk management

- Fundamental principle – assets and liabilities cash flow matched
- Managed by dedicated team
- Liability maturity profile drives asset tenor

- Investment returns considered relative to base swap rates
- Illiquidity premium contributes to relative value



### Risk management

- Strong governance framework
- Risk management entrenched in corporate culture
- Minimise unwanted risks such as interest rate, currency and inflation risks

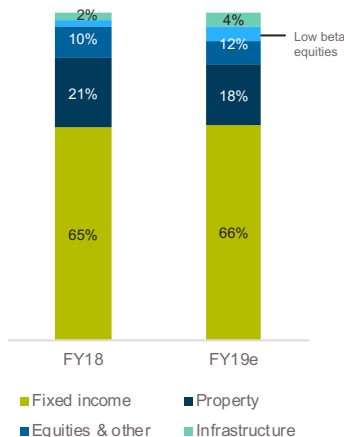
- Manage asset allocation to capital and ROE targets
- Investment decisions based on risk-adjusted returns

# Investment portfolio review

## FY19 – portfolio reweighted to optimise ROE



### Life asset allocation

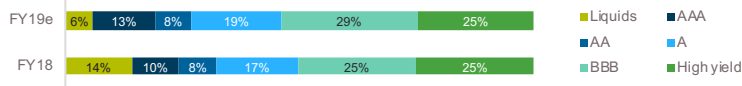


### Property allocation decreased

- >\$1bn of property sold – REIT portfolio & 10 direct properties<sup>1</sup>
- Direct property sales at premium to book value<sup>2</sup>
- Property sale process completed

### Fixed income allocation increased

- IG increased – AAA, AA and A increased; liquids reduced
- High yield – stable



### Equity & Other increased

- Decrease in equity beta
- Increase in low beta (equity collar strategy) and absolute return funds

### 2019 Investor Day – Life

1. Includes seven Australian properties and three French properties with two properties to settle after 30 June 2019.

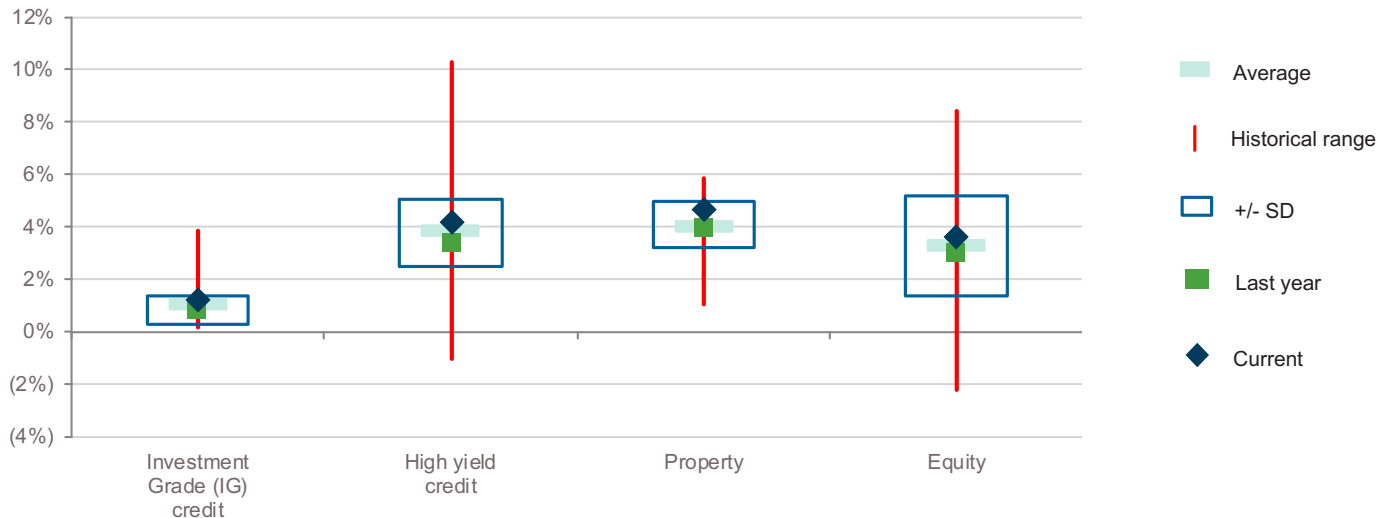
2. Based on 10 direct property disposals relative to 30 June 2018 book value.

