2020 Analyst Pack

Providing our customers with financial security for retirement

challenger.com.au
Challenger Limited ACN 106 842 371

challenger

Contents

2020 Interim Financial Report

can be downloaded from Challenger's online Shareholder Centre

› challenger.com.au/shareholder

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Important note

Information presented in the 1H20 Analyst Pack is presented on an operational basis (rather than statutory) to reflect a management view of the business. Challenger Limited (ACN 106 842 371) also provides statutory reporting as prescribed under the *Corporations Act 2001*. The 2020 Interim Financial Report is available from Challenger's shareholder centre at:

› www.challenger.com.au/shareholder

The 1H20 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (page 12) has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Normalised net profit after tax, as disclosed in the consolidated profit and loss (page 12), has been prepared in accordance with a normalised profit framework which is disclosed as part of the Operating Financial Review in the Directors' Report in the 2020 Interim Financial Report. The 2020 Interim Financial Report and normalised profit framework have both been subject to a review performed by Ernst & Young.

Any forward looking statements included in this document are, by nature, subject to significant uncertainties, risks and contingencies, of which many are outside the control of, and unknown to, Challenger, so that actual results or events may vary from those forward looking statements, and the assumptions on which they are based.

Past performance is not an indicator of future performance. While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty as to the accuracy or completeness of any information or statement in this document. In particular, information and statements in this document do not constitute investment advice or a recommendation on any matter, and should not be relied upon.

1H20 financial highlights[1]

Group	• Normalised net profit before tax $279m, up 3% • Normalised net profit after tax $191m, down 4% • Statutory net profit after tax $220m, up $214m • Normalised EPS[2] 31.5 cents per share, down 5% • Statutory EPS[2] 36.3 cents per share, up from 1.0 cent per share • Net income $423m, up 4% • Expenses $142m, up 7% • Normalised cost to income ratio 33.5%, up 80 bps • Group assets under management $86.3bn, up 10% • Normalised Return On Equity (pre-tax) 15.2%, down 40 bps • Half year dividend 17.5 cents per share (fully franked), unchanged • Normalised dividend payout ratio 55.5%
Life	• Cash Operating Earnings (COE) $345m, up 5% • COE margin 3.53%, down 4 bps • Expenses $59m, up 14% driven by investment in DPM growth initiatives[3] • EBIT[4] $286m, up 3% • Total Life sales $3.1bn, up 15% • Total Life book growth $924m, or 6.2% of opening liabilities • Annuity sales $2.0bn, down 9%, with domestic sales down 24% and Japan sales up 169% • Annuity book growth $94m, or 0.7% of opening liabilities • Average investment assets $19.4bn, up 6% • Normalised Return On Equity (pre-tax) 16.8%, down 70 bps • Prescribed Capital Amount (PCA) ratio 1.54 times, up from 1.53 times at FY19 • Common Equity Tier 1 (CET1) ratio 1.07 times, up from 1.06 times at FY19 • Capital intensity 13.3%, down from 13.8% at FY19
Funds Management	• Net income $78m, up 3% • Expenses $50m, up 1% • EBIT $28m, up 7% • Net flows $1.9bn • Funds Under Management (FUM) $82.8bn, up 10% • Return On Equity (pre-tax) 23.8%, down 60 bps

[1] All percentage movements compare 1H20 to the prior corresponding period (1H19) unless otherwise stated.
[2] Earnings per share (EPS).
[3] Distribution, Product and Marketing (DPM) growth initiatives in response to industry and market disruption (refer to page 7 for more detail).
[4] Earnings before interest and tax (EBIT).

Market overview and outlook

Challenger is an investment management firm with a vision to provide its customers with financial security for retirement.

Challenger has two businesses, Life and Funds Management, which both provide products for Australia's fast-growing superannuation system.

Australia's superannuation system commenced in 1992 and is now the fourth largest pension system globally, with pension assets increasing by 10% per annum over the past 20 years[1].

Growth in Australia's superannuation system is underpinned by mandatory contributions, which are scheduled to increase from the current rate of 9.5% of gross salaries to 12.0% by 2025. The superannuation system is forecast to grow from $2.9 trillion today[2] to almost $7 trillion over the next 15 years[3]. Growth in the superannuation system is also supported by changing demographics and the Government's focus on enhancing the retirement phase of superannuation.

Both Life and Funds Management are expected to benefit from the long term growth in Australia's superannuation system.

Life

Life focuses on the retirement spending phase of superannuation by providing products that convert retirement savings into safe and secure income. Challenger Life is Australia's leading provider of annuities[4].

The retirement spending phase of superannuation is expected to grow strongly over the next 20 years driven by demographic changes and maturing of the superannuation system.

The number of Australians over the age of 65, which is Life's target market, is expected to increase by over 50% over the next 20 years[5]. Reflecting these demographic changes, and growth in the superannuation system, the annual transfer from the retirement savings phase of superannuation to the retirement spending phase was estimated to be approximately $70bn[6] in 2019. Industry annuity sales (term and lifetime annuities) in Australia currently represent approximately 4% of the annual transfer to the retirement phase, with lifetime annuities currently representing less than 2%.

There is growing recognition that retirees need to take a different approach to investing in retirement. With the transition from Government-funded age pensions to private pensions, retirees are demanding safe, secure retirement income products that convert savings into income and provide financial security.

The superannuation system is helping Australians build savings for their retirement. Australians now have meaningful superannuation balances when they retire, with an estimated average total financial wealth at retirement of $680,000[7], despite the system being in place for only half the working life of today's retirees.

There are a range of Government retirement income regulatory reforms that are being implemented and currently proposed (refer to page 29 for more detail). These reforms are designed to enhance the retirement phase and better align it with the overall objective of the superannuation system to provide income in retirement to substitute or supplement the Government-funded age pension. These retirement income reforms provide a significant opportunity to increase the proportion of retirement savings invested in longevity products, including annuities.

As Australia's leading provider of annuities, Challenger Life is expected to continue to benefit from the long-term growth in Australia's superannuation system and regulatory reforms designed to enhance the retirement phase.

In 1H20, in response to industry and market disruption, Life initiated a range of initiatives to help build more bottom-up customer demand for annuities and to increase the allocation of retirement savings made to annuities (refer to page 7 for more details on these initiatives).

Life is also diversifying its range of products and expanding its distribution relationships in both Australia and Japan.

In Australia, Life is broadening access by making annuities available via leading investment and administration platforms. Challenger's range of annuities are accessible by more than 70% of Australia's financial advisers via their primary investment and administration platform.

Challenger has been recognised as a retirement income product innovator and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 12 years.

Challenger remains the dominant retirement income brand in Australia and is recognised by 93%[8] of financial advisers as a leader in retirement incomes.

Life is well-positioned to capture long-term growth opportunities through increased superannuation savings and a greater allocation of retirement savings made to annuities.

Life relies on third party financial advisers, both independent and part of the major advice hubs[9], to distribute its products to retail customers in Australia. Following the public hearings and completion of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) in 2019, there has been significant disruption across the Australian financial advice market which has reduced customer confidence in financial advice and reduced the acquisition of new customers by third party financial advisers. The financial advice market disruption has impacted Australian wealth management industry sales and is expected to be ongoing throughout 2020.

While Challenger was not called to give evidence at the Royal Commission, nor were Life's customers questioning the quality of its products or services, the disrupted Australian financial advice market is impacting third party financial adviser productivity and reducing the number of financial advisers especially at the major-bank aligned advice groups. This has impacted Life's domestic annuity sales which fell by 24% in 1H20 compared to 1H19 (refer to page 21 for more detail).

Life has a strong reputation with both consumers and advisers and has implemented a range of initiatives to support sales while the Australian financial advice market is being disrupted. Life is engaging and educating customers in order to increase consumer understanding of annuities and build additional customer bottom-up demand. Initiatives include enhancing and simplifying its product offering, developing engagement and education initiatives and nurturing prospective clients (refer to page 7 for more detail).

[1] Willis Towers Watson Global Pension Study 2019.
[2] APRA, as at September 2019.
[3] Rice Warner 2019 superannuation projections.
[4] Plan for Life – September 2019 – based on annuities under administration at 30 September 2019.
[5] 2020 – 2040 comparison based on Australian Bureau of Statistics population projections series B, Cat No 3222.0.
[6] Australian Taxation Office.
[7] Australian Bureau of Statistic Household Income and Wealth 2017-18 Cat No 6523.0. Average household wealth includes superannuation and non-superannuation assets and excludes the family home.
[8] Market Pulse Adviser Study December 2019.
[9] Major advice hubs include AMP and the wealth management operations of the major Australian banks.

Following the Royal Commission, the Australian financial advice landscape has been evolving, providing an opportunity to improve the adviser experience. Challenger is evolving its service model and has a range of initiatives under way to support advisers.

The profit-for-member sector of the superannuation system is growing strongly and currently represents ~26% of total superannuation assets[1]. As members transition to retirement, focus by profit-for-member funds to provide comprehensive retirement income solutions to members is increasing. The profit-for-member sector provides a significant growth opportunity for Challenger.

In Japan, Life commenced an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to provide Australian-dollar annuities in November 2016. MS Primary is a leading provider of annuity products in Japan and part of MS&AD Insurance Group Holdings Inc. (MS&AD).

As part of the reinsurance agreement with MS Primary, Challenger Life reinsures both an Australian-dollar and US-dollar 20-year term product and both an Australian-dollar and US-dollar lifetime annuity product.

Under the new reinsurance arrangement, MS Primary will provide Challenger an annual amount of reinsurance, across both Australian and US-dollar annuities, of at least ¥50 billion (~A$660 million) per year for a minimum of 5 years[2,3]. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

At 31 December 2019, MS&AD held ~16% of Challenger's issued capital. A representative from MS&AD, Mr Masahiko Kobayashi, was appointed as a Non-Executive Director of Challenger Limited in August 2019. Mr Hiroyuki Iioka was also appointed an Alternate Director to Mr Kobayashi on 13 December 2019. Refer to page 28 for more detail on the MS Primary and MS&AD relationship.

Funds Management

Funds Management focuses on building savings for retirement by providing investment strategies that seek to deliver superior investment returns. Funds Management has operations in Australia, the United Kingdom and Japan and is one of Australia's largest active fund managers[4].

Growth in funds under management can be attributed to the strength of Challenger's retail and institutional distribution teams, a market-leading business model focused on investor alignment and strong long-term investment performance.

