

Challenger Capital Notes

Newsletter
15 August 2023



DUNCAN WEST
Chair

NORMALISED NPBT¹
▲10% on last year

\$521m

STATUTORY NPAT¹
▲13% on last year

Includes impact of
investment markets

\$288m

LIFE SALES

▲53% increase on
retail annuity sales

\$9.7bn

GROUP AUM

▲6% on last year

\$105bn

FY23 DIVIDEND

▲4% on last year

24.0cps

GROUP ROE²

▲80bps from earnings
growth

12.7%

Dear Noteholder,

On behalf of the Board and management team, I'm pleased to provide you with an update on Challenger's performance over the 2023 financial year.

In FY23, Challenger delivered a strong performance, with record annuity sales and earnings in the top half of our FY23 guidance range.

At the same time, we have expanded our customer reach, while executing a range of strategic initiatives to drive growth.

This includes launching our new retail direct channel, which allows income seekers to access market-leading guaranteed rates via our website in minutes. In Funds Management, our new registry service has supported the expansion of our suite of active Exchange Traded Funds (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 Challenger to support superannuation funds develop retirement income solutions to help meet their members' needs.

Challenger is uniquely positioned to seize the growth opportunity ahead. We have a clear and compelling strategy that our team is 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.

Financial update

Challenger's financial performance in the 2023 financial year demonstrates the successful execution of our growth strategy.

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

Statutory net profit after tax increased 13% to \$288 million driven by growth in normalised earnings.

The higher FY23 earnings were driven by a strong performance in the Life business, which benefitted from both margin expansion and growth in assets under management.

Total Life sales of \$9.7 billion were driven by exceptional growth in retail annuity sales, which were up 53% to \$3.6 billion. The outcome 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.

Challenger continues to progress its strategic focus on building and deepening partnerships with institutional customers. In FY23, Challenger formed a retirement partnership with TelstraSuper, which will be the first fund to launch a comprehensive retirement income solution with Challenger. In July 2023, 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.

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

Funds Management earnings were lower due to lower average FUM of \$95 billion and higher expenses. Funds Management continues to expand its offering and focus on building its capabilities in new and innovative alternative strategies to meet growing demand. This included expanded relationships with Elanor Investors Group (ASX:ENN), Resonance and Proterra, and the launch of Cultiv8's new food and agriculture fund.

Challenger continues to maintain a strong capital position with \$1.6 billion of excess capital at 30 June 2023, well above the Australian Prudential Regulation Authority's minimum requirement.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Operating and Financial Review in the Challenger 2023 Annual Financial Report.

² Normalised ROE (pre-tax).

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 expects to start reinsurance of Japanese yen denominated annuities in the first half of FY24.

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 agreement, under which Fidante will bring the Apollo Aligned Alternatives (AAA) strategy to the Australian market in 1H24.

AAA is positioned as an equity replacement product and will provide clients with access to a diversified portfolio of private market opportunities, investing side-by-side with more than US\$10 billion of Apollo's own balance sheet capital.

Fidante Partners Limited will be the Responsible Entity and Distributor of the AAA in Australia.

In FY23, Challenger and SimCorp (CSE:SIM) launched Artega Investment Administration (Artega), 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

Challenger expects its growth profile to accelerate from FY24, supported by a range of new distribution initiatives including new retail direct, annuities in platform, and institutional retirement partnerships..

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, with the sale of the Bank expected to complete in the first half of FY24.

Our business remains strong, and I am confident in our ability to deliver exceptional outcomes for customers at the same time as delivering sustainable long-term growth for investors.

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

DUNCAN WEST

Independent Chair
Challenger Limited

Additional information section

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Challenger Capital Notes 3 distribution history

DISTRIBUTION PAYMENT DATE	CASH DISTRIBUTION	TOTAL RETURN P.A.
25 August 2023	\$ 1.50	8.53%
25 May 2023	\$ 1.36	8.15%
27 February 2023	\$ 1.39	7.70%
25 November 2022	\$ 1.24	7.00%

Challenger Capital Notes 4 distribution history

DISTRIBUTION PAYMENT DATE	CASH DISTRIBUTION	TOTAL RETURN P.A.
25 August 2023	\$ 1.97	7.24%