# Relative value

Asset risk premiums higher than last year and above average  
Illiquidity premiums remain high



Asset risk premium<sup>1</sup>

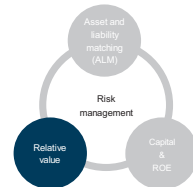


## 2019 Investor Day – Life

1. Expected asset risk premium represents expected asset return relative to the prevailing swap rate. Challenger estimates based on external data as at June 2019.

# Relative value and investment portfolio

**FY20 – no significant change to major asset class allocations**



Fixed income	Property	Infrastructure, Equity & Other
<ul style="list-style-type: none"> <li>Continue to target ~75% IG<sup>1</sup></li> <li>Liquids reduced due to good opportunities in IG corporate credit and ABS</li> <li>High yield – continue to see good opportunities in private credit</li> <li>US dollar credit to increase – deep global market used to back US dollar reinsurance (commencing July 2019)</li> <li>Average capital intensity<sup>2</sup> <ul style="list-style-type: none"> <li>IG &lt;5%</li> <li>High yield ~15%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>FY19 sale process of lower ROE properties completed</li> <li>Provides high quality rental streams to match long duration liabilities                             <ul style="list-style-type: none"> <li>&gt;30% of rental income from government</li> <li>~60% of rental income have fixed or CPI increases<sup>3</sup></li> </ul> </li> <li>Average capital intensity<sup>2</sup> ~25%</li> </ul>	<p><b>Equities &amp; Other</b></p> <ul style="list-style-type: none"> <li>Provides strong risk-adjusted and diversified returns</li> <li>Average capital intensity<sup>2</sup> <ul style="list-style-type: none"> <li>low beta ~20%</li> <li>long only equities ~30%</li> <li>total equities ~25%</li> </ul> </li> </ul> <p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>Asset risk premium similar to listed equities but more defensive</li> <li>Average capital intensity<sup>2</sup> ~30%</li> </ul>

## 2019 Investor Day – Life

1. Investment Grade (IG) represents BBB- credits and above.

2. Average capital intensity represents Prescribed Capital Amount (PCA) divided by investment assets.

3. Based on rental income for 31 December 2018 excluding properties sold or under contract in 2H19.

# Equity & Other portfolio

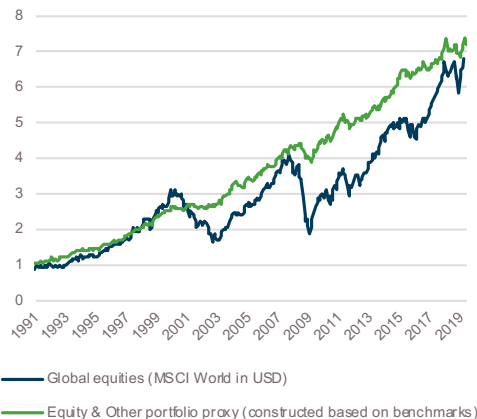
Provides strong risk-adjusted and diversified returns



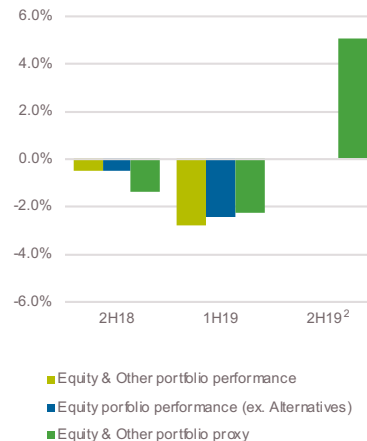
## Equity & Other provides

- strong risk-adjusted returns
- ROE enhancement
- liquid capital
- diversification benefits
- some downside protection

Equity & Other portfolio back tested using benchmarks<sup>1</sup>



Equity & Other portfolio total return



## 2019 Investor Day – Life

1. Equity and Other benchmarks disclosed on page 30.  
2. 2H19 benchmark to 31 May 2019.

# Equity & Other portfolio

Provides strong risk adjusted and diversified returns



## Equity & Other portfolio

Category	30 June 2019 Proforma \$bn	% Portfolio	Primary benchmark
Equity beta <sup>1</sup>	0.1	6%	MSCI World Net Daily Total Return (Bloomberg NDDUWI)
Low beta <sup>2</sup>	1.0	42%	60% upside / 40% downside participation in MSCI World Net Daily Total Return (Bloomberg NDDUWI)
Absolute return funds <sup>3</sup>	0.9	41%	Société Générale CTA Index (Bloomberg NEIXCTA)
Alternatives <sup>4</sup>	0.3	11%	No appropriate benchmark
<b>Total</b>	<b>2.3</b>	<b>100%</b>	
<b>Life Equity &amp; Other portfolio expected to correlate to benchmarks, but with tracking error</b>			

## 2019 Investor Day – Life

1. Equity beta – long only equities and private equity.
2. Low beta – equity collar strategy (\$0.8bn – 30 June 2019 proforma), equity option strategy and a range of credit linked investments.
3. Absolute return funds – systematic global macro funds and market neutral long short equity strategies.
4. Alternatives – insurance related investments.