Funds Management comprises Fidante Partners and Challenger Investment Partners (CIP).

The Fidante Partners business model involves taking minority equity interests in separately branded boutique fund management firms, with Challenger providing distribution, administration and business support, leaving investment managers to focus on managing investment portfolios. Fidante Partners focuses on managers with high active share as opposed to managers whose investment portfolios only deviate slightly from the index in terms of composition.

Challenger's Fidante Partners business model has allowed it to attract and build successful active equity, active fixed income and alternative investment businesses.

Fidante Partners continues to expand its product offering by adding new boutiques and accessing new distribution channels.

In 2018, Fidante Partners launched the ActiveX Series of actively managed Exchange Traded Funds (ETFs) targeting the growing popularity of exchange traded products by providing easy access to the extensive expertise of Fidante Partners' boutique fund managers. The series currently features fixed income active ETFs from Ardea and Kapstream.

In September 2019, Fidante announced a new strategic joint venture with global alternative asset manager, Ares Management Corporation (NYSE: ARES). The joint venture will provide Australian investors with access to alternative investment products managed by Ares.

Challenger Investment Partners is an institutional manager that principally originates and manages fixed income and commercial real estate for leading global and Australian institutions, including Challenger Life.

The CIP Fixed Income team is a fundamentally driven, active investment manager that adopts a long-term focus. The team aims to provide diversified sources of income by seeking opportunities in both the public and private sectors, whilst maintaining capital stability.

The CIP Real Estate team is a large scale, institutional investment manager that provides customised solutions for clients through matching investment capital with opportunities. The team has expertise across both equity and debt, together with experience in public and private markets, which provides deep insights and a significant pipeline.

Funds Management is also expanding its presence in Japan in order to support the MS&AD strategic relationship, management of Japanese real estate investments and to develop distribution opportunities in the region.

Funds Management is expected to continue to benefit from the overall growth in Australia's superannuation system and expansion into international funds management and pension markets.

Risks

The above outlook for the Life and Funds Management businesses is subject to the following key business risks:

- regulatory and political changes impacting financial services participants;
- demand for and competition with Challenger products, including annuities and managed funds;
- investment market volatility;
- general uncertainty around the global economy and its impact on markets in which Challenger operates and invests; and
- operational risk.

[1] APRA Quarterly Superannuation Performance Statistics, September 2019. Represents industry superannuation as a % of total superannuation assets.
[2] Challenger Life entered into a new agreement with MS Primary to commence reinsuring the US dollar version of the 20-year term product from July 2019. Challenger will provide a guaranteed interest rate and assume the investment risk in relation to those policies issued by MS Primary and reinsured by Challenger.
[3] Based on the exchange rate as at 31 December 2019.
[4] Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, September 2019.

Vision and strategy

Challenger's vision is to provide its customers with financial security for retirement. Challenger has four strategic pillars to ensure it achieves its vision over the long term. The four strategic pillars are:

- increase the use of secure retirement income streams;
- lead the retirement incomes market and be the partner of choice;
- provide customers with excellent funds management solutions; and
- maintain leading operational and people practices.

1H20 strategic progress

Increase the use of secure retirement income streams

Industry lifetime annuity sales currently represent less than 2% of the annual transfer from the retirement savings (accumulation) phase to the retirement spending (retirement) phase. Challenger is focused on growing the allocation of Australian retirement savings to secure and stable incomes.

1H20 progress:

- Total Life sales up 15% with annuity sales down 9% offset by a 97% increase in Other Life sales;
- Annuity sales saw the following outcomes in Australia and Japan:
    - Australian annuity sales down 24%:
        - Domestic term annuity sales down 16% - impacted by the Australian financial advice market and industry disruption; and
        - Lifetime annuity sales down 52% - impacted by the transition to new means test rules and disruption to the Australian financial advice market.
    - Japan annuity sales up 169% driven by an expanded reinsurance agreement with MS Primary extending reinsurance to include US dollar annuities in addition to Australian dollar annuities.
- Other Life sales, representing Challenger's Guaranteed Index Return (GIR) product and the Challenger Index Plus Fund, up 97% driven by strong demand from superannuation and institutional clients seeking guaranteed returns in the low interest rate environment.

Australian financial advice market disruption

In 1H20, Challenger's Australian annuity sales continued to be impacted by disruption to the Australian financial advice and wealth management industry following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. This has resulted in a significant reduction in Australian financial adviser numbers and has increased the movement of advisers across licensees. Major advice hubs have also been subject to client remediation projects and in some cases businesses have been closed or restructured. The advice practices of major banks have been severely affected.

This has led to lower new client acquisitions by third party financial advisers, which in turn is impacting Challenger annuity sales.

Challenger believes in the need for financial advice, particularly in the retirement phase and is supporting advisers as they move across licensees and ensuring Challenger products are widely available on investment and administration platforms.

Transition to new means test rules

In addition to the disruption currently occurring in the Australian financial advice market, Challenger's 1H20 lifetime annuity sales were also affected by the transition to new age pension means test rules that commenced on 1 July 2019.

The new rules are designed to support the take-up of lifetime income stream products. Refer to page 29 for more detail on the retirement income regulatory reforms.

Australian lifetime annuity sales decreased 52% on 1H19, with sales of Liquid Lifetime down 47% and CarePlus sales down 60%.

For Liquid Lifetime, the Regular option is generally less attractive under the new means test rules for customers whom the age pension is a consideration, and the Flexible and Enhanced options are supported by the new rules. The Flexible and Enhanced options offer a different client proposition by providing longevity protection with lower liquidity options. Advisers are transitioning from the Regular to the Flexible and Enhanced options and a new cohort of advisers writing the Flexible and Enhanced options is emerging.

For CarePlus, the product has been reviewed and updated following commencement of the new means test rules. The regulatory change was one factor in the review which focused on providing the best overall product and outcomes for aged care customers.

The new means test rules have been designed to support the take up of longevity protection and lifetime income streams. Challenger remains confident over the long-term that lifetime sales will increase under the new means test rules.

Lifetime sales in the second quarter of FY20 were up 22% on the first quarter.

Diversifying distribution channels

Challenger is focused on diversifying its distribution channels and reducing reliance on Australian retail financial advisers. In 1H20, the following initiatives were undertaken:

- Commenced reinsuring US dollar annuities issued by MS Primary in Japan. As a result, MS Primary 1H20 sales increased by 169% and represented 24% of total annuity sales, up from 8% in 1H19;
- Expanded institutional relationships to include a new institutional annuity client, investing $300m across a range of term annuities; and
- Grew its Guaranteed Index Return client base.

Life sales mix and focus on long-term products

Challenger's annuity sales mix continues to evolve toward long-term products. Long-term annuities embed more value for shareholders as they lengthen the tenor of the annuity book, improve the maturity profile and typically enhance return on equity.

In 1H20, long-term annuity sales, which include Australian lifetime annuities and 20-year fixed term annuities distributed through MS Primary in Japan, represented 35% of total annuity sales (1H19 29%). The annuity book continues to shift toward long-term annuities, with the long-term annuity book now the same size as the fixed term annuity book.

Retirement reforms engagement and advocacy

The Australian Government is considering a range of superannuation reforms aimed at enhancing the retirement phase of superannuation.

The Government announced a Retirement Income Framework in May 2018. The first stage of the proposed Retirement Income Framework is to include a Retirement Income Covenant in the *Superannuation Industry (Supervision) Act 1993*, which would require superannuation trustees to have a retirement income strategy in place for members from 1 July 2020.

The second stage of the framework is to develop simplified, standardised metrics in product disclosures to help members make decisions about the most appropriate retirement income product for them. The Government consulted on disclosure in late 2018 and has indicated consumer testing will be undertaken on the design and content of product disclosures.

On 1 July 2019, new pension means test rules commenced for lifetime income stream products. The new means test rules were designed to encourage the development of innovative lifetime income products that will help retirees manage the risk of outliving their savings, while ensuring a fair and consistent means test treatment for all retirement income products.

On 27 September 2019, the Government announced a review into the retirement income system. The review will establish a fact base of the current retirement income system and improve understanding of its operation and the outcomes it is delivering for Australian retirees. A consultation paper was released in November 2019 with the final report expected to be provided to the Government by June 2020.

Refer to page 29 for more detail on the retirement income regulatory reforms.

Maintaining thought leadership position

As an Australian retirement income thought leader, Challenger works with a broad range of industry, consumer and Government organisations to assist in developing retirement income policy outcomes that help provide Australians with financial security for retirement.

In 1H20, Challenger partnered with National Seniors Australia to measure retirees' attitudes to and confidence in managing the financial aspects of retirement.

Challenger also partnered with the Council on the Ageing (COTA) New South Wales in 1H20 to explore consumer-related retirement income issues.

Lead the retirement incomes market and be the partner of choice

Challenger's strategy includes being the partner of choice for superannuation fund advisers, wealth managers and investment platforms in providing retirement income solutions. Challenger is the market leader in annuities with 76%[1] market share.

1H20 progress:

Leading adviser ratings

Despite the adviser and industry disruption underway and new competitors entering the retirement income market, Challenger has remained the dominant retirement income brand in 1H20. Among Australian financial advisers, Challenger continues to be the most recognised retirement income provider with 93%[2] of financial advisers rating Challenger as a leader in retirement income. Challenger's retirement income leadership position, which supports new distribution and product relationships, is 41 percentage points above its nearest competitor.

Increased product access via investment and administration platforms

Challenger's strategic priorities include making its annuity products available on leading investment and administration platforms to allow financial advisers and their customers easy and efficient access to Challenger annuities.

By making Challenger annuities available via investment and administration platforms, advisers and superannuation funds can more easily create solutions that combine lifetime income streams with other products, such as account-based pensions.

Challenger annuities continue to be available to over 70% of Australian financial advisers via their primary investment and administration platform, which includes a wide range of traditional major retail hub platforms and independent platforms.

New brand campaign

In June 2019, Challenger launched a new integrated brand campaign based on extensive adviser and customer research. Customer research showed that improving understanding of annuities leads to a higher consideration of them in retirement. The new integrated campaign focuses on building brand awareness and familiarity, with a strong emphasis on educating customers on annuities being an important component when creating confidence in retirement.

Campaign performance indicators show an increase in brand awareness of 10 percentage points and familiarity of 6 percentage points amongst Challenger's target audience of retirees aged 65 to 74. The campaign results are also positive in terms of customer education including very strong interest in retirement and annuities content. Click through rates and time spent on relevant pages significantly exceeds industry benchmarks.

