

FIRST QUARTER PERFORMANCE UPDATE

- Group assets under management \$89 billion, up 4% for the quarter
- Life investment assets up 4% for the quarter, benefiting from
 - annuity sales growth of 46% on pcp
 - total book growth of 0.8% for the quarter¹
 - positive investment experience
- Funds Management FUM up 5% for the quarter, including \$3.6 billion of net inflows
- Significant progress deploying Life's cash balance into higher yielding investments
- Challenger Life PCA ratio² 1.7 times, well above internal targets

Challenger Limited (ASX: CGF) today provided an update for the three months to the end of September, with group assets under management increasing by 4%, driven by record quarterly annuity sales and market leading Funds Management net flows.

Challenger's strong capital position and defensive portfolio settings have been maintained and significant progress has been made deploying Challenger Life's cash and liquids balance into higher returning investments, which will enhance both future earnings and return on equity.

Managing Director and Chief Executive Officer Richard Howes said: "Challenger's performance in the first quarter demonstrates the success of our strategy to diversify our business geographically and across customer segments. Our record annuity sales reflect strong growth in the contribution from Japan as well as domestic institutional and retail annuity sales.

"Our Funds Management business further solidified its spot as the fastest growing asset manager in Australia. Total funds under management rose 5% during the quarter, driven by exceptional net flows across both Fidante Partners and CIP Asset Management.

"We have maintained our strong capital position and prudent portfolio settings, while taking advantage of market conditions to redeploy almost \$1 billion of Life's cash and liquids into investments generating attractive returns in excess of 20%.

"Overall Challenger is well positioned for continued growth with diversified revenue streams in its annuities business, a differentiated Funds Management offering generating leading flows and a strong capital position."

¹ Life net book growth of 0.8% for the quarter represents Life net flows of \$114 million divided by opening period annuity liability and Challenger Index Plus liabilities.

² PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA).

Life

Total Life net inflows for the quarter were \$114 million, including annuity net inflows of \$100 million and Other Life inflows of \$14 million. Life's annuity book growth and total book growth was 0.8%³ for the quarter.

Total Life sales were \$1,577 million, down 11% compared to the prior corresponding period (pcp) reflecting higher annuity and lower institutional sales.

Total annuity sales increased by \$391 million or 46% on pcp to \$1,233 million driven by strong growth in both Australian and Japanese (MS Primary) sales.

Australian annuity sales were \$842 million and increased by \$218 million or 35% on the pcp, with strong growth in both term and lifetime sales. Australian annuity sales comprised term sales of \$634 million (up 20%) and lifetime sales of \$208 million (up 119%).

Australian fixed term sales have been impacted over the past few years by structural changes in the Australian wealth management and financial adviser market following the Royal Commission, particularly the reduction in advisers at the wealth management operations of the major banks. Adviser movement across the bank aligned and independent advice market has stabilised, with major banks accounting for approximately 12% of first quarter domestic fixed term annuity sales, which is consistent with the contribution in FY20.

Australian lifetime annuity sales of \$208 million more than doubled (up 119%) on pcp and comprised Liquid Lifetime of \$174 million (up \$105 million) and CarePlus of \$34 million (up \$8 million).

Lifetime sales include \$114 million from a new institutional client, representing reinsurance of its closed lifetime annuity portfolio. This success reflects recent efforts to target Australia's large closed defined benefit pension and closed lifetime annuity markets. Liquid Lifetime sales also include initial RBA Cash Linked option sales following its launch late in the fourth quarter of FY20.

Japan (MS Primary) sales were \$391 million and increased by 79%. 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 FY20⁴. Challenger continues to target ¥50 billion (A\$660 million⁵) of Japanese sales in FY21 with sales expected to moderate over FY21 following the strong start to the year.

With the higher Australian lifetime and Japanese sales contribution, long-term annuity sales⁶ represented 49% of total annuity sales, which are more valuable given their longer maturity profile.

Sales of Other Life (Challenger Index Plus) products were \$344 million, largely driven by the reinvestment of \$330 million of maturities during the quarter. The Challenger Index Plus product remains a compelling product offering for large superannuation funds and has a solid pipeline of prospective clients.

³ Based on opening FY21 annuity and other products (Challenger Index Plus) liabilities.