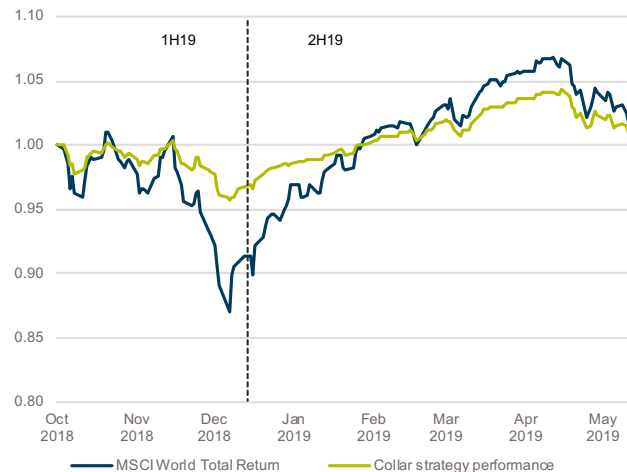
# Equity & Other portfolio

## Collar strategy reduces capital intensity and enhances ROE



- Strategy initially implemented in October 2018 through reduction in equity beta
- Investment subsequently increased, and expected to be circa \$800m at June<sup>1</sup>
- Long-term returns expected to be close to broad equity markets
- Less volatile than equity returns
  - beta 0.5x
  - expect to participate ~40% of equity market sell offs and ~60% of equity market rallies<sup>2</sup>
- Reduces capital intensity<sup>3</sup>
  - collar strategy ~20%
  - long only equity investments ~30%

Equity collar strategy total return



### 2019 Investor Day – Life

1. Equity collar strategy \$0.5bn at 31 December 2018 and expected to be \$0.8bn at 30 June 2019.  
2. Challenger research based on comparing equity collar monthly performance to MSCI World Total Return.  
3. Capital intensity ratio is calculated as Prescribed Capital Amount divided by investment amount.

# Normalised growth assumptions

Reducing Equity & Other to 3.5%

No change to other asset classes



## Normalised growth assumptions

- Represent long term through the cycle expectations
- All assumptions reviewed annually

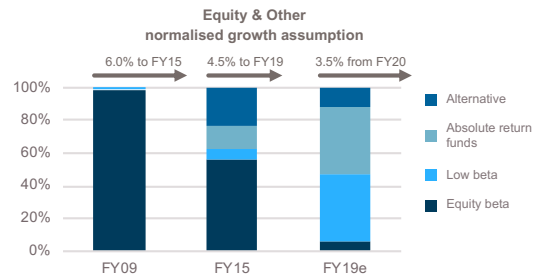
## Equity & Other

- From FY20, reducing to 3.5% (from 4.5%), due to
  - change in portfolio composition – low beta and absolute return funds expected to be >80% of portfolio
- FY20 Life COE<sup>1</sup> impact -\$23m<sup>2</sup>
  - no impact on statutory earnings
  - no impact on net assets or regulatory capital

## Other asset classes

- No change to assumptions

## Equity & Other portfolio composition



Asset class	Assumption FY16 to FY19	Assumption from FY20
Fixed income	-0.35%	-0.35%
Property	2.00%	2.00%
Equities & other	4.50%	3.50%
Infrastructure	4.00%	4.00%

1. Life Cash Operating Earnings (COE).

2. FY20 Life COE impact based on a 1% reduction in Equity & Other normalised growth assumption and based on investment assets of \$2.3bn (expected as at 30 June 2019).