[1] Plan for Life – September 2019 – based on annuities under administration at 30 September 2019.
[2] Marketing Pulse Adviser Study December 2019.

Investing in distribution, product and marketing growth initiatives

In FY20 Challenger will invest up to $15 million across a range of initiatives to drive long-term annuity sales growth. In 1H20, $6 million of this investment has been undertaken. The initiatives focus on building additional bottom-up customer demand, increasing the allocation made to annuities through financial advice and broadening distribution and institutional partnerships.

Initiatives to build bottom-up customer demand focus on enhancing customer engagement and educating customers and potential customers on the benefits of including an annuity in their portfolio. Challenger's annuity products have also been simplified to support increased self-direction and easier allocation to annuities made through financial advice.

The wealth management and financial advice industry has developed over many years with a focus on the superannuation savings (or accumulation) phase of superannuation. The industry is searching for retirement advice solutions to help provide appropriate retirement advice. As one of Australia's leading retirement income brands and a widely recognised thought leadership capability, Challenger has a role to play in helping to develop industry retirement advice solutions. Initiatives to increase the allocation made to annuities through financial advice focus on improving the integration of annuities into the advice process through the development of a range of tools and services.

Challenger is focused on broadening its distribution channels, including partnering with profit-for-member funds. Profit-for-member funds are increasing their focus on providing retirement income solutions for their members and can partner with Challenger to provide guaranteed income solutions to their members.

Provide customers with excellent funds management solutions

Challenger is focused on providing excellent funds management solutions in order to help build retirement savings.

1H20 progress:

Maintaining superior investment performance

Funds Management has a long track record of achieving superior investment performance, which has helped in attracting strong net flows. Long-term performance for Fidante Partners Australian boutiques remains strong with 91% of FUM outperforming benchmark over five years. Over one year, 85% of FUM outperformed benchmark[1].

Since inception, 89% of Fidante Partners' funds have achieved either first or second quartile investment performance[2].

Award-winning investment strategies

Fidante Partners' investment managers continue to be externally recognised. During 1H20, the following funds won investment manager awards:

- Ardea Investment Management – Zenith Fund Awards Australian Fixed Income winner (2019);
- Ardea Investment Management – Kanganews Australian Rates Fund Manager of the Year (2019); and
- Kapstream – Kanganews Australian Credit Fund Manager of the Year (2019).

Highly rated retail investment products

Fidante Partners' investment managers and funds are highly rated by external asset consultants:

- 40% of ratings are the top rating (e.g. 'Highly Recommended' or 'Gold') compared to an average of approximately 10% across the Australian funds management industry; and
- 91% of ratings are a 'buy' rating compared to an average of approximately 70% across the Australian funds management industry.

The quality and performance of Fidante Partners' investment managers and funds continues to receive strong independent validation. During 1H20, two of Alphinity Investment Management's Australian share funds were upgraded from Recommended to Highly Recommended. Eiger Capital was also awarded a 'Highly Recommended' rating and Greencape Capital became the only Australian large cap equities manager to hold the top rating across all three major Australian retail research consultants.

[1] As at 31 December 2019. Percentage of Fidante Partners Australian boutiques meeting or exceeding performance benchmarks.
[2] Mercer as at December 2019.

Adding new boutiques and investment strategies

Fidante Partners continues to expand its product offering by adding new boutiques, forming new partnerships and developing new investment strategies for existing managers.

In September 2019, Fidante Partners and global alternative asset manager Ares Management Corporation (NYSE: ARES) established a new strategic joint venture, Ares Australia Management. The joint venture will provide Australian investors with access to alternative investment products managed by Ares Management Corporation.

During 1H20, Fidante Partners expanded its product offering through:

- Ardea launching Ardea Pure Alpha, which is a higher returning version of the flagship Ardea Real Outcome Fund;
- Kapstream launching a retail share class for the Kapstream Absolute Return Income Plus strategy, which targets an absolute return of 3–4% above the cash rate; and
- Whitehelm Capital launching the Whitehelm Global Listed Infrastructure Fund for Australian investors which has previously only been available in Europe.

Expanding distribution channels through active ETF market

There continues to be strong demand from investors for simple and easy-to-access liquid investment products. Exchange Traded Funds (ETFs) have experienced strong growth in a number of markets as they provide the ability to deliver diversified investment strategies in a liquid and simple-to-execute format. ETFs have traditionally focused on passive or factor-based investments; however, Funds Management has identified an opportunity to expand ETF usage into active manager products.

In October 2019, Fidante Partners launched its second ETF in the ActiveX Series, the ActiveX Kapstream Absolute Return Income Fund. The fund aims to provide a steady stream of income and capital stability over the medium term while outperforming its benchmark through different market cycles.

Fidante Partners is committed to growing the ActiveX Series and expects to launch more active ETFs.

CIP Credit Income Fund

CIP Fixed Income manages funds and investment mandates across multiple underlying investment strategies composing both public and private credit investments in the Australian market.

The CIP Credit Income Fund, launched in October 2017, is a floating rate, multi-sector credit income strategy that invests across high quality, predominantly investment grade public and private debt investments. With an investment-grade average portfolio credit rating[1], the fund provides investors with a higher income, defensive and diversified portfolio without taking excessive levels of credit or interest rate risk.

In 1H20, the CIP Credit Income Fund continued to attract interest from third party institutions. CIP also expanded distribution of the fund in 1H20 to target Australian high-net-worth investors.

The fund continues to perform strongly and, since inception in October 2017, has outperformed its benchmark target of 3% above the Bank Bill rate.

The CIP Credit Income Fund FUM at 31 December 2019 was $270 million and increased by 69% ($108 million) in 1H20.

CIP appointed ABSF investment manager

In December 2019, the Australian Office of Financial Management (AOFM) appointed CIP as the investment adviser to assist with the evaluation of investment proposals and provide ongoing portfolio management for the Federal Government's Australian Business Securitisation Fund (ABSF). The ABSF was established to improve access to credit for Australian small businesses. CIP will provide advisory services and generate transaction and investment management fees from the ABSF.

CIP Real Estate

The CIP Real Estate team manage real estate mandates across Australia and Japan on behalf of Australian and international investors. CIP has recently expanded its Japanese real estate management capability, which includes directly managing Life's $0.8 billion Japanese retail portfolio.

CIP have identified attractive investment opportunities in Japan and are currently executing an investment program for domestic and international clients.

[1] Based on Moody's Investors Service inc. weighted average rating factors.

Maintain leading operational and people practices

Challenger believes maintaining a highly engaged, diverse and agile workforce committed to sustainable business practices with a strong risk and compliance culture is essential for providing customers and shareholders with superior outcomes.

1H20 progress:

Redefining Challenger's values

Challenger's values are integral to its culture and linked to everything employees do. They set out the behaviours needed to meet community expectations and ensure Challenger can deliver on its vision and strategy, now and in the future.

In 1H20, Challenger redefined and launched new values:

- Act with integrity;
- Aim high;
- Collaborate; and
- Think customer.

The new Challenger values are clear, meaningful and memorable and define what is expected of all employees.

Employee engagement and risk culture

Employee engagement measures the nature of the relationship between an organisation and its employees. Challenger believes having a highly engaged team with a positive attitude towards the organisation and its values will lead to superior shareholder and customer outcomes.

Challenger measures employee engagement through an annual survey, which was last conducted by Willis Towers Watson in March 2019, and recorded a sustainable employee engagement score of 84%. The result was above both the Australian Company and Global Financial Services Norm.

Diversity and inclusion

Challenger believes that diversity and inclusion delivers better outcomes for its people, its business and the community. In July 2019, Challenger updated its diversity and inclusion strategy to focus on three key areas:

1. Providing a diverse and inclusive workplace;
2. Gender equality; and
3. Supporting employment outcomes for people aged over 50.

New employee-led diversity and inclusion working groups have also been established to focus on driving change in areas that matter most to employees.

To encourage greater representation of women at senior levels of the organisation, Challenger continues to develop initiatives targeted at improving gender equality, including setting gender diversity targets. Challenger set diversity targets in December 2015, which included a target of 38% of management roles being held by women by the end of FY20. In FY19, the FY20 target for women in management roles was increased from 38% to 40%. At 31 December 2019, Challenger had 37% of management roles held by women.

Challenger is committed to pay equity. Management and the Board review gender pay equity annually as part of the remuneration process. This focus has ensured that for the past five years gender pay equity for similar roles has been maintained.

In 1H20, Challenger was recognised as a global top 100 employer for gender equality in the 2019 Equileap Global Gender Equality rankings. This positions Challenger in the top 100 leading organisations that are making progress towards gender equality in the workplace.

Flexible work

Challenger has a focus on providing its employees with flexibility. At 31 December 2019, 88 employees, representing approximately 12% of Challenger staff, were using formal flexible working arrangements. In addition, a large number of men and women have taken advantage of informal flexible work arrangements throughout the year.

Maintain superior cost to income ratio

Challenger's business is highly scalable and efficient. Challenger's normalised cost to income ratio target is a range of 30% to 34%. In FY20, Challenger expects to exceed its normalised cost to income ratio target as a result of Distribution, Product and Marketing (DPM) growth initiatives being undertaken to drive demand for annuities. In FY20 Challenger expects to spend up to $15m on these growth initiatives (refer to page 7 for more detail).

Despite these additional costs, Challenger's cost to income ratio in 1H20 was 33.5% and is tracking better than expected. Challenger maintains one of the leading cost to income ratios in the Australian financial services industry.

Enhancing sustainability capability

Considering environmental, social and governance (ESG) risks and opportunities supports Challenger in delivering on its vision to provide financial security for retirement. Throughout 1H20, Challenger continued to make progress on implementing its sustainability strategy.

Challenger's long-term sustainable returns are achieved through the integration of ESG practices across the business.

Challenger continued to develop its ESG practices and supported Fidante Partners to develop ESG practices within their boutique fund managers. As a result, most boutiques have now become signatories to the United Nations Principles for Responsible Investment (PRI) and many boutique managers have developed standalone ESG policies.

In 1H20, Challenger provided opportunities for employees and boutiques to further understand ESG risks and opportunities through internal presentations and reporting. External experts also provided further insight on climate risk and considerations under the modern slavery legislation.

