

Challenger Capital Notes



Newsletter August 2020



Dear Noteholder

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

The 2020 financial year was unprecedented for the community, our industry and the broader economy. The COVID-19 pandemic had an immediate and severe impact on our financial performance. The pandemic's impact was in addition to the structural changes in the Australian wealth management industry that commenced a few years ago.

Our performance over the last financial year reflects the impacts of these events. It also demonstrates the resilience we have built through the diversification of our business, while maintaining financial discipline and strong capital and risk management practices.

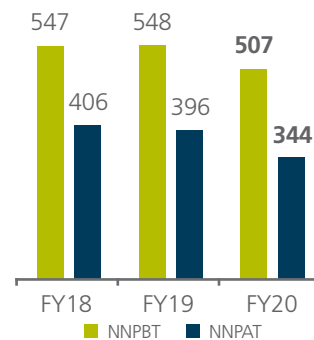
This year we have also focused on responding to shifts in our operating environment with new initiatives to build deeper customer engagement, targeted activities to support financial advisers and expanding our work with leading superannuation funds. Underpinning our business strategy is our commitment to good corporate governance, risk management and sustainability.

Performance and drivers of growth

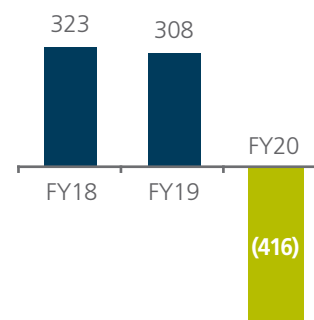
Despite the extremely challenging environment, Challenger's assets under management grew 4% to \$85 billion. This increase reflects lower Life investment assets and market leading net flows in the Funds Management business.

Normalised net profit before tax was down 8% to \$507 million, inline with our guidance range. Statutory net loss after tax was \$416 million and includes significant negative investment experience relating to the coronavirus pandemic market sell-off in global financial markets. Challenger Life is required to value all assets and liabilities supporting the Life business at fair value, with the investment market volatility over the past six months resulting in significant investment losses. Approximately half of these losses are unrealised.

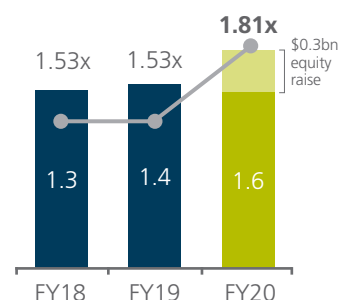
Normalised NPBT¹ (\$m)
Normalised NPAT¹ (\$m)



Statutory NPAT¹ (\$m)



CLC² excess capital (\$bn)
CLC² PCA ratio (times)



Group assets under management

\$85_{bn}

\$0.3_{bn}

equity raising to strengthen capital position

\$1.6_{bn}

of excess capital above APRA requirement

¹ The normalised profit, which is not statutory profit, is not audited but subject to a review by Challenger's auditor. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2020 Annual Report – Operating and Financial Review section.

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

In response to the market and economic volatility, Challenger acted quickly to reposition the investment portfolio in order to maintain a strong capital position. In June, we undertook a successful \$270 million institutional placement to further enhance our capital position. We also undertook a share purchase plan for retail investors, raising \$35 million, which was completed in July 2020.

With \$1.6 billion in excess regulatory capital and over \$3 billion in cash and liquid fixed income, Challenger is well placed to manage through the current market volatility.

In light of ongoing economic and market uncertainty, protecting the balance sheet is of upmost importance, consequently the Board has decided it is prudent to not pay a final FY20 dividend.

Replacement of Challenger Capital Notes (CGFPA)

Under the terms of Challenger Capital Notes, Challenger had the option to convert, redeem or resell¹ the Notes on the Optional Exchange Date, being 25 May 2020. Given investment market conditions have been significantly disrupted as a result of the coronavirus pandemic, it was not feasible to launch a replacement offer at that time and redeem the Notes.

Given the unprecedented market conditions, APRA confirmed Challenger can repurchase the Notes on any quarterly distribution payment date up to (but not including) 25 May 2022. Subject to market conditions, over the next six months we expect to launch a replacement offer with the proceeds used to repay some or all of the Notes. In the meantime, you will continue to receive your quarterly distribution payments, with the next payment to be made on 25 August 2020.

Outlook

There's no doubt that the 2020 financial year has been one of the most challenging we have faced. We are confident that Challenger has the right foundations in place to withstand the current disruption, and grow in coming years, as conditions improve and structural changes in the sector play out.

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

› computershare.com.au

Go electronic

Challenger can deliver your noteholder communications electronically. Please update your communication preferences via their website.

Challenger Capital Notes distribution history

Distribution payment date	Cash distribution ²	Total return ^{2,3}
25 August 2020	\$0.62	3.50%
25 May 2020	\$0.73	4.26%
25 February 2020	\$0.76	4.28%
25 November 2019	\$0.76	4.36%

Challenger Capital Notes 2 distribution history

Distribution payment date	Cash distribution ²	Total return ^{2,3}
24 August 2020	\$0.81	4.50%
22 May 2020	\$0.89	5.28%
24 February 2020	\$0.95	5.29%
22 November 2019	\$0.95	5.39%

¹ Subject to APRA approval and certain other conditions, as set out in the prospectus issued by Challenger Limited and dated 4 September 2014.

² The cash distribution is the cash payment made on each \$100 Challenger Capital Notes or Challenger Capital Notes 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 Notes or Challenger Capital Notes 2.

³ Total return represents the cash distribution plus franking credits.