# Life front book economics

## Generating strong returns on new business

**Illustrative example of current book economics (return on equity and asset return spread to liability funding)**

*Economics of new business based on current market conditions (June 2019)*

Asset Class	Asset Allocation <sup>1</sup>	Total Return Assumption <sup>2</sup>	Funding Cost <sup>3</sup>	Asset Capital (1.45x PCA) <sup>4</sup>	Normalised Return on Asset Capital <sup>5</sup>	Normalised Return on CET1 <sup>6,7</sup>
Fixed income	66%	4.1%	2.7%	11%	15.6%	20.7%
Property	18%	7.0%	2.7%	36%	14.6%	19.2%
Equity & Other	12%	8.5%	2.7%	36%	18.7%	25.3%
Infrastructure	4%	8.0%	2.7%	44%	14.9%	19.7%
<b>Total</b>	<b>100%</b>	<b>5.3%</b>	<b>2.7%</b>	<b>20%</b>	<b>15.9%</b>	<b>21.1%</b>
Expenses (as % of CET1) <sup>8</sup>						(3.5%)
<b>Normalised Return on CET1 after expenses</b>						<b>17.6%</b>

**Notes:**

1. Asset Allocation based on FY20 expected portfolio mix.

2. Total Return Assumption represents total expected returns including illiquidity premiums. Includes FY20 normalised growth assumption (refer page 32).

3. Funding Cost of 2.7% represents a margin of 1.2% above BBSW (1.5%). The average annuity funding rate in 1H19 was 3.4% and in 2H18 was 3.5%.

4. Asset Capital based on Prescribed Capital Amount plus target surplus of 0.45x PCA, representing the mid-point of CLC's target PCA range.

5. Normalised Return on Asset Capital = (Total Return Assumption – Funding Cost \* (1 - Asset Capital)) / Asset Capital.

6. Normalised Return on CET1 = (Normalised Return on Asset Capital – Cost of Regulatory Capital Debt \* (1 - CET1 regulatory capital %)) / CET1 regulatory capital %, where:

• Cost of Regulatory Capital Debt (4.9%) represents the cost of CLC's AT1 and T2 debt instruments which form part of CLC's regulatory capital base.

• CET1 regulatory capital % represents the portion of CET1 relative to CLC's total regulatory capital base. The CET1 regulatory capital % was 67.6% at 31 December 2018.

7. Normalised Return on CET1 excludes other net assets of CLC and the benefit of other activities such as Life Risk business.

8. Expenses (as % of CET1) represents an allocation of Life's cost base to new business relative to CLC's CET1.

- Represents economics of writing annuity business based on current market conditions
- Based on current
  - total returns available
  - annuity pricing<sup>3</sup>

# Key points

## Asset allocation optimising ROE

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### Asset allocation framework

Consistently applied with strong risk management

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### Relative value and investment portfolio

FY19 – portfolio reweighted to optimise ROE

FY20 – no significant change to major asset class allocations

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### Equity & Other portfolio

Provides strong risk-adjusted and diversified returns

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### Normalised growth assumptions

Reducing Equity & Other assumption to 3.5% – no change to other asset classes

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### Life front book economics

Generating strong returns on new business

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# Funds Management

**Ian Saines**  
Chief Executive,  
Funds Management



# Key points

## Prospering in a changing environment

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### **Challenger Funds Management**

Diversity and investment quality driving growth

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### **Funds Management industry trends**

Profit-for-member funds winning share and some are internalising investment management

Independent platforms winning share from retail hubs

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### **Funds Management panel**

#### **Fidante Partners – Nick Hamilton**

A strong track record of growth and expanding through active ETFs

#### **Challenger Investment Partners – Victor Rodriguez**

One of Australia's largest fixed income managers providing diversified fixed income strategies

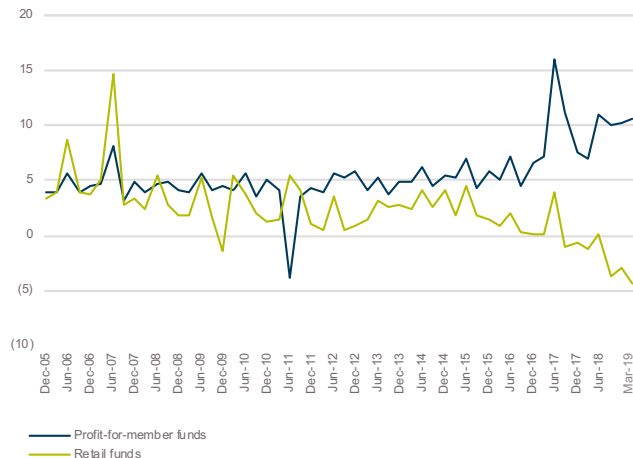
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# Funds Management industry trends