Challenger continues to be a constituent of the FTSE4Good Index and a signatory to the PRI.

In September 2019, Challenger announced a strategic three-year partnership with the Council of the Ageing (COTA) New South Wales. Through this partnership, Challenger will deliver a community program aimed at addressing the underemployment of people over 50. Challenger understands that continuing to work as you age is a key driver for financial security in retirement. This program will celebrate the value older Australians bring to the workplace and improve workplace practices to attract and retain older employees.

Key performance indicators

	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Earnings							
Normalised NPBT ($m)	278.6	278.3	270.0	272.7	274.6	250.9	254.1
Normalised NPAT ($m)	191.4	196.3	199.8	198.2	207.9	188.3	196.6
Statutory NPAT ($m)	220.4	301.7	6.1	127.1	195.4	196.1	201.5
Underlying operating cash flow ($m)	140.0	133.2	103.7	143.6	53.8	131.4	168.5
EBIT margin (%)	66.5%	67.5%	67.3%	66.8%	67.9%	66.1%	67.1%
Normalised cost to income ratio (%)	33.5%	32.5%	32.7%	33.2%	32.1%	33.9%	32.9%
Normalised effective tax rate (%)	31.3%	29.5%	26.0%	27.3%	24.3%	24.9%	22.6%
Earnings per share (cents)							
Basic – normalised	31.5	32.4	33.1	32.9	35.2	33.5	35.0
Basic – statutory	36.3	49.8	1.0	21.1	33.1	34.9	35.8
Diluted – normalised	27.7	27.8	30.1	30.9	33.8	32.1	33.3
Diluted – statutory	31.5	41.2	1.0	20.9	31.9	33.4	34.1
Return On Equity (%)							
Normalised ROE – pre-tax	15.2%	16.2%	15.6%	16.1%	16.8%	18.0%	18.7%
Normalised ROE – post-tax	10.4%	11.4%	11.5%	11.7%	12.7%	13.5%	14.5%
Statutory ROE – post-tax	12.0%	17.5%	0.3%	7.5%	11.9%	14.0%	14.8%
Capital management							
Net assets – average[1] ($m)	3,634	3,469	3,443	3,419	3,249	2,818	2,694
Net assets – closing ($m)	3,716	3,600	3,388	3,485	3,470	2,888	2,781
Net assets per basic share ($)	6.12	5.94	5.60	5.79	5.75	5.14	4.95
Net tangible assets ($m)	3,079	3,019	2,793	2,893	2,878	2,300	2,192
Net tangible assets per basic share ($)	5.07	4.98	4.61	4.81	4.77	4.09	3.90
Dividend (cps)	17.5	18.0	17.5	18.0	17.5	17.5	17.0
Dividend franking (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Normalised dividend payout ratio (%)	55.5%	55.6%	52.9%	54.7%	49.7%	52.2%	48.6%
Sales, net flows and assets under management							
Life annuity sales ($m)	1,956.9	1,402.6	2,140.5	1,711.2	2,289.5	1,815.1	2,196.1
Other Life sales ($m)	1,182.2	407.1	599.8	520.4	1,034.5	378.9	562.3
Total Life sales ($m)	3,139.1	1,809.7	2,740.3	2,231.6	3,324.0	2,194.0	2,758.4
Life annuity flows ($m)	93.6	192.3	493.5	634.5	758.2	451.5	448.9
Life annuity book ($m)	12,845	12,870	12,324	11,728	11,116	10,322	9,785
Life annuity book growth (%)	0.7%	1.6%	4.2%	6.2%	7.3%	4.7%	4.7%
Total Life flows ($m)	923.6	(108.9)	583.7	848.4	947.9	469.5	843.4
Total Life book[2] ($m)	15,551	14,836	14,496	13,863	13,025	12,010	11,418
Total Life book growth (%)	6.2%	(0.8%)	4.2%	7.1%	7.9%	4.3%	7.8%
Funds Management – net flows ($m)	1,879.6	(1,461.3)	(977.1)	1,366.9	3,934.3	3,003.5	3,217.1
Total Group AUM ($m)	86,339	81,770	78,386	81,143	76,523	69,988	64,705
Other							
Headcount – closing FTEs[3]	717	687	675	676	682	655	632
Weighted average number of basic shares on issue (m)	607.1	605.7	604.4	602.2	591.1	562.1	562.3
Number of basic shares on issue (m)	607.6	605.8	605.4	601.7	603.3	561.9	562.3
Share price closing ($)	8.09	6.64	9.49	11.83	14.03	13.34	11.24

[1] Net assets – average calculated on a monthly basis.
[2] Total Life book includes the Life annuity book, Guaranteed Index Return (GIR) and Challenger Index Plus Fund liabilities.
[3] Full Time Equivalent employees.

Consolidated profit and loss

$m	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Cash earnings	274.2	263.5	251.5	262.7	276.4	261.1	265.3
Normalised capital growth	70.6	77.0	78.1	70.8	59.7	53.9	51.1
Normalised Cash Operating Earnings (COE)	**344.8**	**340.5**	**329.6**	**333.5**	**336.1**	**315.0**	**316.4**
Net fee income	77.7	74.7	75.2	79.2	72.0	68.7	65.3
Other income	0.2	0.5	0.5	0.5	0.5	0.4	0.4
Total net income	**422.7**	**415.7**	**405.3**	**413.2**	**408.6**	**384.1**	**382.1**
Personnel expenses	(91.3)	(93.2)	(92.1)	(96.8)	(91.0)	(91.4)	(87.9)
Other expenses	(50.3)	(41.8)	(40.3)	(40.5)	(40.1)	(38.8)	(37.8)
Total expenses	**(141.6)**	**(135.0)**	**(132.4)**	**(137.3)**	**(131.1)**	**(130.2)**	**(125.7)**
Normalised EBIT	**281.1**	**280.7**	**272.9**	**275.9**	**277.5**	**253.9**	**256.4**
Interest and borrowing costs	(2.5)	(2.4)	(2.9)	(3.2)	(2.9)	(3.0)	(2.3)
Normalised profit before tax	**278.6**	**278.3**	**270.0**	**272.7**	**274.6**	**250.9**	**254.1**
Normalised tax	(87.2)	(82.0)	(70.2)	(74.5)	(66.7)	(62.6)	(57.5)
Normalised profit after tax	**191.4**	**196.3**	**199.8**	**198.2**	**207.9**	**188.3**	**196.6**
Investment experience after tax	38.4	105.4	(193.7)	(63.5)	(12.5)	7.8	4.9
Significant items after tax[1]	(9.4)	-	-	(7.6)	-	-	-
Statutory net profit after tax	**220.4**	**301.7**	**6.1**	**127.1**	**195.4**	**196.1**	**201.5**
Performance analysis							
Normalised earnings per share – basic (cents)	31.5	32.4	33.1	32.9	35.2	33.5	35.0
Shares for basic EPS calculation (m)	607.1	605.7	604.4	602.2	591.1	562.1	562.3
Normalised cost to income ratio (%)	33.5%	32.5%	32.7%	33.2%	32.1%	33.9%	32.9%
Normalised tax rate (%)	31.3%	29.5%	26.0%	27.3%	24.3%	24.9%	22.6%
Total net income analysis (%)							
Cash earnings (Life)	64.9%	63.4%	62.1%	63.6%	67.7%	68.0%	69.4%
Normalised capital growth (Life)	16.7%	18.5%	19.3%	17.1%	14.6%	14.0%	13.4%
Net fee income (Funds Management)	18.4%	18.0%	18.5%	19.2%	17.6%	17.9%	17.1%
Other income (Corporate)	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Normalised EBIT by division ($m)							
Life	285.8	285.7	277.9	279.7	283.0	264.2	267.0
Funds Management	27.9	24.8	26.1	30.8	27.1	24.4	20.7
Corporate	(32.6)	(29.8)	(31.1)	(34.6)	(32.6)	(34.7)	(31.3)
Normalised EBIT	**281.1**	**280.7**	**272.9**	**275.9**	**277.5**	**253.9**	**256.4**

[1] 1H20 significant items (after tax) of $9m represents the write-off of a Fidante Partners boutique intangible asset and wind up costs following the closure of the FME Asset Management boutique investment manager. 2H18 significant items (after tax) of $8m represents one-off expenses, including the impairment of residual software and a Fidante Partners boutique following its closure and restructure costs, offset by one-off revenue, including partial writeback of deferred consideration in respect of the acquisition of Fidante Partners Europe.

Consolidated profit and loss

Normalised profit after tax

1H20 normalised profit after tax was $191m and decreased by $8m (4%) from $200m in 1H19. The decrease in normalised profit after tax reflects higher normalised profit before tax (up $9m), offset by higher normalised tax (up $17m).

Normalised earnings per share (EPS)

Normalised EPS decreased by 5% in 1H20 to 31.5 cps. The decrease in normalised EPS reflects lower normalised profit after tax (down 4%) and a slightly higher weighted average number of shares on issue.

The weighted average number of shares on issue in 1H20 was 607 million shares, up 3m on 1H19 as a result of new shares issued to support Challenger's DRP and the net release of treasury shares to meet CPP Trust requirements.

Net income

Net income was $423m increasing by $18m on 1H19, with:

- Life Cash Operating Earnings (COE) increasing by $15m from higher average investment assets; and
- Funds Management fee income increasing by $3m, with higher FUM-based revenue offset by lower transaction fees.

Expenses

1H20 total expenses were $142m and increased by $9m on 1H19. The increase in expenses relates to an investment in Distribution, Product and Marketing (DPM) growth initiatives to drive additional demand for annuities (refer to page 7 for more detail). Excluding the DPM growth initiatives ($6m), 1H20 total expenses increased by $3m (3%).

The 1H20 normalised cost to income ratio was 33.5% and increased by 80 bps on 1H19. The increase in the cost to income ratio was driven by expense growth (up 7%) exceeding net income growth (up 4%).

The 1H20 normalised cost to income ratio is within Challenger's target range of between 30% and 34%.

Challenger has a highly scalable business and one of Australia's most efficient financial services companies. Over the past 10 years, Challenger's normalised cost to income ratio has fallen by 9 percentage points.

Normalised EBIT

1H20 normalised EBIT was $281m and was up $8m on 1H19. Higher Life EBIT (up $8m) and Funds Management EBIT (up $2m), was offset by lower Corporate EBIT (down $2m).

