

THIRD QUARTER AUM ANNUITY SALES & NET FLOWS¹

Strong retail annuity sales growth and longer tenor
Challenger Life remains strongly capitalised

- Group assets under management (AUM) \$102 billion, up 2% for the quarter
- Funds Management funds under management (FUM) \$96 billion, up 3% for the quarter
- Life sales \$2 billion
 - Retail sales \$735 million, up 48%
 - Japanese sales \$212 million, up 237%
 - Institutional sales \$1 billion, down 50%
- Challenger Life remains strongly capitalised with a PCA ratio of 1.59 times²

Challenger Limited (ASX:CGF) today reported its third quarter annuity sales and AUM. Total Life sales were \$2.0 billion reflecting strong retail and Japanese annuity sales, and lower institutional sales. Group AUM was up 2% for the quarter driven by investment market movements.

Managing Director and Chief Executive Officer, Nick Hamilton said:

"Our third quarter performance reflects our efforts to remix annuity sales, with a focus on growing longer duration retail retirement annuity business.

"Sales across our retirement income products in Life have remained strong. Retail annuity sales increased 48% supported by attractive rate, rising demand for guaranteed lifetime income and a growing number of Australians entering retirement.

"We are also experiencing a significant pick up in new business tenor, and financial adviser quote levels continue to increase.

"As we prioritise growth in longer duration retail business, we have seen a moderation of institutional annuity sales, with a lower level of maturities reinvested. Institutional annuity sales are typically much shorter duration and we remain very disciplined on institutional term annuity pricing.

"Challenger is uniquely placed to help Australians have real financial peace of mind in retirement. Challenger launched its latest marketing campaign at the end of March highlighting the positive effect a CPI-indexed annuity can have for customers, particularly in the current higher inflationary environment.

"We also expect to launch the first iteration of our annuity digital experience in the fourth quarter, which will allow customers to buy simple term annuity products online within minutes."

Mr Hamilton said the Funds Management business had delivered another solid performance notwithstanding industry conditions.

“Total funds under management increased 3% during the quarter and we continue to see significant opportunities in Australia and offshore,” he said.

“Earlier this month, we announced a real estate strategic partnership with Elanor Investors Group, creating a new Fidante affiliate manager. The partnership will expand our funds management offering and create a compelling real asset proposition for retail, high-net-worth and institutional customers.

“Challenger is well placed to finish the year strongly and we’re pleased to reaffirm our full year profit guidance”, said Mr Hamilton.

Challenger Life

Total Life sales were \$2.0 billion, down 25%, with strong retail and Japanese (MS Primary) sales offset by lower institutional sales (down 50%).

Domestic retail sales grew 48% to \$735 million, reflecting higher retail fixed term annuity sales of \$588 million (up 51%) and higher lifetime annuity sales of \$147 million (up 36%). Retail sales continue to benefit from stronger demand and are supported by higher adviser quoting levels, which increased 63% on the prior corresponding period (pcp).

Lifetime annuity sales increased 36% to \$147 million, and comprised Liquid Lifetime of \$86 million (up 90%) and CarePlus of \$61 million (down 2%).

Japanese annuity sales increased by 237% to \$212 million. With the strong quarterly contribution, total MS Primary sales for the nine months were \$624 million and have exceeded the annual target³.

Institutional sales decreased by 50% to \$1.1 billion, with institutional term annuity sales of \$97 million (down 90%) due to lower reinvestment rates and Challenger Index Plus sales of \$963 million (down 13%).

Institutional term annuities tend to be shorter duration than retail policies, typically 1-year. Challenger’s priority is to grow longer duration and more profitable business and has remained disciplined on institutional term annuity pricing.

With the remix in annuity sales, from institutional to retail, the tenor on new business annuity sales increased to 6.1 years in the quarter, up from 3.8 years in the pcp. Demand for longer dated annuities continues to improve with 73% of new business annuity sales greater than two years⁴, compared to 50% in the pcp.

Total Life net outflows were \$509 million or -2.8%⁵ for the quarter, representing Life sales of \$2.0 billion and maturities of \$2.5 billion. Institutional maturities represented 74% (or \$1.9 billion) of the quarterly maturities and included \$0.9 billion of institutional term annuities not reinvested.

Retail annuity net flows were positive \$299 million for the quarter, reflecting strong growth in both domestic and Japanese annuities.

Challenger Life’s investment assets as at 31 March 2023 were \$23.3 billion, up 1% for the quarter. The increase in investment assets reflects Challenger Life’s retained earnings, movements in the investment market and third quarter net book growth.

Challenger Life is required to value all assets and liabilities at fair value. This has resulted in investment experience which was negative \$23 million for the quarter, with gains from tighter fixed income credit spreads more than offset by lower valuations in alternatives.

Challenger Life remains strongly capitalised with a PCA ratio of 1.59 times, which is toward the top end of its target range of 1.3 to 1.7 times the minimum amount set by the Australian Prudential Regulation Authority (APRA). The PCA ratio of 1.59 times is unchanged from 31 December 2022 and reflects growth in Life investment assets, changes in asset allocation and retained earnings.