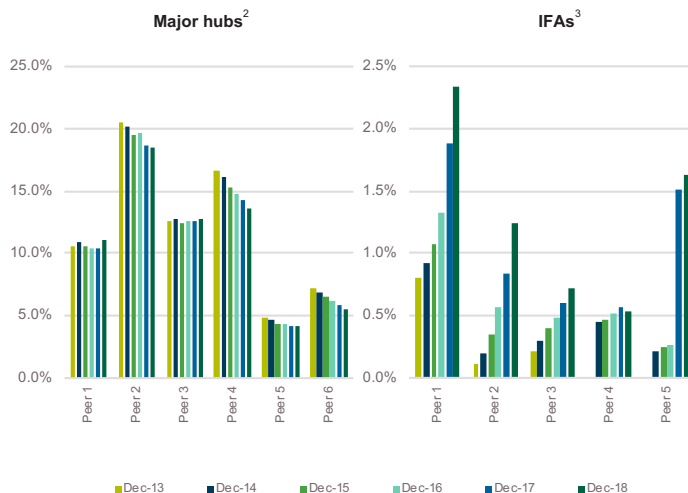
Profit-for-member funds winning share from retail hubs

Independent platforms winning market share from major retail hubs

Quarterly superannuation flows<sup>1</sup> (\$bn)



Market share of FUM<sup>2</sup> (%)



## 2019 Investor Day – Funds Management

1. Source: APRA Quarterly superannuation performance statistics, May 2019.

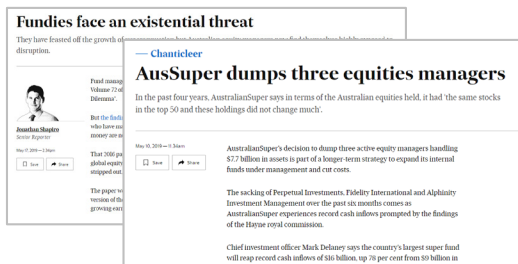
2. Major hubs include AMP, ANZ, BT, CBA, IFL, NAB.

3. IFAs include Hub24, netwealth, Praemium, OneVue, XploreWealth.

# Funds Management industry trends

## Internalisation trend not consistent across funds

- Profit-for-member funds continue to benefit from record inflows assisted by retail market disruption
- Some profit-for-member funds internalising investment functions to reduce external fees and build up in-house investment expertise

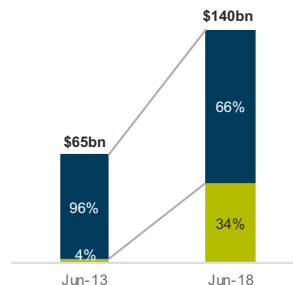


### Trend to internalise investment management not consistent across funds<sup>1</sup>

Illustrative example of two leading profit-for-member funds

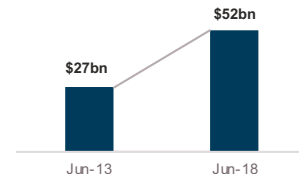
#### Example 1 - Fund internalising FUM

5-year FUM CAGR	
Total	17%
External	8%
Internal	83%



#### Example 2 – Fund not internalising FUM

5-year FUM CAGR	
Total	14%



■ Externally managed investments  
■ Internally managed investments

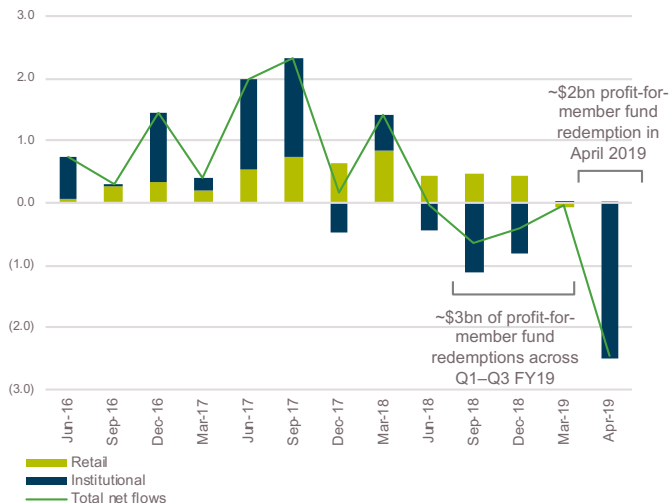
## 2019 Investor Day – Funds Management

1. Company reports. Percentage of investments internally/externally managed based on net assets and relevant Company disclosures.