⁴ This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

⁵ Based on Japanese yen and Australian dollar exchange rate as at 30 September 2020.

⁶ Includes Australian lifetime annuities and 20-year fixed term annuities distributed through MS Primary in Japan.

Life's investment assets at 30 September 2020 were \$18.9 billion, an increase of 4% for the quarter and benefited from net book growth and retained earnings, including positive investment experience, primarily driven by a contraction in credit spreads in the quarter.

Life repositioned its investment portfolio in 2H20 to more defensive settings and is holding significant levels of cash and liquids, which is being progressively redeployed into higher returning investments over FY21. During the quarter, Life made significant progress redeploying approximately \$0.8 billion of cash and liquids into higher yielding investments generating returns in excess of 20% on the capital backing them. As a result, Life's cash and liquid investments reduced from \$3.0 billion at the start of the quarter to \$2.2 billion.

Within Life's fixed income book, 85% of the portfolio remains investment grade and credit performance during the quarter remained very resilient. There were no major credit defaults during the quarter.

Within Life's property portfolio, Challenger continues to support its tenants during the pandemic, including the provision of one-off rental abatements where appropriate. Retail trading conditions are better than expected with September foot traffic across Life's retail portfolio now broadly in line with last year and almost all retail stores open and trading.

Challenger's eight direct retail properties are all predominately grocery-anchored convenience-based shopping centres with no exposure to Victoria. Across the retail portfolio, half of the rental income is derived from major supermarkets or essential services.

Challenger has maintained its strong capital position with a PCA ratio of 1.7 times, which is well above the top end of Challenger's target range of 1.3 to 1.6 times the minimum amount set by the Australian Prudential Regulation Authority. The PCA ratio benefited from higher retained earnings, including positive investment experience.

On 13 October 2020, Challenger launched the Challenger Capital Notes 3 Offer, a new subordinated, unsecured, perpetual convertible security (hybrid debt) issued by Challenger Limited. The proceeds are intended to be used to repay Challenger Capital Notes (ASX: CGFPA) once completed in November 2020.

Funds Management

Funds Management funds under management (FUM) was \$85.2 billion, an increase of \$3.8 billion or 5% for the quarter, driven by market leading Fidante Partners' and CIP Asset Management inflows.

Fidante Partners' FUM was \$65.2 billion, an increase of \$2.8 billion or 5% for the quarter, driven by strong net inflows of \$2.3 billion and positive investment markets net of distributions of \$0.5 billion.

Retail inflows continue to be strong, representing over 40% of Fidante Partner's inflows, which is continuing to support margins.

In addition to the quarterly net flows, Fidante Partners has a strong pipeline with a number of mandates won that are yet to be funded and there is growing distribution momentum in Japan.

CIP Asset Management FUM was \$20.0 billion, up \$1.0 billion or 5% for the quarter. The increase in FUM was driven by net inflows of \$1.2 billion, across both Life and new third party clients.

Outlook

Challenger reaffirms its FY21 normalised net profit before tax guidance range of between \$390 million and \$440 million⁷.

Earnings are expected to be weighted toward the second half of FY21, reflecting the majority of rental abatements supporting Life's property tenants recognised in the first half and the progressive deployment of Life's cash and liquids over the year.

This release has been authorised by Challenger's Continuous Disclosure Committee.

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.

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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.

⁷ The COVID-19 situation and its impacts on markets create an inherently uncertain environment. This could, among other things, impact the speed of deployment of Life's capital and therefore impact guidance.