Life EBIT increased by $8m (up 3%) to $286m and reflected higher average investment assets, offset by higher expenses as a result of DPM growth initiatives ($6m).

Life's 1H20 COE margin was 3.53% and was 4 bps lower than 1H19, reflecting lower normalised capital growth on equities and lower return on shareholder capital. The product cash margin was 16 bps higher than 1H19.

Funds Management EBIT increased by $2m (up 7%) to $28m, with higher average FUM (up 5%) driving growth in FUM-based earnings, offset by lower transaction fees. Corporate EBIT decreased by $2m (down 5%) due to higher expenses.

Normalised Return On Equity (ROE)

1H20 normalised ROE (pre-tax) was 15.2% and decreased by 40 bps on 1H19. The lower normalised ROE reflects higher normalised net profit before tax (up 3%), offset by higher levels of capital, with Group average net assets increasing by 6%.

Normalised tax

Normalised tax was $87m in 1H20 and increased by $17m on 1H19. The higher normalised tax reflects growth in earnings before tax and a higher normalised effective tax rate.

The 1H20 normalised effective tax rate was 31.3% (up 530 bps) and reflects the relative composition of domestic and offshore earnings and respective tax rate differentials, lower utilisation of available group losses and the non-deductible interest on Challenger Capital Notes.

Investment experience after tax

Challenger Life Company Limited (CLC) is required by Australian Accounting Standards to value investment assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on investment assets and liabilities being recognised in the profit and loss. Challenger is generally a long-term holder of assets due to them being held to match the term of life contract liabilities. As a result, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

Changes in macroeconomic variables impact the value of Life's assets and liabilities, with the impact included as investment experience.

Investment experience also includes new business strain, being the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities (refer to page 54 for more detail).

Investment experience relates to the Life business, with further details disclosed as part of Life's financial results.

1H20 investment experience was a gain of $38m (after tax). Refer to page 25 for more detail.

Significant items

1H20 significant items was $9m and relates to the write-off of a Fidante Partners boutique intangible asset and costs associated with the wind up of the FME Asset Management boutique.

Statutory net profit after tax

Statutory net profit after tax includes after tax investment experience and significant one-off items.

Statutory net profit after tax was $220m in 1H20 and increased by $214m on 1H19. 1H20 statutory net profit after tax included after-tax investment experience of $38m and significant items of -$9m.

Dividends

Dividend policy

Challenger targets a dividend payout ratio in the range of 45% to 50% of normalised profit after tax and aims to frank dividends to the maximum extent possible. Based on current forecasts, the Board expects future dividends to be fully franked over the medium term. However, the actual dividend payout ratio and franking levels will depend on prevailing market conditions and capital allocation priorities.

1H20 dividend

The Board has declared an interim FY20 dividend of 17.5 cps (fully franked), which was unchanged on the interim FY19 dividend.

Dates for the interim FY20 dividend are as follows:

- ex-date: 25 February 2020;
- record date: 26 February 2020;
- Dividend Reinvestment Plan (DRP) election date: 27 February 2020; and
- dividend payment date: 24 March 2020.

The normalised dividend payout ratio for the interim FY20 dividend was 55.5%, which is above Challenger's normalised dividend payout ratio target of between 45% and 50% of normalised profit after tax.

For FY20, Challenger expects to maintain a dividend of 35.5 cps, resulting in a payout ratio above the target 45% to 50%, and reflects Challenger's strong capital position and confidence in future growth.

Challenger has a DRP in place (refer below), which is expected to have the effect of reducing the cash dividend payout ratio by approximately 2%.

Challenger's franking account balance at 31 December 2019 was $117m. This amount is calculated from the balance of the franking account as at the end of the period, adjusted for franking credits that will arise from the settlement of current income tax liabilities and interest on Challenger Capital Notes.

Dividend Reinvestment Plan (DRP)

Challenger operates a DRP, providing an effective way for shareholders to reinvest their dividends and increase their shareholding without incurring transaction costs.

The DRP participation rate for the final FY19 dividend (paid in September 2019) was 2% of issued capital, with 0.4m new Challenger shares issued. Under the terms of the DRP, new Challenger shares were issued based on a 10-day Challenger Volume-Weighted Average Price (VWAP), with no share price discount applied.

For the final FY19 dividend, the DRP had the effect of reducing the effective cash dividend payout ratio by approximately 2%.

For the interim FY20 dividend (to be paid in March 2020), new Challenger shares will be issued in order to fulfil DRP requirements and based on a 10-day VWAP, with no share price discount applied.

FY20 outlook

Normalised profit before tax guidance

Challenger's FY20 normalised profit before tax guidance is a range of $500m to $550m. Challenger expects to be around the top end of this guidance range.

Normalised Return On Equity (ROE) target

Commencing in FY20, Challenger's normalised ROE (pre-tax) target has been set as the Reserve Bank of Australia (RBA) cash rate plus a margin of 14%. Using a ROE target based on the RBA cash rate removes the direct impact of interest rate changes from the ROE target.

The average RBA cash rate in 1H20 was 0.9% and resulted in a normalised ROE target of 14.9% for 1H20. Challenger exceeded the target in 1H20 with a normalised ROE (pre-tax) of 15.2%.

Normalised cost to income ratio target

Challenger's business is highly efficient and very scalable. As a result, Challenger is one of Australia's most efficient financial services companies. Challenger's normalised cost to income ratio target is a range of 30% to 34%.

For FY20, Challenger expects to exceed the normalised cost to income ratio target as a result of ~$15m of Distribution, Product and Marketing growth initiatives being undertaken to drive increased demand for annuities.

In 1H20, Challenger achieved a normalised cost to income ratio of 33.5% and is tracking better than expected.

Normalised effective tax rate target

The FY20 normalised effective tax rate is expected to be toward the top end of the 28% to 30% target range. This reflects a higher effective tax rate outcome in 1H20.

Dividend

Reflecting the strength of Challenger's capital position and confidence in future growth, in FY20 the Challenger Board expects to maintain a stable dividend on FY19 at 35.5 cps. This will result in the normalised dividend payout ratio being above the target payout ratio.

Credit ratings

In November 2019, Standard & Poor's Global Ratings (S&P) completed its annual ratings review and affirmed both Challenger Life Company Limited's (CLC) and Challenger Limited's credit ratings. S&P also retained their positive outlook for both Challenger Life Company Limited and Challenger Limited.

S&P ratings are as follows:

- CLC: 'A' with a positive outlook; and
- Challenger Limited: 'BBB+' with a positive outlook.

Group balance sheet[1]

$m	1H20	FY19	1H19	FY18	1H18	FY17	1H17
Assets							
Life investment assets							
Fixed income and cash (net)	12,956.7	12,459.8	12,014.5	11,727.8	11,076.5	10,415.0	9,520.9
Property (net)	3,337.8	3,382.0	3,739.4	3,840.5	3,654.6	3,407.8	3,328.3
Equity and other investments	2,541.6	2,315.1	2,113.4	1,799.1	1,642.7	1,360.1	1,231.6
Infrastructure (net)	833.2	853.5	757.0	717.7	666.3	494.4	526.4
Life investment assets	**19,669.3**	**19,010.4**	**18,624.3**	**18,085.1**	**17,040.1**	**15,677.3**	**14,607.2**
Cash and cash equivalents (Group cash)	141.2	91.5	87.7	84.9	121.9	83.8	80.7
Receivables	121.2	182.7	167.7	198.3	155.1	135.1	121.0
Derivative assets	403.3	331.2	158.7	150.7	243.4	232.7	226.0
Investment in associates	56.1	58.1	53.4	62.4	54.2	53.5	49.1
Other assets	60.3	76.6	57.0	50.6	53.3	46.0	48.2
Fixed assets	27.3	28.3	29.7	31.2	32.2	33.7	32.9
Right-of-use lease assets[2]	34.4	-	-	-	-	-	-
Goodwill and intangibles	602.0	581.2	594.9	592.9	591.3	588.4	588.4
Less Group/Life eliminations[3]	(44.8)	(62.4)	(63.5)	(73.7)	(83.8)	(94.9)	(93.2)
Total assets	**21,070.3**	**20,297.6**	**19,709.9**	**19,182.4**	**18,207.7**	**16,755.6**	**15,660.3**
Liabilities							
Payables	189.6	256.1	306.5	303.8	249.1	245.5	219.8
Tax liabilities	204.8	158.2	31.8	89.0	95.2	199.0	177.7
Derivative liabilities	118.8	227.0	276.3	229.6	158.7	216.5	322.7
Subordinated debt	404.9	403.9	400.6	403.7	405.3	393.6	384.8
Challenger Capital Notes	798.3	796.5	794.7	793.0	791.2	789.4	339.3
Lease liabilities[2]	70.2	-	-	-	-	-	-
Provisions	17.0	19.2	16.1	14.6	13.6	13.5	17.4
Life annuity book	12,845.3	12,870.2	12,323.7	11,728.3	11,115.8	10,322.2	9,784.9
GIR[4] and Challenger Index Plus Fund liabilities	2,705.6	1,966.2	2,172.3	2,135.0	1,909.3	1,687.8	1,633.2
Total liabilities	**17,354.5**	**16,697.3**	**16,322.0**	**15,697.0**	**14,738.2**	**13,867.5**	**12,879.8**
Group net assets	**3,715.8**	**3,600.3**	**3,387.9**	**3,485.4**	**3,469.5**	**2,888.1**	**2,780.5**
Equity							
Contributed equity	2,110.8	2,093.7	2,090.2	2,051.7	2,071.0	1,554.5	1,560.1
Reserves	(61.0)	(52.4)	(66.0)	(33.3)	(47.5)	(16.5)	(29.9)
Retained earnings	1,666.0	1,559.0	1,363.7	1,467.0	1,446.0	1,350.1	1,250.3
Total equity	**3,715.8**	**3,600.3**	**3,387.9**	**3,485.4**	**3,469.5**	**2,888.1**	**2,780.5**

1 Excludes consolidation of Special Purpose Vehicles (SPV's) and non-controlling interests.
2 Reflects the adoption of AASB 16 Leases on 1 July 2019.
3 Group/Life eliminations represent the fair value of the SPV residual income notes (i.e. NIM) held by Challenger Life Company Limited.
4 Guaranteed Index Return (GIR).

