

CHALLENGER ANNOUNCES FY23 RESULTS¹

SUCCESSFUL EXECUTION OF GROWTH STRATEGY

RECORD ANNUITY SALES

Strong financial performance with earnings in top half of guidance range²

- Normalised net profit before tax (NPBT)³ \$521 million, up 10%
- Statutory net profit after tax \$288 million, up 13%
- Group assets under management (AUM) \$105 billion, up 6%
- Full year dividend 24.0 cents per share fully franked, up 4%

Life positioned to capture retirement income market opportunity

- Record annuity sales up 8%, contributing to Life sales of \$9.7 billion
- Domestic retail annuity sales up 53% to \$3.6 billion
- Life book growth of 5.2%⁴
- Targeting longer duration business in FY24

Driving growth through successful execution of strategic initiatives

- New retail and institutional channels expanding customer reach
- Extending MS Primary reinsurance arrangement

Challenger (ASX:CGF) today announced its full-year financial results for 2023 with a 10% increase in normalised net profit before tax of \$521 million, in the top half of its earnings guidance range.

Managing Director and Chief Executive Officer Nick Hamilton said:

“Challenger has delivered a strong performance this year as we focus on expanding our customer reach and driving growth initiatives.

“The result reflects the strength of our franchise and our ability to meet the growing demand for guaranteed income as an increasing number of customers seek financial security in retirement.

“Our Life business achieved total sales of \$9.7 billion driving book growth of 5.2%.

“Growth across retail annuities was exceptional, up 53% to \$3.6 billion, reflecting the attractiveness of our offering. Pleasingly, this growth was weighted towards longer duration business, with 74% of new business annuity sales for terms of two years or more.

“In Funds Management, the business delivered a solid performance, whilst continuing to invest for growth across Challenger Investment Management and Fidante.

“Reflecting Challenger’s strong FY23 performance, the Board determined a fully franked full-year dividend of 24.0 cents per share, an increase of 4% on last year.”

Mr Hamilton said Challenger had made significant progress delivering on its strategy to build a more customer-focused business, while executing a range of strategic initiatives to drive growth.

“Our term and lifetime income products provide essential building blocks to a retirement portfolio and we are focused on ensuring our customers have a seamless experience. This past year we launched fixed term direct, allowing income seekers to access market-leading guaranteed rates via our website in minutes.

“Across Funds Management, our new registry service has supported the expansion of our suite of active ETFs and made it easier for customers to do business with us through a new online self-service portal.

“With the Australian savings market firmly focused on retirement, there is a significant growth opportunity for us to support superannuation funds to develop retirement income solutions to help meet their members’ needs.

“Through our new strategic partnerships with Aware Super and TelstraSuper, we will leverage our expertise and market-leading investment capability to develop retirement and longevity solutions for their members.

“As we look to the future, we are uniquely positioned to seize the growth opportunity ahead. We have a clear and compelling strategy that our team are focused on executing. New and emerging channels will broaden our customer reach, and significant demographic and regulatory shifts are in our favour which will help us deliver an exciting growth agenda.”

Group financial performance

Normalised net profit before tax of \$521 million was up 10% and in the top half of Challenger’s FY23 guidance range.

Statutory net profit after tax (NPAT) increased 13% to \$288 million driven by strong normalised earnings growth.

Group assets under management (AUM) increased 6% to \$105 billion, reflecting stronger Life book growth.

Challenger Life Company Limited (Challenger Life) remained well capitalised with a PCA ratio of 1.59 times⁵ the minimum regulatory requirement.

Normalised pre-tax ROE increased 80 bps to 12.7%, benefitting from a 200 bps improvement in Life’s ROE, offset by lower earnings across Funds Management and the Bank.

Challenger Life

Challenger Life is Australia’s leading retirement income brand⁶, playing an important role helping Australians achieve financial security for a better retirement.

Life earnings before interest and tax (EBIT) increased 14% to \$541 million, benefitting from both margin expansion and AUM growth.

Total Life sales of \$9.7 billion were driven by exceptional growth in retail annuity sales and strong Japanese annuity sales.

Retail annuity sales were particularly strong up 53% to \$3.6 billion. Challenger's customer proposition is the most attractive in a decade, which has helped drive demand for guaranteed income⁷.

Reflecting Challenger's strategy to improve the quality of the Life book through growing longer duration business, 74% of new business annuity sales were greater than two years⁸, which will help support book growth in FY24.

Japanese (MS Primary) annuity sales increased by 20% to \$741 million, exceeding the minimum agreed annual target⁹.

Institutional sales were \$5.4 billion, as Challenger maintained its disciplined approach to shorter duration business. Challenger Index Plus sales were \$4.2 billion, reflecting the unique and compelling proposition it provides to our institutional clients.

Challenger continues to progress its strategic focus on building and deepening partnerships with institutional customers and developing guaranteed income solutions that help meet their members' needs. In FY23, Challenger formed a retirement partnership with TelstraSuper, which will be the first fund to launch a comprehensive retirement income solution with Challenger.

Challenger also recently announced a defined benefit partnership with Aware Super, which is the largest annuity buy-in in Australian history. This includes a group lifetime annuity policy to the value of \$619 million and will be included in Challenger's first quarter 2024 lifetime annuity sales.