Challenger Limited

Assets and Funds Under Management, net flows and sales

Life – quarterly sales and investment assets

\$m	Q1 21	Q4 20	Q3 20	Q2 20	Q1 20
Life sales					
Fixed term sales	1,025	480	487	999	747
Lifetime sales ¹	208	98	106	116	95
Life annuity sales	1,233	578	593	1,115	842
Maturities and repayments	(1,133)	(926)	(590)	(1,023)	(840)
Life annuity flows	100	(348)	3	92	2
Annuity book growth²	0.8%	(2.7%)	0.0%	0.7%	0.0%
Other Life sales	344	486	356	246	936
Other maturities and repayments	(330)	(783)	(322)	(180)	(172)
Other Life flows	14	(297)	34	66	764
Other Life net book growth²	0.6%	(15.2%)	1.7%	3.4%	38.9%
Total Life sales	1,577	1,064	949	1,361	1,778
Total maturities and repayments	(1,463)	(1,709)	(912)	(1,203)	(1,012)
Total Life net flows	114	(645)	37	158	766
Total Life book growth²	0.8%	(4.3%)	0.2%	1.0%	5.2%
Life					
Fixed income and cash ³	14,260	13,971	14,571	12,957	13,076
Property ³	3,303	3,292	3,320	3,338	3,288
Equity and Infrastructure ³	398	393	392	2,036	2,034
Alternatives	987	647	677	1,338	1,285
Total Life investment assets	18,948	18,303	18,960	19,669	19,683
Average Life investment assets⁴	18,625	18,393	19,696	19,693	19,253

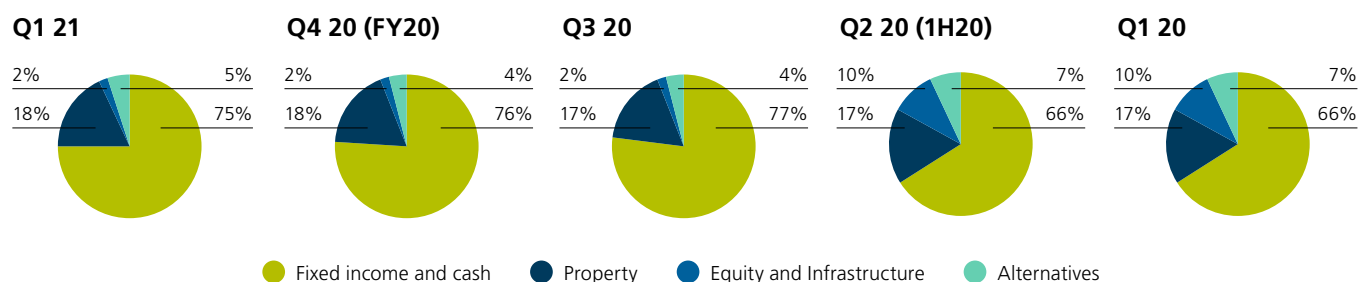
1 Lifetime sales includes CarePlus, a product that pays income for life and specifically designed for the aged care market.

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 are 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 and Net Flows

\$m	Q1 21	Q4 20	Q3 20	Q2 20	Q1 20
Funds Management					
Fidante Partners					
Equities	26,985	26,295	22,672	28,107	26,726
Fixed income	31,904	29,590	26,073	27,452	26,890
Alternatives	6,336	6,508	7,240	7,134	7,107
Total Fidante Partners	65,225	62,393	55,985	62,693	60,723
CIP Asset Management					
Fixed income	14,859	13,629	13,218	14,618	14,788
Property	5,147	5,413	5,576	5,535	5,448
Total CIP Asset Management	20,006	19,042	18,794	20,153	20,236
Total Funds Under Management	85,231	81,435	74,779	82,846	80,959
Average Fidante Partners	64,065	59,021	61,491	61,760	59,999
Average CIP Asset Management	19,397	18,799	20,112	20,247	20,110
Total average Funds Under Management¹	83,462	77,820	81,603	82,007	80,109
Analysis of flows					
Funds Management net flows					
Equities	335	(195)	587	836	22
Fixed income	2,107	2,955	(430)	628	659
Alternatives	(96)	(199)	(864)	-	(201)
Total Fidante Partners	2,346	2,561	(707)	1,464	480
CIP Asset Management	1,230	404	(1,597)	(21)	(43)
Net flows	3,576	2,965	(2,304)	1,443	437

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

Reconciliation of Total Group Assets and Funds Under Management

\$m	Q1 21	Q4 20	Q3 20	Q2 20	Q1 20
Funds Management Funds Under Management	85,231	81,435	74,779	82,846	80,959
Life investment assets	18,948	18,303	18,960	19,669	19,683
Adjustments to remove double counting of cross-holdings	(15,383)	(14,501)	(14,286)	(16,176)	(16,292)
Total Assets Under Management	88,796	85,237	79,453	86,339	84,350