Change in Group net assets

$m	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Opening net assets	**3,600.3**	**3,387.9**	**3,485.4**	**3,469.5**	**2,888.1**	**2,780.5**	**2,680.9**
Statutory net profit after tax	220.4	301.7	6.1	127.1	195.4	196.1	201.5
Dividends paid	(109.7)	(106.4)	(109.4)	(106.1)	(99.5)	(96.3)	(93.3)
New share issue	2.6	3.4	3.4	3.3	503.3	3.9	4.1
Reserve movements	(8.6)	13.7	(32.7)	14.2	(31.0)	13.4	(22.0)
CPP[1] Trust movements	14.5	-	35.1	(22.6)	13.2	(9.5)	9.3
Transition of new leasing standard[2]	(3.7)	-	-	-	-	-	-
Closing net assets	**3,715.8**	**3,600.3**	**3,387.9**	**3,485.4**	**3,469.5**	**2,888.1**	**2,780.5**

1 The Challenger Performance Plan (CPP) Trust.
2 Reflects the adoption of AASB 16 Leases on 1 July 2019.

Issued share capital, dilutive share count and earnings per share

	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Earnings per share (cents)							
Basic – normalised	31.5	32.4	33.1	32.9	35.2	33.5	35.0
Basic – statutory	36.3	49.8	1.0	21.1	33.1	34.9	35.8
Diluted – normalised	27.7	27.8	30.1	30.9	33.8	32.1	33.3
Diluted – statutory	31.5	41.2	1.0	20.9	31.9	33.4	34.1
Number of shares (m)							
Basic share count	607.6	605.8	605.4	601.7	603.3	561.9	562.3
CPP[1] Trust treasury shares	4.4	5.8	5.8	9.2	7.3	10.1	9.4
Total issued shares	612.0	611.6	611.2	610.9	610.6	572.0	571.7
Movement in basic share count							
Opening	605.8	605.4	601.7	603.3	561.9	562.3	558.8
CPP[1] Trust deferred share purchase	-	-	(0.8)	(2.0)	(2.0)	(0.8)	(2.0)
Net treasury shares (acquired)/released	1.4	-	4.2	0.1	4.8	0.1	5.0
New share issues	0.4	0.4	0.3	0.3	38.6	0.3	0.5
Closing	607.6	605.8	605.4	601.7	603.3	561.9	562.3
Movement in CPP Trust treasury shares							
Opening	5.8	5.8	9.2	7.3	10.1	9.4	12.4
Shares vested to participants	(1.4)	-	(4.2)	(0.1)	(5.6)	(0.1)	(6.0)
CPP[1] Trust deferred share purchase	-	-	0.8	2.0	2.0	0.8	2.0
Shares bought into CPP Trust	-	-	-	-	0.8	-	1.0
Closing	4.4	5.8	5.8	9.2	7.3	10.1	9.4
Weighted average number of shares (m)							
Basic EPS shares							
Total issued shares	611.8	611.4	611.0	610.9	599.4	571.9	571.4
Less CPP[1] Trust treasury shares	(4.7)	(5.7)	(6.6)	(8.7)	(8.3)	(9.8)	(9.1)
Shares for basic EPS calculation	607.1	605.7	604.4	602.2	591.1	562.1	562.3
Diluted shares for normalised EPS							
Shares for basic EPS calculation	607.1	605.7	604.4	602.2	591.1	562.1	562.3
Add dilutive impact of unvested equity awards	4.3	2.9	7.1	10.5	11.9	14.1	14.7
Add dilutive impact of Capital Notes	99.5	117.8	85.1	65.6	57.8	43.2	31.8
Add dilutive impact of subordinated notes	49.5	58.5	42.3	32.6	5.9	-	-
Shares for diluted normalised EPS calculation	760.4	784.9	738.9	710.9	666.7	619.4	608.8
Diluted shares for statutory EPS							
Shares for basic EPS calculation	607.1	605.7	604.4	602.2	591.1	562.1	562.3
Add dilutive impact of unvested equity awards	4.3	2.9	7.1	10.5	11.9	14.1	14.7
Add dilutive impact of Capital Notes	99.5	117.8	-	65.6	57.8	43.2	31.8
Add dilutive impact of subordinated notes	49.5	58.5	-	32.6	5.9	-	-
Shares for diluted statutory EPS calculation	760.4	784.9	611.5	710.9	666.7	619.4	608.8
Summary of shares rights (m)							
Hurdled Performance Share Rights							
Opening	7.2	7.4	8.2	8.2	10.2	10.4	12.5
New grants	3.9	-	2.2	-	2.0	-	2.5
Vesting/forfeiture	(0.9)	(0.2)	(3.0)	-	(4.0)	(0.2)	(4.6)
Closing	10.2	7.2	7.4	8.2	8.2	10.2	10.4
Deferred Performance Share Rights							
Opening	2.5	2.6	2.8	2.9	3.7	3.7	3.8
New grants	1.1	-	1.4	-	1.3	-	1.6
Vesting/forfeiture	(1.5)	(0.1)	(1.6)	(0.1)	(2.1)	-	(1.7)
Closing	2.1	2.5	2.6	2.8	2.9	3.7	3.7

[1] The Challenger Performance Plan (CPP) Trust.

Issued share capital

Issued share capital and diluted share count

The number of Challenger Limited shares listed on the ASX at 31 December 2019 was 612.0m shares. The number of shares on issue increased by 0.4m shares during 1H20 as a result of new shares issued under Challenger's DRP.

The basic share count used to determine Challenger's normalised and statutory EPS is based on requirements set out in Australian Accounting Standards as follows:

- the basic share count is reduced for treasury shares;
- the dilutive share count includes unvested equity awards made to employees under the Challenger Performance Plan (CPP); and
- the dilutive share count considers convertible instruments (e.g. Challenger Capital Notes, Challenger Capital Notes 2, and subordinated debt) as determined by a probability of vesting test (refer to page 18 for more detail on the accounting treatment).

Treasury shares

The CPP Trust was established to purchase shares to satisfy Challenger's employee equity obligations arising from hurdled and deferred performance share rights issued under employee remuneration structures.

Shares are acquired by the CPP Trust to mitigate shareholder dilution and provide a mechanism to hedge the cash cost of acquiring shares in the future to satisfy vested equity awards.

The CPP Trust typically acquires physical shares on market or via forward share purchase agreements. The use of forward share purchase agreements was implemented to increase capital efficiency. Shares held by the CPP Trust and share forward purchase agreements are classified as treasury shares.

It is expected that should equity awards vest in the future, the CPP Trust will satisfy equity requirements via a combination of treasury shares and settlement of forward purchase agreements. As such, it is not anticipated that new Challenger shares will be issued to meet future vesting obligations of equity awards.

Weighted average share count

The basic weighted average number of shares used to determine both the normalised and statutory basic EPS increased by 1.4m shares in 1H20 to 607.1m shares. The increase reflected new shares issued to support Challenger's DRP and the net release of treasury shares to meet CPP Trust requirements.

The weighted average number of shares used to determine both the statutory and normalised diluted EPS decreased by 24.5m shares in 1H20 to 760.4m shares. The decrease primarily reflects a lower dilutive impact from Challenger Capital Notes (down 18.3m shares) and subordinated debt (down 9.0m shares) as a result of the increase in the Challenger share price. Refer to page 18 for more detail.

Dilutive share count and earnings per share

Dilutive share count

Dilutive impact of unvested equity awards

Challenger's approach to executive remuneration includes providing equity awards to ensure alignment between key employees and shareholders.

Hurdled Performance Share Rights (HPSRs) vest over a period of up to five years, with vesting subject to meeting total shareholder return performance hurdles and continued employment.

A portion of variable remuneration is awarded in Deferred Performance Share Rights (DPSRs) which vest over a period of up to four years, subject to continued employment.

The dilutive impact of these awards in any given period is based on the probability of future vesting.

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes, Challenger Capital Notes 2 and subordinated debt are an effective source of funding for Challenger.

Each of the Capital Notes, Capital Notes 2 and subordinated debt have convertibility features which would result in these instruments converting to ordinary shares under certain circumstances, including the Australian Prudential Regulation Authority (APRA) determining Challenger Life to be non-viable. It is Challenger's intention to refinance each of these instruments at their respective call dates and therefore conversion to ordinary shares is unlikely.

However, under Australian Accounting Standards, convertible debt is considered dilutive whenever the interest per potential ordinary share for each of these instruments is less than Challenger's basic EPS for the period. As such, a test is required to be undertaken each reporting period to determine if they are included in the dilutive share count.

Dilutive impact of Capital Notes and subordinated debt

The dilutive share count for Challenger's convertible debt (Challenger Capital Notes and subordinated debt) is based on the following formula:

$$\frac{\text{Face value of debt}}{\text{Conversion factor x Challenger's 20-day VWAP share price}}$$

The conversion factor for all of Challenger's convertible debt is 99%. The weighted average Challenger share price is determined over the last 20 days of trading in each reporting period, subject to a minimum VWAP floor. Challenger's 20-day VWAP share price leading up to 31 December 2019 was $8.17.

Mandatory conversion of Challenger's convertible debt is subject to a VWAP floor, being 50% of the issue date VWAP. As a result, under mandatory conversion, the VWAP floor for mandatory conversion is as follows:

Issue	Issue date	Face value	VWAP floor
Challenger Capital Notes	9 Oct 2014	$345m	$3.6140
Challenger Capital Notes 2	7 Apr 2017	$460m	$6.1500
Subordinated debt	24 Nov 2017	$400m	$6.8400

Earnings per share

Normalised diluted EPS

The normalised basic EPS for 1H20 of 31.5 cps is greater than the interest cost per potential ordinary share for each of the Capital Notes, Capital Notes 2, and subordinated debt. As a result, all instruments were considered to be dilutive in 1H20.

The weighted average number of shares used to determine the normalised diluted EPS decreased by 24.5m shares in 1H20. The decrease is due to the weighted average Challenger share price for the last 20 trading days of 1H20 being $8.17 per share, up from $6.90 for the last 20 trading days of FY19, resulting in a lower number of shares being issued should the debt convert to equity.

Statutory diluted EPS

The statutory basic EPS for 1H20 of 36.3 cps is greater than the interest cost per potential ordinary share for each of the Capital Notes, Capital Notes 2, and subordinated debt. As a result, all of these instruments were considered to be dilutive in 1H20.

The weighted average number of shares used to determine the statutory diluted EPS decreased by 24.5m shares in 1H20. The decrease is due to the weighted average Challenger share price for the last 20 trading days of 1H20 being $8.17 per share, up from $6.90 for the last 20 trading days of FY19, resulting in a lower number of shares being issued should the debt convert to equity.