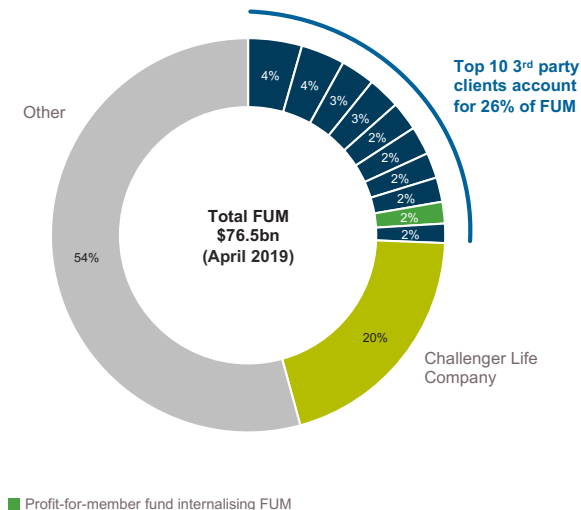
# Funds Management

## Diversified client base across retail and institutional channels

Fidante Partners net flows (\$bn)



Top exposures



# Funds Management panel

## One of Australia's fastest growing asset management businesses



**Nick Hamilton**

General Manager,  
Fidante Partners

Nick is responsible for Fidante Partners global business including manager selection, strategy and support.



**Victor Rodriguez**

Head of Fixed Income,  
Challenger Investment Partners

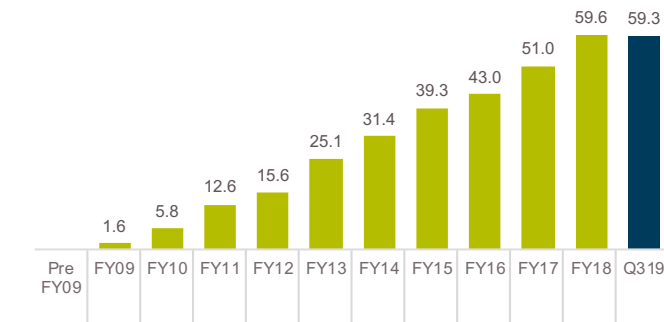
Victor is responsible for the team managing Challenger Investment Partners' \$13 billion fixed income portfolio.



# Fidante Partners boutique FUM growth

## A strong track record of growth

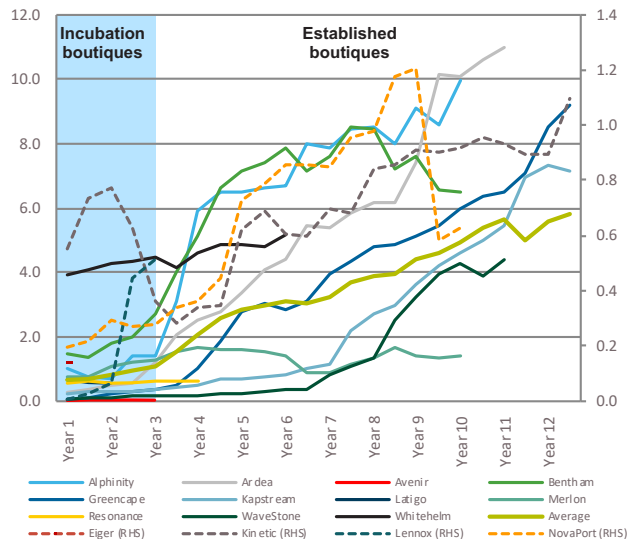
Funds Under Management (\$bn)<sup>1</sup>



Timeline of boutique partnerships



Funds Under Management by boutique (A\$bn)



## 2019 Investor Day – Funds Management

1. Kapstream was sold in July 2015. FY09 – FY15 FUM has been adjusted to remove Kapstream institutional FUM. Fidante Partners continues to distribute Kapstream products to retail clients.

