

THIRD QUARTER PERFORMANCE

- Total Life sales of \$949 million, up 9% on pcp
 - Total annuity sales \$593 million, down 10% on pcp
 - Other Life sales \$356 million, up 71% on pcp
- Life investment assets down 4% for the quarter
- Funds Management net outflows of \$2.3 billion
- Total assets under management \$79 billion, down 8% for the quarter

Challenger Limited (ASX:CGF) today reported its third quarter results, with total Life sales up 9% driven by strong Japanese and institutional sales, while total assets under management (AUM) were down 8% to \$79 billion following the significant investment market sell-off in March.

Managing Director and Chief Executive Officer Richard Howes said Challenger's performance this quarter reflects the impact the Coronavirus pandemic is having on both investment markets and consumer activity.

"The drop in AUM includes the effect of major market movements in the period as well as some redemptions in funds management as superannuation funds seek liquidity to fund members switching to cash and withdrawing funds," Mr Howes said.

"Considering the extreme disruption, Challenger's sales were relatively resilient, largely due to the diversification built through the partnership with the MS&AD Group in Japan and institutional relationships. Our Funds Management business also benefited from strong equity inflows as large superannuation funds and other investors rebalanced their portfolios, with Fidante Partners FUM down 11%, which compares favourably with industry averages during this period."

Annuity sales declined in the period, reflecting the combined effect of ongoing adviser disruption and the impacts of the pandemic.

"There's no doubt that the challenges financial advisers were already facing following the Royal Commission have been further exacerbated by the pandemic which has impacted their ability to onboard new clients and engage effectively with their existing customers. Understandably, many are focused on responding to immediate client needs at this time as rules around superannuation are changed to address the current situation.

"Earlier in the quarter we had been starting to see positive signs in lifetime sales as movement across the independent financial advice market stabilised and more advisers became familiar with new means testing rules that came into effect in July 2019," Mr Howes said.

“It is encouraging to note that this support for lifetime annuities has continued with sales down only 9% on the previous quarter despite this typically being a seasonally quieter period over the summer holiday period¹ and being impacted by the pandemic.

“This aligns with the positive feedback we have been receiving from existing customers who are grateful for the peace of mind afforded during this period of significant market volatility, knowing their annuity payments are guaranteed.”

Mr Howes said that while the current environment highlights the value of annuities in providing secure income in retirement, the confluence of disruptive events is expected to continue to impact sales in the near term and at this stage it is unclear what impact it will have on sales in the fourth quarter.

“We expect to see layers of disruption in the financial advice market for some time due to Coronavirus, the Royal Commission and changes to advice education requirements. In response we are carefully prioritising the work we do to address these issues and prepare for the future,” Mr Howes said.

“We are continuing to pursue a range of initiatives to build our institutional relationships, enable direct reinvestments and support customers and advisers through this period. This will enable us to maximise our resilience through this disruption and ensure we are well positioned to drive growth as conditions improve.”

Life

Total Life net flows for the quarter were \$37 million, including annuity net inflows of \$3 million and other Life inflows of \$34 million. Life’s total book growth for the quarter was 0.2%².

Total Life sales were \$949 million up 9% compared to the prior corresponding period (pcp) driven by a strong contribution from Japanese and institutional sales.

Total annuity sales of \$593 million were down 10% (\$69 million) on the pcp, driven by lower Australian annuity sales (down \$223 million). This was partially offset by a higher contribution from MS Primary (Japanese) sales of \$209 million (up \$154 million).

MS Primary sales represented 35% of total third quarter annuity sales. The arrangement with MS Primary provides an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion per year for a minimum of five years from FY20³. Challenger is on track to exceed the target with MS Primary sales for the first three quarters of FY20 of \$680 million, although the contribution is expected to moderate in the fourth quarter.

Australian annuity sales of \$383 million were down 37% on the pcp. Australian annuity sales comprised term annuity sales of \$277 million, down 38% on pcp, and lifetime annuity sales of \$106 million, down 33% on pcp. Lifetime annuity sales comprised Liquid Lifetime of \$65 million (down \$24 million) and CarePlus sales of \$41 million (down \$29 million).

¹ Retail domestic annuity sales are typically more than 30% lower in the summer holiday period in the third quarter compared to the second quarter.