Funds Management

Challenger's Funds Management business is one of Australia's largest active fund managers¹⁰ with a diverse range of contemporary affiliate managers, products and services.

Funds Management earnings before interest and tax was down 26% to \$62 million due to lower average FUM and higher expenses.

Funds Management average FUM decreased by 9% to \$95.0 billion.

Despite challenging market conditions, investment performance remained strong. Over the last five years, 99% of Fidante affiliates outperformed their respective benchmark and 90% have outperformed since inception.

In FY23, Fidante continued to expand its offering as part of its focus to build its capabilities in new and innovative alternatives strategies to meet growing demand, including expanded relationships with Elanor Investors Group (ASX:ENN), Resonance and Proterra, and the launch of Cultiv8's new food and agriculture fund.

Fidante also launched a new registry system and digital tools that make it easier for customers to transact. This investment in digital innovation has supported the expansion of Fidante's product offering, with the launch of two new Alphinity active ETFs.

Strategic partnerships

Challenger continues to progress a range of strategic partnerships with best-in-class operators. This ensures the business can focus on its core franchise – Life and Funds Management – while leveraging the scale and growth of its strategic partners.

MS&AD and Challenger have developed a mutually beneficial relationship over many years and are working on a range of new initiatives, including real estate and fixed income asset management mandates. Challenger is also pleased to announce that it is extending its highly successful reinsurance agreement with MS Primary and will commence reinsuring Japanese yen denominated annuities in 1H24.

The strategic partnership with Apollo (NYSE:APO), a global alternative asset manager continues to expand. Over the course of FY23, Challenger and Apollo have agreed to enter a distribution partnership, under which Fidante will bring the Apollo Aligned Alternatives (AAA) capability to the Australian market in 1H24.

In FY23, Challenger and Simcorp (CSE:SIM) launched Artega Investment Administration, to provide market-leading investment administration services to investment managers and asset owners across Australia. Artega has won a number of new external clients that will transition to its platform in 1H24, in addition to existing client relationships with Challenger and Fidante affiliates.

Outlook

In FY24, Challenger is targeting normalised net profit before tax guidance between \$555 million and \$605 million, with the mid-point of the range representing an 11% increase on FY23.

The FY24 guidance range excludes Challenger Bank, the sale of which is expected to complete in the first half of FY24.

Key metrics

	FY23	FY22	Change
Total Group assets under management (\$bn)	105.0	98.6	6%
CLC excess regulatory capital (\$bn)	1.6	1.5	2%
Life net book growth (%)	5.2	14.3	(910bps)
Total Life sales (\$bn)	9.7	9.7	Stable
Annuity sales (\$bn)	5.5	5.1	8%
Funds Management net flows (\$bn)	(0.5)	(8.5)	95%
Normalised NPBT (\$m)	521	472	10%
Normalised NPAT (\$m)	364	322	13%
Statutory NPAT (\$m)	288	254	13%
Normalised EPS (cps)	53.3	47.6	12%
Statutory EPS (cps)	42.1	37.5	12%
Normalised ROE pre-tax (%)	12.7	11.9	80bps
Normalised ROE post-tax (%)	8.9	8.1	80bps
Normalised cost to income ratio (%)	37.7	38.7	(100bps)
Full year dividend (cps)	24.0	23.0	4%

ENDS

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

Investor presentation webcast

Challenger's Managing Director and Chief Executive Officer, Nick Hamilton, and Chief Financial Officer, Alex Bell, will provide an investor update at 10.30am (Sydney time) on 15 August 2023.

The presentation will be streamed via webcast which can be accessed at www.challenger.com.au/shareholder

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 year ended 30 June 2023 against the year ended 30 June 2022 (the prior corresponding period or pc), unless otherwise stated.

² 2023 full year guidance range for normalised net profit before tax of between \$485 million and \$535 million.

³ The normalised profit figures are non-statutory amounts and in Challenger's view better reflect the underlying operating performance of the business. The normalised profit figures exclude investment experience and significant items. Investment experience includes both assets and policy liability experience and net new business strain. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets, plus any economic and actuarial assumption changes in relation to policy liabilities for the period. New business strain results from using the risk-free rate plus an illiquidity premium to value term and lifetime annuities. New business strain is a non-cash item and subsequently reverses over the future period of the contract. The normalised profit also excludes any significant items which represent nonrecurring income and expense items for the period. The normalised profit framework has been disclosed in the Operating and Financial Review section of the Directors' Report in the Challenger Limited 2023 Annual Report. The normalised profit after tax has been subject to a review performed by Ernst & Young.

⁴ Book growth percentage represents net flows for the period divided by opening book value for the financial year.

⁵ 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 30 June 2023.

⁶ Plan for Life – March 2023 – based on annuities under administration.

⁷ 3-year annuity rate reached 5.55% in July 2023, the highest level in the last ten years.

⁸ Based on new business annuity sales, including term annuities and Lifetime annuities excluding reinvestments and Japanese sales.

⁹ 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.

¹⁰ Calculated from Rainmaker Roundup, March 2023 data.