# Broadening Fidante Partners distribution reach

## Extending into active ETF market

- Strong investor demand for simple, easy to access, liquid products
- Diversifying distribution footprint – accessing retail investors through advisers, brokers and other channels
- Launching active ETFs under ActiveX brand

### ActiveX boutique launch

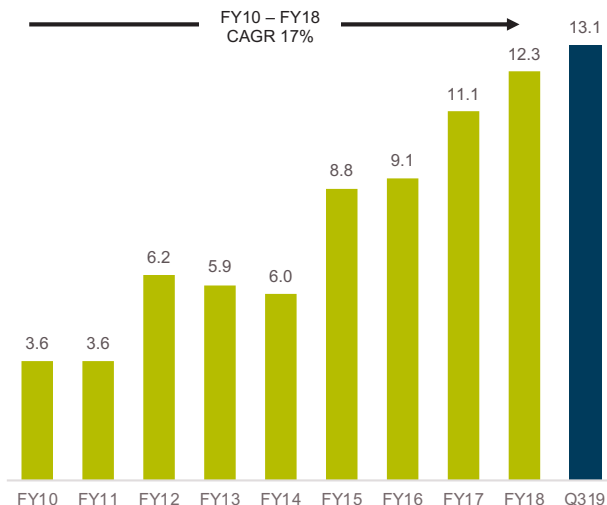


# Challenger Investment Partners

One of Australia's largest fixed income managers

- Highly skilled fixed income team
  - 16 investment professionals
  - average industry experience >16 years
- All mandates outperforming benchmark<sup>1</sup>
- Invest in a range of corporate credit (public and private), ABS and commercial real estate lending
- Capturing illiquidity premiums ranging from 1.5% – 2.5%<sup>2</sup> through private markets capability

Challenger Investment Partners fixed income FUM (\$bn)



# CIP Credit Income Fund

## Diversified fixed income strategy

- CIP's flagship defensive income product
- Product extension providing regular income to institutional client base
- Expanding client base from institutions to high-net-worth investors

<b>Fund objective</b>	• Target return of Bank Bill + 3% (after fees)	
<b>FUM<sup>1</sup></b>	• ~\$150m	
<b>Weighted average credit rating<sup>2</sup></b>	• >BBB-	
<b>Strategy overview</b>	<ul style="list-style-type: none"> <li>• High quality, multi-sector credit portfolio</li> <li>• Mix of public and private credit to benefit from illiquidity premiums</li> <li>• Opportunity growing as a result of regulatory pressure on banks</li> <li>• Lack of competition due to high entry barriers</li> <li>• Floating rate strategy to protect against rising interest rates</li> <li>• Monthly liquidity</li> </ul>	
<b>Performance<sup>1</sup></b>	<b>1 year (p.a.)</b>	<b>Since inception<sup>3</sup> (p.a.)</b>
Portfolio return	5.73%	5.66%
Bank Bill Index	2.02%	1.92%
Excess return	3.71%	3.74%
<b>Target market</b>	• Institutional clients and high-net-worth investors	

### 2019 Investor Day – Funds Management

1. As at 30 April 2019.

2. Based on Moody's weighted average rating factors.

3. Inception date October 2017.

# Key points

## Prospering in a changing environment

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### **Challenger Funds Management**

Diversity and investment quality driving growth

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### **Funds Management industry trends**

Profit-for-member funds winning share and some are internalising investment management

Independent platforms winning share from retail hubs

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# Financial outlook & Wrap up

**Richard Howes**

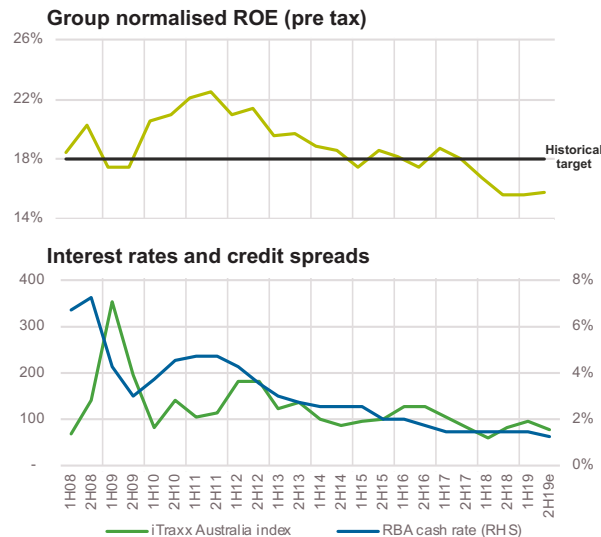
Managing Director and  
Chief Executive Officer



# Normalised ROE target

## To drive strong shareholder outcomes

- Normalised ROE target<sup>1</sup> implemented 2004 to drive shareholder outcomes
- Applied in business decision making including capital allocation, annuity pricing and business case assessment
- Through the cycle target with outcome dependent on cyclical / structural factors and levels of capital
- More challenging in tighter asset risk premium and low interest rate environment