To determine the diluted EPS, the normalised and statutory profit after tax is increased by $19m of interest expense in relation to Capital Notes, Capital Notes 2 and subordinated debt.

Consolidated operating cash flow

$m	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Receipts from customers	334.5	364.6	336.3	333.7	336.5	334.0	339.0
Dividends received	45.7	34.1	67.6	41.0	53.8	30.5	36.0
Interest received	384.9	367.0	413.4	364.5	385.6	347.2	326.5
Interest paid	(270.6)	(362.7)	(366.5)	(296.9)	(275.0)	(293.6)	(233.5)
Payments to suppliers and employees	(305.6)	(258.0)	(303.5)	(253.6)	(294.7)	(246.6)	(261.5)
Income tax paid	(48.9)	(11.8)	(43.6)	(45.1)	(152.4)	(40.1)	(38.0)
Underlying operating cash flow	**140.0**	**133.2**	**103.7**	**143.6**	**53.8**	**131.4**	**168.5**
Net annuity policy capital receipts	93.6	192.1	493.7	634.5	758.2	451.5	448.9
Net other Life capital receipts/(payments)	830.0	(301.2)	90.2	214.0	189.6	67.5	345.0
(Purchase)/Proceeds of investments	(899.2)	333.8	(1,238.6)	(1,447.0)	(1,032.7)	(818.7)	(1,621.7)
Capital expenditures	(6.0)	(18.5)	(41.4)	(53.5)	(16.4)	(10.2)	(8.8)
Equity placement	-	-	-	-	499.8	-	-
Net (repayments)/proceeds from borrowings	(5.7)	35.6	470.7	476.4	62.3	(193.1)	835.2
Payments for Treasury shares	(3.8)	(7.8)	(39.7)	(1.9)	(34.8)	-	(39.5)
Net dividends paid	(107.1)	(103.0)	(106.0)	(102.8)	(96.0)	(92.4)	(89.2)
Net proceeds from issue of Challenger Capital Notes 2	-	-	-	-	-	448.8	-
Net non-operating cashflows SPV's	(8.5)	(22.0)	(21.9)	(18.1)	(27.1)	(49.5)	(10.4)
Other cash flow	**(106.7)**	**109.0**	**(393.0)**	**(298.4)**	**302.9**	**(196.1)**	**(140.5)**
Net increase/(decrease) in cash and cash equivalents	**33.3**	**242.2**	**(289.3)**	**(154.8)**	**356.7**	**(64.7)**	**28.0**

Underlying operating cash flow excludes cash flows that are capital in nature, such as annuity sales and annuity capital payments, and investing and financing related cash flows.

1H20 underlying operating cash flow was $140m, up $36m on 1H19. The increase in underlying operating cash flow reflects higher interest received net of interest paid, partially offset by lower dividends received and an increase in income tax paid.

1H20 underlying operating cash flow of $140m is $51m lower than normalised net profit after tax, which was mainly due to non-cash normalised capital growth of $71m.

Net annuity policy capital receipts

1H20 net annuity policy capital receipts were $94m and comprised:

- annuity sales of $1,957m; less
- annuity capital payments of $1,863m.

Annuity capital payments represent the return of capital to annuitants and exclude interest payments.

1H20 annuity net flows ($94m) represent annuity book growth of 0.7% for the half and is calculated as 1H20 annuity total net flows divided by the opening period annuity liability of $12,870m.

1H20 annuity net flows were impacted by a $150m early withdrawal across a portfolio of clients advised by one adviser, which had the impact of reducing 1H20 annuity book growth by ~1.2%.

Net other Life capital receipts

1H20 net other Life capital receipts were $830m and comprise:

- other Life sales of $1,182m; less
- other Life capital payments of $352m.

1H20 other Life net flows of $830m were up from $90m in 1H19, reflecting strong demand from superannuation fund clients seeking guaranteed returns in the low interest rate environment.

1H20 total Life book growth was 6.2% (1H19 4.2%) and can be calculated as total 1H20 net flows ($924m) divided by the sum of the opening period liabilities of $14,836m (Life annuity book, GIR and Challenger Index Plus Fund – refer to page 21 for more detail).

Life financial results

$m	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Investment yield – policyholders' funds	442.1	438.8	432.5	433.6	435.4	408.5	405.0
Interest expense	(245.8)	(255.3)	(260.1)	(250.7)	(234.7)	(216.4)	(210.3)
Distribution expense	(5.7)	(7.3)	(11.0)	(10.4)	(11.7)	(11.3)	(16.5)
Other income[1]	16.0	15.3	18.3	12.0	10.8	11.9	24.5
Product cash margin	**206.6**	**191.5**	**179.7**	**184.5**	**199.8**	**192.7**	**202.7**
Investment yield – shareholders' funds	67.6	72.0	71.8	78.2	76.6	68.4	62.6
Cash earnings	**274.2**	**263.5**	**251.5**	**262.7**	**276.4**	**261.1**	**265.3**
Normalised capital growth	70.6	77.0	78.1	70.8	59.7	53.9	51.1
Normalised Cash Operating Earnings	**344.8**	**340.5**	**329.6**	**333.5**	**336.1**	**315.0**	**316.4**
Personnel expenses	(36.6)	(34.8)	(34.1)	(33.9)	(33.8)	(31.7)	(30.1)
Other expenses	(22.4)	(20.0)	(17.6)	(19.9)	(19.3)	(19.1)	(19.3)
Total expenses	**(59.0)**	**(54.8)**	**(51.7)**	**(53.8)**	**(53.1)**	**(50.8)**	**(49.4)**
Normalised EBIT	**285.8**	**285.7**	**277.9**	**279.7**	**283.0**	**264.2**	**267.0**
Asset and liability experience[2]	54.9	164.1	(234.3)	(60.5)	15.5	34.9	43.9
New business strain[2]	1.0	2.6	(35.9)	(21.5)	(37.4)	(22.0)	(35.4)
Total investment experience	**55.9**	**166.7**	**(270.2)**	**(82.0)**	**(21.9)**	**12.9**	**8.5**
Net profit after investment experience before tax	**341.7**	**452.4**	**7.7**	**197.7**	**261.1**	**277.1**	**275.5**
Reconciliation of investment experience to capital growth							
Asset and liability experience	54.9	164.1	(234.3)	(60.5)	15.5	34.9	43.9
Normalised capital growth	70.6	77.0	78.1	70.8	59.7	53.9	51.1
Asset and liability capital growth	**125.5**	**241.1**	**(156.2)**	**10.3**	**75.2**	**88.8**	**95.0**
Performance analysis							
Cost to income ratio[3] (%)	17.1%	16.1%	15.7%	16.1%	15.8%	16.1%	15.6%
Net assets – average[4] ($m)	3,388.0	3,164.0	3,151.0	3,127.0	2,959.0	2,586.0	2,468.0
Normalised ROE (pre-tax) (%)	16.8%	18.2%	17.5%	18.0%	19.0%	20.6%	21.5%

[1] Other income includes Accurium revenue and Life Risk revenue (premiums net of claims).
[2] Investment experience comprises asset and liability experience and net new business strain. Refer to page 54 for more detail.
[3] Cost to income ratio calculated as total expenses divided by Normalised Cash Operating Earnings.
[4] Net assets – average calculated on a monthly basis.

Life financial results

$m	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Sales							
Fixed term sales	1,746.0	990.9	1,698.9	1,278.6	1,867.2	1,382.4	1,641.9
Lifetime sales	210.9	411.7	441.6	432.6	422.3	432.7	554.2
Life annuity sales	**1,956.9**	**1,402.6**	**2,140.5**	**1,711.2**	**2,289.5**	**1,815.1**	**2,196.1**
Maturities and repayments	(1,863.3)	(1,210.3)	(1,647.0)	(1,076.7)	(1,531.3)	(1,363.6)	(1,747.2)
Life annuity flows	**93.6**	**192.3**	**493.5**	**634.5**	**758.2**	**451.5**	**448.9**
Closing Life annuity book	12,845.3	12,870.2	12,323.7	11,728.3	11,115.8	10,322.2	9,784.9
Annuity book growth[1]	**0.7%**	**1.6%**	**4.2%**	**6.2%**	**7.3%**	**4.7%**	**4.7%**
Other Life sales	1,182.2	407.1	599.8	520.4	1,034.5	378.9	562.3
Other maturities and repayments	(352.2)	(708.3)	(509.6)	(306.5)	(844.8)	(360.9)	(167.8)
Other Life flows	**830.0**	**(301.2)**	**90.2**	**213.9**	**189.7**	**18.0**	**394.5**
Closing GIR[2] and Challenger Index Plus Fund liabilities	2,705.6	1,966.2	2,172.3	2,135.0	1,909.3	1,687.8	1,633.2
Other Life net book growth[1]	**42.2%**	**(14.1%)**	**4.2%**	**12.7%**	**11.2%**	**1.4%**	**30.0%**
Total Life sales	3,139.1	1,809.7	2,740.3	2,231.6	3,324.0	2,194.0	2,758.4
Total maturities and repayments	(2,215.5)	(1,918.6)	(2,156.6)	(1,383.2)	(2,376.1)	(1,724.5)	(1,915.0)
Total Life net flows	**923.6**	**(108.9)**	**583.7**	**848.4**	**947.9**	**469.5**	**843.4**
Closing total Life book[3]	15,550.9	14,836.4	14,496.0	13,863.3	13,025.1	12,010.0	11,418.1
Total Life book growth[1]	**6.2%**	**(0.8%)**	**4.2%**	**7.1%**	**7.9%**	**4.3%**	**7.8%**
Assets							
Closing investment assets	**19,669**	**19,010**	**18,624**	**18,085**	**17,040**	**15,677**	**14,607**
Fixed income and cash	12,836	12,241	11,802	11,380	10,984	10,028	9,434
Property	3,336	3,535	3,661	3,714	3,388	3,350	3,205
Equity and other investments	2,405	2,154	2,090	1,807	1,532	1,262	1,110
Infrastructure	866	785	739	681	566	510	538
Average investment assets[4]	**19,443**	**18,715**	**18,292**	**17,582**	**16,470**	**15,150**	**14,287**
Liabilities							
Closing liabilities	**16,761**	**16,045**	**15,702**	**15,072**	**14,235**	**13,209**	**12,148**
Annuities, GIR[2] and Challenger Index Plus Fund	15,341	14,646	14,194	13,530	12,568	11,802	11,133
Capital Notes	805	805	805	805	805	542	345
Subordinated debt	406	405	405	407	401	392	556
Average liabilities[4]	**16,552**	**15,856**	**15,404**	**14,742**	**13,774**	**12,736**	**12,034**
Margins[5]							
Investment yield – policyholders' funds	4.52%	4.73%	4.69%	4.97%	5.25%	5.44%	5.62%
Interest expense	(2.51%)	(2.75%)	(2.82%)	(2.87%)	(2.83%)	(2.88%)	(2.92%)
Distribution expense	(0.06%)	(0.08%)	(0.12%)	(0.12%)	(0.14%)	(0.16%)	(0.23%)
Other income	0.16%	0.16%	0.20%	0.14%	0.13%	0.16%	0.34%
Product cash margin	**2.11%**	**2.06%**	**1.95%**	**2.12%**	**2.41%**	**2.56%**	**2.81%**
Investment yield – shareholders' funds	0.70%	0.78%	0.78%	0.89%	0.92%	0.92%	0.87%
Cash earnings	**2.81%**	**2.84%**	**2.73%**	**3.01%**	**3.33%**	**3.48%**	**3.68%**
Normalised capital growth	0.72%	0.83%	0.84%	0.82%	0.72%	0.71%	0.71%
Normalised Cash Operating Earnings (COE)	**3.53%**	**3.67%**	**3.57%**	**3.83%**	**4.05%**	**4.19%**	**4.39%**

