

CHALLENGER FIRST QUARTER PERFORMANCE

- Total assets under management \$84 billion, up 3% for the quarter
- Life net book growth \$766 million, or 5.2% for the quarter¹
- Total annuity sales \$842 million for the quarter, up 14% on Q419²
 - Australian annuity sales \$624 million, down 11% on Q419
 - Japanese annuity sales 26% of total annuity sales, up \$180 million on Q419
- Other Life sales \$936 million, up \$737 million on Q419
- Funds Management net flows \$437 million and FUM up 2% for the quarter

Challenger Limited (ASX: CGF) today reported first quarter results, with total assets under management (AUM) increasing by 3% (\$3 billion) to \$84 billion, driven by strong net flows across the business and positive investment markets.

Managing Director and Chief Executive Officer Richard Howes said these results reflect the progress Challenger has made in diversifying its product offering across both its Life and Funds Management businesses.

“Despite ongoing disruption in the Australian wealth industry, total Life book growth was 5.2% for the quarter. Total annuity sales were up, buoyed by strong Japanese sales which increased by five times on the June 2019 quarter. This is a result of our expanded strategic relationship with the MS&AD Group, after we commenced reinsurance of US dollar annuities in July.

Mr Howes said the low rate environment has also seen strong demand for guaranteed income products from some of our institutional clients as they seek to optimise investment returns on the defensive part of the portfolio.

In Funds Management, net flows reflected strong demand for quality active managers with diverse product offerings.

“Strong net flows contributed to a solid performance by our Funds Management business, with funds under management up 2%. We saw strong flows in fixed income products, including \$69 million of flows generated by the ActiveX Ardea Real Outcome Bond Fund (ASX: XARO), reflecting demand from retail investors for high quality, actively-managed ETFs.”

¹ Life net book growth of 5.2% for the quarter represents Life net flows of \$766 million divided by opening period annuity liability and Guaranteed Index Return and Challenger Index Plus liabilities.

² Challenger annuity sales have been impacted by disruption to the Australian wealth management industry following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Industry disruption intensified in late calendar year 2018 following the hearings into financial advice. In order to provide a meaningful comparison, all comparisons are first quarter of FY20 (September 2019) compared to the fourth quarter of FY19 (June 2019), unless otherwise stated.

Life

Total Life net flows for the quarter were \$766 million, representing Life total book growth of 5.2% of opening FY20 liabilities³ for the quarter.

Total Life sales of \$1,778 million represented an increase of \$839 million (up 89%) driven by strong growth in both Japanese annuity sales and Other Life sales.

Total annuity sales of \$842 million were 14% higher than the prior period and comprised Australian sales of \$624 million and a higher contribution of Japanese (MS Primary) sales.

Australian annuity sales were \$78 million lower (down 11%) and continue to be affected by disruption in the retail financial advice market following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. This has resulted in a significant reduction in financial adviser numbers and increased movement by advisers across licensees. Major advice hubs have also been subject to client remediation projects and in some cases business sales and restructures. This has led to lower new client acquisitions which is impacting Challenger annuity sales.

Australian fixed term sales increased by \$79 million (up 18%) to \$529 million, while Australian lifetime sales decreased by \$157 million (down 62%) to \$95 million.

Australian lifetime annuity sales comprise Liquid Lifetime of \$69 million (down \$86 million) and CarePlus of \$26 million (down \$71 million). Sales of both Liquid Lifetime and CarePlus were affected by both the financial advice market disruption and the transition to new age pension means test rules, which commenced on 1 July 2019. The new rules are designed to support the take-up of lifetime income stream products. Challenger is focused on educating advisers on the potential benefits for customers who select products that are eligible for the new rules.

Japanese (MS Primary) annuity sales represented 26% of total annuity sales, up from 5% in the June 2019 quarter. This increase is a result of Challenger commencing reinsurance of US dollar denominated annuities issued in the Japanese market by MS Primary from 1 July 2019. Japanese sales, across both Australian and US dollar annuities, are on track to achieve at least ¥50 billion (currently ~A\$680 million⁴) in sales in FY20.

