

# Challenger Capital Notes



## Newsletter August 2017

**Group assets under management up 17%**

**\$70**bn

**Normalised profit after tax<sup>1</sup>**

**↑ 6%**

**Regulatory capital above APRA's minimum requirement**

**\$1.2**bn

Dear Noteholder

On behalf of the Board and management team, I'm pleased to provide you with an update on the performance of Challenger Limited.

Our success in implementing our strategy, coupled with prudent operational management, has delivered another year of growth across all business metrics.

### Record results

In 2017, we continued to build on our track record of performance with record results in line with the guidance we set at the start of the year.

A highlight of the year was excellent growth in assets and funds under management, up 17% on the prior period. This was driven by \$6.2 billion of Funds Management net fund flows, well above industry averages, and a \$1.3 billion increase in Life net flows, reflecting our very strong annuity sales.

Normalised net profit after tax was up 6% to \$385 million. Statutory net profit after tax increased 21% to \$398 million. This number includes investment experience, reflecting unrealised mark to market gains and losses on our assets and liabilities.

Importantly, we achieved a normalised pre-tax return on equity of 18.3%, above our 18% target.

### Capital and equity placement

Throughout the year, Challenger ensured it remains well placed to fund future growth. The Challenger Capital Notes 2 issue in the third quarter of the year was very well supported by investors, resulting in the offer being increased in size to \$460 million.

Challenger Life finished the year well capitalised with \$1.2 billion of excess regulatory capital. This represents 1.57 times the minimum level required by the Australian Prudential Regulation Authority (APRA), and is at the top end of Challenger's target range of 1.3 times to 1.6 times.

In August 2017, Challenger announced a \$500 million equity placement to MS&AD Insurance Group Holdings Inc., the parent company of MS Primary, broadening this key strategic relationship and funding future growth. MS&AD is a leading Japanese insurance company. It is the largest general insurer in Japan and, through its life company operations, is the leading foreign currency annuity provider.

Following the MS&AD placement, on a pro forma basis, at 30 June 2017 Challenger Life held 1.75 times the minimum level required by APRA.

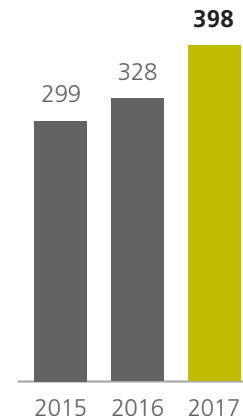
**Normalised net profit after tax<sup>1</sup> (\$m)**

**up 6%**



**Statutory net profit after tax (\$m)**

**up 21%**



1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in Section 2 of the Operating and Financial Review in the Challenger 2017 Annual Report.

## Life update

The Life business targets Australia's increasing superannuation savings pool and the rapidly rising number of retirees, with products helping convert savings to regular and reliable income streams.

Our 2017 financial results were underpinned by significant growth in annuities sales, up 20%, with a particularly strong contribution from long-dated and lifetime products. These excellent sales results demonstrate strong demand for our secure and stable retirement income products.

Long-term sales, which include lifetime annuities and 20-year MS Primary (Japanese) business, accounted for 40% of 2017 sales. This increased weighting to longer term business is improving the quality of our Life annuities book.

## Funds Management update

The Funds Management business generally targets the retirement savings phase of superannuation by providing investment products aiming to deliver superior investment returns in order to maximise superannuation savings.

Funds Management also delivered positive outcomes for the year, demonstrating the value of our scalable boutique model. In addition to strong net flows, the business delivered superior investment performance, with 97% of Fidante funds under management meeting or exceeding benchmark over five years.

## Growth strategy

In Australia, the sale of annuities through investment and administration platforms is a key growth driver and broadens our access to the superannuation system. In 2017, we launched Challenger annuities on the ClearView Wealth Solutions platform; added CarePlus to the Colonial platform; made Challenger annuities available through our Link relationship to three profit-for-member funds and launched Challenger-backed annuities with Suncorp.

We also announced new relationships with AMP and BT. When AMP and BT come online later this financial year, Challenger annuities will be represented on platforms used by two thirds of Australian financial advisers.

Broadening our reach beyond Australia, our relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), has seen us partner to provide Australian dollar annuities in Japan. This successful initiative has delivered 15% of Life's 2017 annuity sales in its first eight months.

We remain strongly focused on carefully managing the business, with a commitment to risk management and sustainable business practices. Our business is clearly differentiated in the market and is ideally placed to capitalise on market opportunities.

I would like to thank you for your ongoing support and commitment to Challenger.



**Peter Polson**  
Independent Chair  
Challenger Limited

## Manage your holding

For administrative matters in respect of your Challenger Capital Notes holding, please contact Computershare Investor Services.

T: 1800 780 782

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## Go electronic

Challenger can deliver your noteholder communications electronically. Please update your communication preferences via Computershare Investor Services.

## Challenger Capital Notes distribution history

Distribution payment date	Distribution <sup>1</sup>	Total return <sup>2</sup>
25 November 2016	A\$0.90	5.1250%
27 February 2017	A\$0.93	5.1550%
25 May 2017	A\$0.86	5.1800%
25 August 2017	A\$0.91	5.1350%

## Distributions 2018

Ex-date	Record date	Payment date
16 August 2017	17 August 2017	25 August 2017
16 November 2017	17 November 2017	27 November 2017
15 February 2018	16 February 2018	26 February 2018
16 May 2018	17 May 2018	25 May 2018

## Challenger Capital Notes 2 distribution

Distribution payment date	Distribution <sup>1</sup>	Total return <sup>2</sup>
22 August 2017	A\$1.63	6.1850%

## Distributions 2018

Ex-date	Record date	Payment date
11 August 2017	14 August 2017	22 August 2017
13 November 2017	14 November 2017	22 November 2017
13 February 2018	14 February 2018	22 February 2018
11 May 2018	14 May 2018	22 May 2018

1. The Distribution is the cash payment made on each \$100 Challenger Capital Note or Challenger Capital Note 2 for the relevant quarterly Distribution Period. It is calculated as the Distribution Rate, multiplied by the number of days in the relevant quarterly Distribution Period divided by 365 days, applied to each \$100 Challenger Capital Note or Challenger Capital Note 2.  
2. The total return (expressed as a percentage per annum) for each quarterly Distribution Period is equal to the aggregate of the Bank Bill Rate and the Margin of 3.40% for Challenger Capital Notes and 4.40% for Challenger Capital Notes 2. The total return for the relevant quarterly Distribution Period represents (as a percentage per annum) the aggregate of the cash payment and the franking credits.