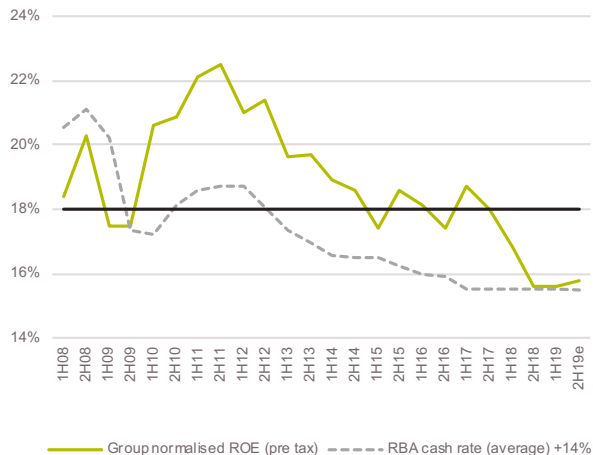
# Normalised ROE target

Target revised to RBA cash rate plus 14%<sup>1</sup> from FY20

No change in how target is applied

- Interest rates impact ROE through
  - asset yields
  - shareholder capital not hedged
- Target revised in light of structural change in interest rates – lower for longer
- Revised ROE target removes interest rate impact
- ROE outcome will reflect business mix, levels of capital held and business scale

Group normalised ROE (pre tax)





# Financial outlook

FY19	FY20
<b>Normalised net profit before tax</b> <ul style="list-style-type: none"> <li>Range \$545m to \$565m</li> <li>Expected to achieve bottom end of guidance range</li> <li>Consensus \$544m<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Range \$500m to \$550m including:                             <ul style="list-style-type: none"> <li>lower equities normalised growth assumption (-\$23m)</li> <li>DPM<sup>2</sup> initiatives (up to -\$15m)</li> <li>lower interest rates on shareholder capital</li> </ul> </li> </ul> <p>Challenger FY20 guidance range</p>
<b>Normalised cost to income ratio<sup>4</sup></b> <ul style="list-style-type: none"> <li>30% to 34%</li> <li>2H19 stable on 1H19</li> </ul>	<ul style="list-style-type: none"> <li>Expected to be above 30% - 34% range in FY20 driven by DPM initiatives</li> <li>Expense growth excluding DPM initiatives &lt;5%</li> </ul>
<b>Normalised tax rate</b> <ul style="list-style-type: none"> <li>26% to 28%</li> </ul>	<ul style="list-style-type: none"> <li>28% to 30%</li> </ul>
<b>Normalised dividend payout ratio<sup>5</sup></b> <ul style="list-style-type: none"> <li>45% to 50%</li> </ul>	<ul style="list-style-type: none"> <li>45% to 50%</li> <li>FY19 dividend (cps) expected to be maintained<sup>6</sup> in FY20.</li> <li>Normalised dividend payout ratio above 50% of normalised EPS</li> </ul>

## 2019 Investor Day – Financial outlook and wrap up

1. Based on the simple average of forecasts for 10 analysts (Bell Potter, BoAML, Credit Suisse, Citi, Deutsche, Goldman Sachs, JP Morgan, Macquarie, Morgan Stanley and UBS). Consensus as at 11 June 2019.  
 2. Distribution, Product and Marketing (DPM).

3. FY20 consensus as at 11 June 2019 based on Equity & Other normalised growth assumption of 4.5%.  
 4. Total expenses divided by total net income.  
 5. Normalised dividend payout ratio based on normalised EPS.  
 6. Subject to market conditions and capital allocation priorities.

# Priorities to drive long-term growth

## Fundamentals remain strong

### Industry trends

#### Long-term structural tailwinds

- World class accumulation super system
- Ageing demographics
- Retirement phase developing

#### Near-term headwinds

- Financial advice market disruption
- Increased market volatility
- Profit-for-member funds internalising FUM

### Priorities

- Engage, educate and deepen customer connections
- Improve adviser experience
- Thought leadership to build industry support
- Strengthen relationships with profit-for-member funds
- Build on FM product offering
- Continue leading operating and people practices
- Maintain financial discipline and strong capital position

## Q&A session

# Important note

This presentation was prepared for the purpose of a briefing to equity analysts and certain wholesale investors on 13 June 2019.

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