² Based on opening FY20 opening annuity liability and other products (Guaranteed Index Return and Challenger Index Plus).

³ This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

The decline in lifetime sales largely reflects the impact of new means test rules that came into effect on 1 July 2019. Lifetime sales have been relatively steady in FY20 suggesting a growing understanding of the supportive new pension means test rules, given sales are typically seasonally lower in the third quarter of the financial year⁴ and have been further impacted by the pandemic.

Australian term annuity sales have been significantly impacted by disruption in the retail financial advice market following the Royal Commission, particularly following the major reduction in advisers at hubs⁵ which have traditionally been a significant source of term sales. The reduction in Australian retail term annuity sales compared to the pcp was consistent with the decline experienced in the second quarter against its pcp.

As the financial advice industry continues to evolve following the Banking Royal Commission, Challenger has invested in a range of initiatives to address the ongoing change in the wealth management market and drive future growth. This has included a focus on supporting more direct engagement with prospective customers, increasing support for advisers to better meet changing customer needs and further building our relationships with institutional clients.

Sales of Other Life products, representing Guaranteed Index Return and Challenger Index Plus products, were \$356 million, and increased by 71% (up \$148 million) on the pcp. Sales largely represented the reinvestment of maturities from existing clients.

Life's investment assets at 31 March 2020 were \$19.0 billion, down 4% for the quarter. Challenger Life is required to value all assets and liabilities supporting the Life business at fair value. Following the significant investment market sell-off during March, Challenger has reflected lower carrying values for its fixed income, property, equities and infrastructure investments.

The movement in Life's investment assets also included net book growth and changes in retained earnings net of dividends paid to Group. Following changes to Life's investment portfolio during the quarter, as announced on 30 March 2020, 85% of Life's fixed income portfolio is investment grade, up from 75% at 31 December 2019. Challenger Life is currently holding in excess of \$3.5 billion in cash and liquid fixed income, which can be deployed as markets stabilise and relative value opportunities emerge.

Funds Management

Funds Management funds under management (FUM) was \$74.8 billion, a decrease of \$8.1 billion or 10% for the quarter. FUM was impacted by the significant equity market sell-off as a result of Coronavirus and increased redemptions by superannuation funds seeking liquidity.

Fidante Partners' FUM was \$56.0 billion, a decrease of 11% (\$6.7 billion) for the quarter. Fidante Partners' net outflows for the quarter were \$0.7 billion and included \$0.5 billion of funds returned to clients following the wind down of the association with Latigo Partners.

The impact of the Coronavirus pandemic and market sell-off resulted in significant fund movements as large superannuation funds and other investors rebalanced their portfolios and sought liquidity. For Fidante Partners in Australia this led to strong equity inflows of \$0.6 billion which were partially offset by lower margin fixed income outflows of \$0.4 billion.

⁴ Retail domestic annuity sales are typically more than 30% lower in the summer holiday period in the third quarter compared to the second quarter.

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

Challenger Investment Partners' FUM was \$18.8 billion, down 7% (\$1.4 billion) for the quarter. The reduction in FUM was driven by net outflows of \$1.6 billion, due to lower fixed income managed on behalf of Life, following Life reducing its exposure to sub-investment grade fixed income exposures during the quarter.

Outlook

Challenger reaffirms the guidance for normalised net profit before tax to be between \$500 million and \$550 million in FY20. The guidance reflects the impact of changes to Life's investment portfolio and lower Funds Management earnings from lower funds under management following the equity market sell-off.

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 is Australia's largest provider of annuities.

Disclaimer

The forward-looking statements, estimates and projections contained in this release are not representations as to future performance and nothing in this release should be relied upon as guarantees or representations of future performance.