In April 2023, Challenger successfully issued \$350 million of Challenger Capital Notes 4, with the proceeds used to fund a subscription for Additional Tier 1 Capital of Challenger Life, and announced it would redeem all outstanding Challenger Capital Notes 2 in May 2023⁶. Challenger also received approval from APRA to release \$50 million of excess Bank capital, which was injected into Challenger Life in April 2023.

Including the impact of the Challenger Capital Notes 4 issuance, the repayment of Challenger Capital Notes 2, and the \$50 million of excess Bank capital injected into Challenger Life, the PCA ratio as at 31 March 2023 would have been 1.57 times.

Funds Management

Funds Management funds under management (FUM) was \$95.7 billion, an increase of \$2.4 billion or 3% for the quarter, primarily driven by Fidante and positive investment market movements.

Fidante's FUM was \$74.6 billion, an increase of \$2.2 billion or 3% for the quarter. FUM benefited from positive investment markets of \$3.3 billion, partially offset by net outflows of \$0.9 billion for the quarter, and client distributions of \$0.2 billion. Net outflows related to fixed income and alternative products, partially offset by net inflows to equity strategies.

Earlier this month, Challenger announced it had entered into an agreement with Elanor Investors Group (ASX:ENN) (Elanor) to form a strategic real estate partnership whereby Elanor will become Challenger's commercial real estate partner in Australia and New Zealand and Fidante will become Elanor's exclusive distribution partner.

As part of the agreement, Challenger will sell its Australian real estate business to Elanor for total consideration of \$42 million⁷, which will be received in new Elanor securities. Upon completion, Challenger's holding in Elanor is expected to represent 18%⁸ of Elanor securities on issue.

The agreement supports Challenger's strategy to expand its funds management offering by leveraging the combination of Fidante's market-leading distribution capability and Elanor's real estate platform, creating a new Fidante affiliate manager offering a compelling proposition for retail, high-net-worth and institutional customers.

Challenger Investment Management FUM was \$21.2 billion and increased by \$0.2 billion or 1% for the quarter.

Challenger Bank

The Bank sale continues to progress with completion subject to regulatory approvals in Australia and New Zealand.

The Bank is strongly capitalised, with approximately \$50 million of remaining excess capital, which is expected to be returned to Challenger prior to completion.

Outlook

Challenger reaffirms its FY23 normalised net profit before tax guidance range of between \$485 million to \$535 million.

ENDS

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

About Challenger

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

Challenger operates a fiduciary Funds Management division, an APRA-regulated Life division and an APRA regulated authorised deposit-taking institution. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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¹ All commentary compares the March 2023 quarter against the March 2022 quarter (the prior corresponding period or pcp), unless otherwise stated.

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) and is as at 31 March 2023.

³ Reinsurance across both Australian and US dollar annuities of at least ¥50 billion (~A\$530m based on the exchange rate as at 30 June 2022) per year for a minimum of five years, commencing 1 July 2019. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

⁴ Quarterly new business annuity sales by tenor excluding reinvestments and Japanese sales.

⁵ Life book growth of -2.8% for the quarter represents Life net flows divided by opening FY23 annuity and Challenger Index Plus liabilities.

⁶ The Redemption of Challenger Capital Notes 2 has been approved by the Australian Prudential Regulation Authority (APRA). Challenger's redemption of Challenger Capital Notes 2 does not imply or indicate that Challenger or any of its related regulated entities will in the future exercise any right it may have to redeem any other outstanding regulatory capital instruments issued by Challenger or any of its related regulated entities. Any such redemption would also be subject to the prior written approval of APRA (which approval may or may not be given).

⁷ Before tax, transaction costs and other adjustments and subject to certain milestones being met.

⁸ On a non-diluted basis and subject to certain milestones being met.

Challenger Limited

Assets and Funds Under Management, net flows and sales

Life quarterly sales and investment assets

\$m	Q3 23	Q2 23	Q1 23	Q4 22	Q3 22
Life sales					
Retail fixed term sales	588	958	809	605	390
Institutional fixed term sales	97	325	665	145	1,006
Japan sales	212	225	187	131	63
Fixed term sales	897	1,508	1,661	881	1,459
Lifetime sales ¹	147	195	180	159	108
Life annuity sales	1,044	1,703	1,841	1,040	1,567
Maturities and repayments	(1,583)	(1,244)	(1,498)	(860)	(1,281)
Life annuity flows	(539)	459	343	180	286
Annuity book growth²	(4.0%)	3.4%	2.5%	1.4%	2.1%
Other Life sales	963	1,006	929	1,053	1,104
Other maturities and repayments	(933)	(891)	(861)	(698)	(899)
Other Life flows	30	115	68	355	205
Other Life net book growth	0.7%	2.6%	1.6%	9.9%	5.6%
Total Life sales	2,007	2,709	2,770	2,093	2,671
Total maturities and repayments	(2,516)	(2,135)	(2,359)	(1,558)	(2,180)
Total Life net flows	(509)	574	411	535	491
Total Life book growth²	(2.8%)	3.2%	2.3%	3.2%	2.8%
Life					
Fixed income and cash ³	17,505	17,621	16,816	16,659	16,614
Property ³	3,236	3,178	3,228	3,227	3,551
Equity and Infrastructure ³	259	259	961	971	1,004
Alternatives	2,349	2,027	1,812	1,367	1,265
Total Life investment assets	23,349	23,085	22,817	22,224	22,434
Average Life investment assets⁴	23,287	23,032	22,525	22,415	22,826