Long-term annuities, which comprise Australian lifetime and long-term Japanese annuities, accounted for 37% of first quarter annuity sales. The tenor of new business sales for the quarter was over nine years, consistent with FY19.

Sales of Other Life products, which represent institutional Guaranteed Index Return and Challenger Index Plus products, were \$936 million and increased by \$737 million. Other Life sales are being driven by strong demand from superannuation fund clients seeking guaranteed returns in the low interest rate environment.

Life's investment assets at 30 September 2019 were \$19.7 billion, an increase of \$0.7 billion for the quarter. The increase in Life's investment assets reflect quarterly net book growth and changes in retained earnings net of dividends paid to the Group.

³ Based on opening FY20 opening annuity liability and other products (Guaranteed Index Return and Challenger Index Plus).

⁴ Based on exchange rate of 0.0136240 as at 15 October 2019. Exchange rates may change over time.

Funds Management

Funds Management funds under management (FUM) was \$81.0 billion, an increase of \$1.9 billion or 2% for the quarter. FUM benefited from net flows of \$0.4 billion and positive investment markets of \$1.5 billion.

Fidante Partners' FUM was \$60.7 billion, an increase of \$1.8 billion or 3% for the quarter. FUM benefited from net flows of \$0.5 billion and positive investment markets of \$1.3 billion.

Earlier this month, Fidante Partners and Ares Management Corporation (NYSE: ARES), announced the launch of Ares Australia Management (AAM), a strategic joint venture that aims to capitalise on the significant demand for alternative investments in the Australian and New Zealand markets. Ares Management Corporation is a leading global alternative investment manager with US\$142 billion⁵ of assets under management. AAM will coordinate marketing and investment management for Ares' credit, private equity and real estate strategies to Australian and New Zealand retail and institutional investors.

Fidante Partners also recently launched its second active ETF in its ActiveX Series, with a fixed income active ETF from Kapstream. The ActiveX Kapstream Absolute Return Income Fund (Chi-X: XKAP) is an actively managed fixed income ETF that aims to provide investors with a steady income stream with very low volatility and capital stability. Fidante Partners' ActiveX Series of active ETFs was launched in 2018 providing retail investors with easy and convenient access to the extensive investment expertise of Fidante Partners' boutique investment managers.

Challenger Investment Partners' FUM was \$20.2 billion, an increase of \$0.1 billion or 1% for the quarter.

Outlook

In FY20 Challenger is targeting a normalised net profit before tax of between \$500 million and \$550 million. This is unchanged from the guidance provided in August 2019. Investment market conditions, including base interest rate levels, are consistent with Challenger's assumptions underpinning FY20 guidance.

ENDS

⁵ Ares Management Corporation assets under management as at 30 June 2019.

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 is Australia's largest provider of annuities.

For more information contact:

Stuart Kingham

Head of Investor Relations
Tel (02) 9994 7125
Mob 0401 139 067

Jane Keeley

Head of External Communications
Tel (02) 9994 7300
Mob 0402 663 522

Mark Chen

Senior Investor Relations Manager
Tel (02) 9994 7815
Mob 0423 823 209

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Assets and Funds Under Management, net flows and sales