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Challenger Limited

Assets and Funds Under Management, net flows and sales

Life – quarterly sales and investment assets

\$m	Q3 20	Q2 20	Q1 20	Q4 19	Q3 19
Life sales					
Fixed term sales	487	999	747	488	503
Lifetime sales ¹	106	116	95	252	159
Life annuity sales	593	1,115	842	740	662
Maturities and repayments	(590)	(1,023)	(840)	(614)	(596)
Life annuity flows	3	92	2	126	66
Annuity book growth²	0.0%	0.7%	0.0%	1.0%	0.6%
Other Life sales	356	246	936	199	208
Other maturities and repayments	(322)	(180)	(172)	(264)	(444)
Other Life flows	34	66	764	(65)	(236)
Other Life net book growth²	1.7%	3.4%	38.9%	(3.0%)	(11.1%)
Total Life sales	949	1,361	1,778	939	870
Total maturities and repayments	(912)	(1,203)	(1,012)	(878)	(1,040)
Total Life net flows	37	158	766	61	(170)
Total Life book growth²	0.2%	1.0%	5.2%	0.4%	(1.2%)

Life

Fixed income and cash ³	14,571	12,957	13,076	12,460	12,116
Property ³	3,320	3,338	3,288	3,382	3,582
Equity and other	866	2,541	2,431	2,315	2,116
Infrastructure ³	203	833	888	853	825
Total Life investment assets	18,960	19,669	19,683	19,010	18,639
Average Life investment assets⁴	19,696	19,693	19,253	18,752	18,659

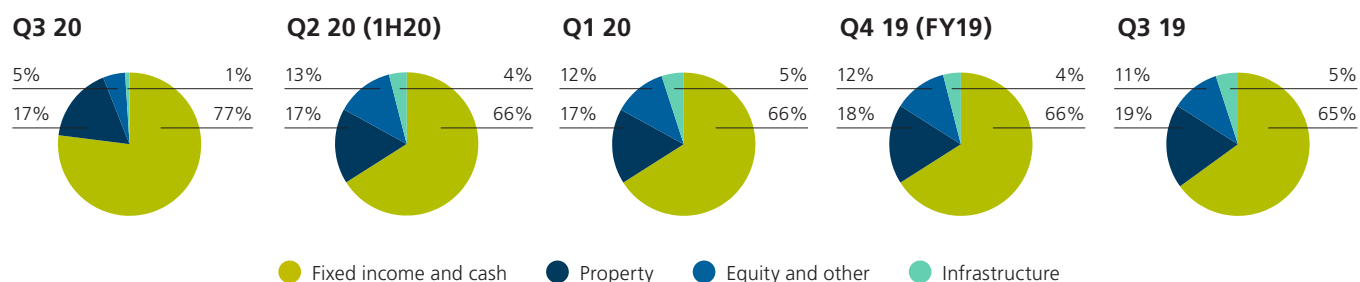
1 Lifetime sales includes CarePlus, a product that pays income for life and specifically designed for the aged care market.

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	Q3 20	Q2 20	Q1 20	Q4 19	Q3 19
Funds Under Management					
Fidante Partners					
Equities	22,672	28,107	26,726	25,864	26,463
Fixed income	26,073	27,452	26,890	25,988	24,527
Alternatives	7,240	7,134	7,107	7,060	8,290
Total Fidante Partners	55,985	62,693	60,723	58,912	59,280
Challenger Investment Partners					
Fixed income	13,218	14,618	14,788	14,568	13,082
Property	5,576	5,535	5,448	5,549	5,723
Total Challenger Investment Partners	18,794	20,153	20,236	20,117	18,805
Total Funds Under Management	74,779	82,846	80,959	79,029	78,085
Average Fidante Partners	61,491	61,760	59,999	58,540	58,083
Average Challenger Investment Partners	20,112	20,247	20,110	19,308	18,717
Total average Funds Under Management¹	81,603	82,007	80,109	77,848	76,800
Analysis of flows					
Equities	587	836	22	(2,345)	231
Fixed income	(430)	628	659	1,128	(238)
Alternatives	(864)	-	(201)	(1,327)	(39)
Total Fidante Partners	(707)	1,464	480	(2,544)	(46)
Challenger Investment Partners	(1,597)	(21)	(43)	1,120	9
Net flows	(2,304)	1,443	437	(1,424)	(37)

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

Group – Reconciliation of total group Assets Under Management

\$m	Q3 20	Q2 20	Q1 20	Q4 19	Q3 19
Funds Management Funds Under Management	74,779	82,846	80,959	79,029	78,085
Life investment assets	18,960	19,669	19,683	19,010	18,639
Adjustments to remove double counting of cross-holdings	(14,286)	(16,176)	(16,292)	(16,269)	(15,311)
Total Assets Under Management	79,453	86,339	84,350	81,770	81,413