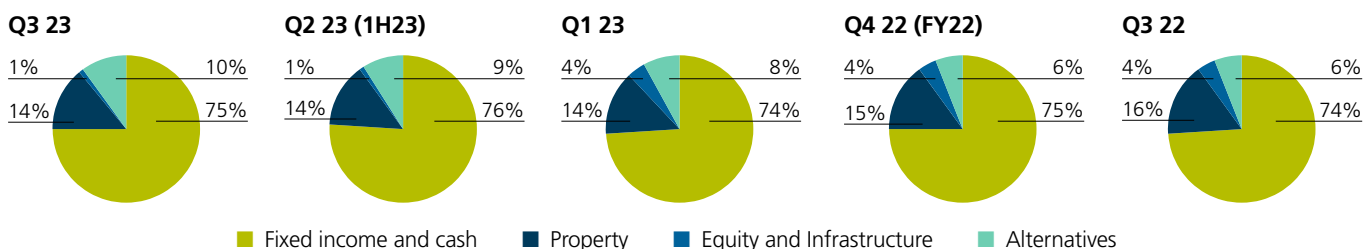
1 Lifetime sales includes CarePlus, a product that pays income for life and specifically designed for the aged care market.

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 Under Management and net flows

\$m	Q3 23	Q2 23	Q1 23	Q4 22	Q3 22
Funds Under Management					
Fidante					
Equities	40,632	37,991	36,101	35,661	41,516
Fixed income	32,339	32,040	31,205	34,274	36,602
Alternatives	1,600	2,359	2,665	2,503	1,944
Total Fidante	74,571	72,390	69,971	72,438	80,062
Challenger Investment Management					
Fixed income	16,884	16,710	16,796	16,658	15,938
Property	4,289	4,275	4,274	4,352	4,497
Total Challenger Investment Management	21,173	20,985	21,070	21,010	20,435
Total Funds Under Management	95,744	93,375	91,041	93,448	100,497
Average Fidante Partners	73,808	71,760	72,102	76,807	83,954
Average Challenger Investment Management	21,014	21,015	20,891	20,587	20,556
Total average Funds Under Management¹	94,822	92,775	92,993	97,394	104,510
Analysis of flows					
Equities	617	(491)	415	(1,200)	(591)
Fixed income	(713)	807	(2,296)	(2,088)	(1,152)
Alternatives ²	(786)	(276)	175	213	(5,166)
Total Fidante	(882)	40	(1,706)	(3,075)	(6,909)
Challenger Investment Management	(47)	(216)	56	552	3
Net flows	(929)	(176)	(1,650)	(2,523)	(6,906)

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

2 Alternatives Q3 22 outflows includes \$5,162m FUM derecognition following the sale of Whitehelm.

Bank quarterly sales and lending and financing assets

\$m	Q3 23	Q2 23	Q1 23	Q4 22	Q3 22
Deposit sales					
Bank deposit sales ¹	44	24	106	87	59
Maturities and withdrawals	(64)	(65)	(68)	(42)	(29)
Bank net flows	(20)	(41)	38	45	30
Closing Bank deposits	204	224	266	228	182
Bank net book growth (%)²	(8.8%)	(18.2%)	16.6%	33.6%	22.4%
Bank lending and financing assets					
Fixed income, cash and cash equivalents	225	272	277	285	226
SME Lending	24	13	6	—	—
Residential Lending	73	77	85	89	94
Corporate Lending	—	44	47	17	—
Total Bank lending and financing assets	322	407	415	391	320
Average Bank lending and financing assets³	358	410	421	361	273

1 Deposits includes At Call accounts and Term Deposits.

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

3 Calculated on a monthly basis.

Challenger Limited

Assets and Funds Under Management, net flows and sales

Reconciliation of total group assets and Funds Under Management

\$m	Q3 23	Q2 23	Q1 23	Q4 22	Q3 22
Funds Management Funds Under Management	95,744	93,375	91,041	93,448	100,497
Life investment assets	23,349	23,085	22,817	22,224	22,434
Bank lending and financing assets	322	407	415	391	320
Adjustments to remove double counting of cross-holdings	(17,555)	(17,474)	(17,821)	(17,493)	(17,176)
Total Assets Under Management	101,860	99,393	96,452	98,570	106,075