Life – quarterly sales and investment assets

\$m	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Life sales					
Fixed term sales	747	488	503	750	949
Lifetime sales ¹	95	252	159	220	222
Life annuity sales	842	740	662	970	1,171
Maturities and repayments	(840)	(614)	(596)	(846)	(801)
Life annuity flows	2	126	66	124	370
Annuity book growth²	0.0%	1.0%	0.6%	1.0%	3.2%
Other Life sales	936	199	208	205	395
Other maturities and repayments	(172)	(264)	(444)	(170)	(340)
Other Life flows	764	(65)	(236)	35	55
Other Life net book growth²	38.9%	(3.0%)	(11.1%)	1.6%	2.6%
Total Life sales	1,778	939	870	1,175	1,566
Total maturities and repayments	(1,012)	(878)	(1,040)	(1,016)	(1,141)
Total Life net flows	766	61	(170)	159	425
Total Life book growth²	5.2%	0.4%	(1.2%)	1.1%	3.1%
Life					
Fixed income and cash ³	13,076	12,460	12,116	12,015	11,913
Property ³	3,288	3,382	3,582	3,739	3,504
Equity and other	2,431	2,315	2,116	2,113	2,188
Infrastructure ³	888	853	825	757	742
Total Life investment assets	19,683	19,010	18,639	18,624	18,347
Average Life investment assets⁴	19,253	18,752	18,659	18,380	18,217

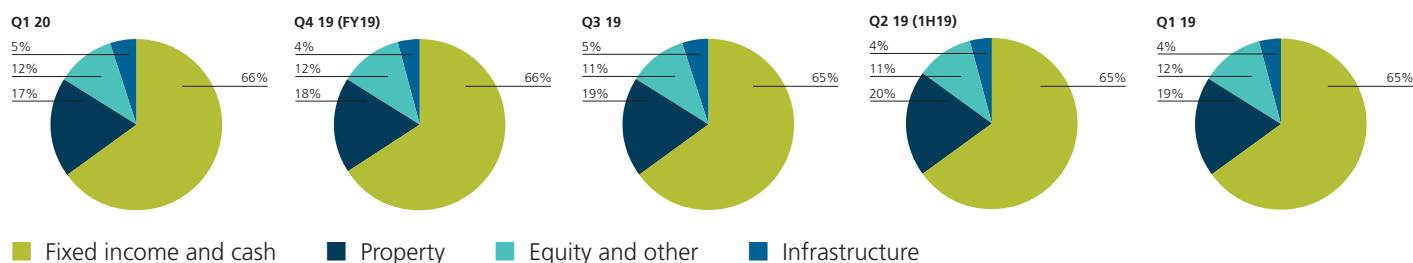
¹ Lifetime sales includes CarePlus, a product that pays income for life and specifically designed for the aged care market.

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

Assets and Funds Under Management, net flows and sales

Funds Management – Funds Under Management and net flows

\$m	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Funds Under Management					
Fidante Partners					
Equities	26,726	25,864	26,463	23,806	26,578
Fixed income	26,890	25,988	24,527	24,334	24,611
Alternatives	7,107	7,060	8,290	8,190	8,337
Total Fidante Partners	60,723	58,912	59,280	56,330	59,526
Challenger Investment Partners					
Fixed income	14,788	14,568	13,082	12,839	13,053
Property	5,448	5,549	5,723	5,845	5,654
Total Challenger Investment Partners	20,236	20,117	18,805	18,684	18,707
Total Funds Under Management	80,959	79,029	78,085	75,014	78,233
Average Fidante Partners	59,999	58,540	58,083	57,634	59,834
Average Challenger Investment Partners	20,110	19,308	18,717	18,814	18,670
Total average Funds Under Management¹	80,109	77,848	76,800	76,448	78,504
Analysis of flows					
Equities	22	(2,345)	231	(67)	(44)
Fixed income	659	1,128	(238)	(167)	(447)
Alternatives	(201)	(1,327)	(39)	(166)	(155)
Total Fidante Partners	480	(2,544)	(46)	(400)	(646)
Challenger Investment Partners	(43)	1,120	9	(155)	224
Net flows	437	(1,424)	(37)	(555)	(422)

¹ Total average Funds Under Management calculated on a monthly basis.

Group – Reconciliation of total group Assets Under Management

\$m	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Funds Management Funds Under Management	80,959	79,029	78,085	75,014	78,233
Life investment assets	19,683	19,010	18,639	18,624	18,347
Adjustments to remove double counting of cross-holdings	(16,292)	(16,269)	(15,311)	(15,252)	(15,308)
Total Assets Under Management	84,350	81,770	81,413	78,386	81,272