[1] Total Life book growth percentage represents Life annuity net flows and other Life net flows over the period divided by the opening Life annuity book, Guaranteed Index Return and Challenger Index Plus Fund liabilities.
[2] Guaranteed Index Return (GIR).
[3] Life annuity book, GIR and Challenger Index Plus Fund liabilities.
[4] Average investment assets and average liabilities calculated on a monthly basis.
[5] Ratio of Normalised Cash Operating Earnings components divided by average investment assets.

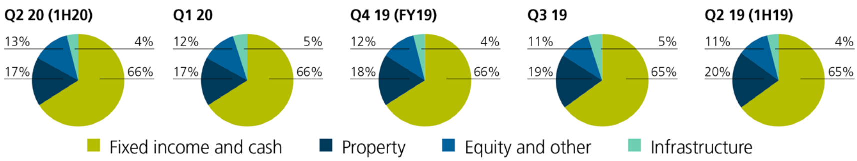
Life financial results

Life quarterly sales and investment assets

$m	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Life sales						
Fixed term sales	999	747	488	503	750	949
Lifetime sales[1]	116	95	252	159	220	222
Life annuity sales	**1,115**	**842**	**740**	**662**	**970**	**1,171**
Maturities and repayments	(1,023)	(840)	(614)	(596)	(846)	(801)
Life annuity flows	**92**	**2**	**126**	**66**	**124**	**370**
Annuity book growth[2]	**0.7%**	**0.0%**	**1.0%**	**0.6%**	**1.0%**	**3.2%**
Other Life sales	246	936	199	208	205	395
Other maturities and repayments	(180)	(172)	(264)	(444)	(170)	(340)
Other Life flows	**66**	**764**	**(65)**	**(236)**	**35**	**55**
Other Life net book growth[2]	**3.4%**	**38.9%**	**(3.0%)**	**(11.1%)**	**1.6%**	**2.6%**
Total Life sales	1,361	1,778	939	870	1,175	1,566
Total maturities and repayments	(1,203)	(1,012)	(878)	(1,040)	(1,016)	(1,141)
Total Life net flows	**158**	**766**	**61**	**(170)**	**159**	**425**
Total Life book growth[2]	**1.0%**	**5.2%**	**0.4%**	**(1.2%)**	**1.1%**	**3.1%**
Life						
Fixed income and cash[3]	12,957	13,076	12,460	12,116	12,015	11,913
Property[3]	3,338	3,288	3,382	3,582	3,739	3,504
Equity and other	2,541	2,431	2,315	2,116	2,113	2,188
Infrastructure[3]	833	888	853	825	757	742
Total Life investment assets	**19,669**	**19,683**	**19,010**	**18,639**	**18,624**	**18,347**
Average Life investment assets[4]	**19,693**	**19,253**	**18,752**	**18,659**	**18,380**	**18,217**

[1] Lifetime sales includes CarePlus, a product that pays income for life and is 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 reported net of debt.
[4] Average Life investment assets calculated on a monthly basis.

Life asset allocation



Life financial results

Life focuses on the retirement spending phase of superannuation by providing products that convert retirement savings into safe and secure income for life. Challenger Life is Australia's leading provider of annuities[1].

Life's annuity products appeal to retirees as they provide security and certainty of guaranteed[2] income while protecting against risks of market downturns and inflation. Lifetime annuities protect retirees from the risk of outliving their savings by paying guaranteed income for life.

The retirement incomes Life pays are backed by a high-quality investment portfolio, predominantly invested in fixed income and commercial property investments. These investments generate investment income which is used to fund retirement incomes paid to Life's customers.

Life's products are distributed in Australia via both independent financial advisers and financial advisers tied to the administrative platforms serviced by the major hubs. Being an independent product manufacturer, Life's products are included on all major hub Approved Product Lists (APLs) and are available on leading independent investment and administration platforms, such as HUB24 and Netwealth.

Life is a market leader in Australian retirement incomes, with a 76%[1] annuity market share, and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 12 years. In 1H20, Challenger won four awards at the inaugural 2019 Plan for Life Longevity Cover Excellence Awards, which recognise Australian Life insurance companies and fund managers who design products to assist retirees in meeting the challenges of rising longevity.

Challenger remains the dominant brand in retirement income and is also recognised by 93%[3] of advisers as a leader in retirement incomes.

Life also has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of foreign currency annuities in Japan (refer to page 28 for more detail).

The Life business includes Accurium, one of Australia's largest providers of Self-Managed Superannuation Fund (SMSF) actuarial certificates. Life also participates in wholesale reinsurance longevity and mortality transactions (refer to page 24 for more detail).

CLC is an APRA-regulated entity and its financial strength is rated by Standard & Poor's with an 'A' rating and positive outlook. CLC's capital strength is outlined on page 42.

Normalised EBIT and ROE

Life's normalised EBIT was $286m in 1H20 and increased by $8m (3%) on 1H19. The increase in EBIT reflects a $15m increase in Normalised Cash Operating Earnings (COE), partially offset by a $7m increase in expenses.

Life's normalised ROE (pre-tax) was 16.8% in 1H20 and decreased by 70 bps on 1H19 reflecting increased earnings offset by higher levels of capital, with Life's average net assets increasing by 8% on 1H19.

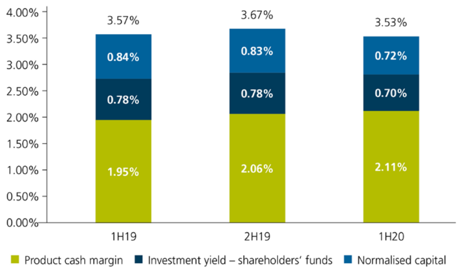
Life has a strong regulatory capital position, with $1.4bn of excess capital above APRA's minimum requirement, which results in a PCA ratio of 1.54 times at 31 December 2019 (refer to page 42 for more detail).

Normalised Cash Operating Earnings (COE) and COE margin

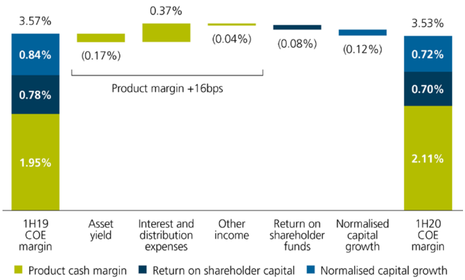
1H20 normalised COE was $345m and increased by $15m (5%) on 1H19, as a result of 6% growth in average investment assets.

Life's Normalised COE margin was 3.53% in 1H20 and was 4 bps lower than 1H19 and 14 bps lower than 2H19. Product margin expansion was offset by a lower return on shareholder capital due to lower interest rates, and lower normalised capital growth due to a lower equity and other normalised growth assumption from 1 July 2019.

Life COE margin composition



1H19 to 1H20 COE margin



Life's 1H20 COE margin was 3.53% and decreased by 4 bps on 1H19. The change in COE margin was a result of:

- Higher product cash margin +16 bps. The product cash margin includes lower investment asset yields of 17 bps and lower other income of 4 bps, which was more than offset by lower interest and distribution expenses of 37 bps.
- Lower asset yields were primarily driven by a reduction in global interest rates, which was more than offset through a reduction in annuity pricing resulting in lower interest expense.
- 1H20 investment yield (policyholders) includes a one-off $8m (8 bps) in relation to a perpetual fixed income bond that was fully repaid during 1H20.

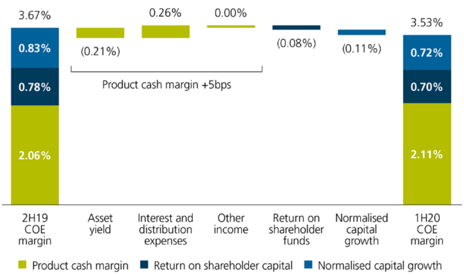
[1] Plan for Life – September 2019 – based on annuities under administration at 30 September 2019.

[2] The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of its relevant statutory fund.

[3] Market Pulse Adviser Study December 2019.

- Life Risk income was 4 bps lower than 1H19 due to the timing of Life Risk cashflows.
- Lower income on shareholder capital -8 bps. The return on shareholder capital fell due to the impact of lower interest rates, with shareholder capital not hedged for interest rate movements. For example, the 3-month bank bill rate was 101 bps lower in 1H20 than in 1H19.
- Lower normalised capital growth -12 bps. Normalised capital growth fell as a result of a reduction in the equity and other normalised growth assumption from 4.5% to 3.5% per annum from 1 July 2019. The assumption change reduced normalised capital growth by $12m in the period.

2H19 to 1H20 COE margin



Life's 1H20 COE margin was 3.53% and decreased by 14 bps on 2H19. The change in COE margin was a result of:

- Higher product cash margin +5 bps. The product cash margin includes lower asset yields of 21 bps offset by lower interest and distribution expenses of 26 bps.
- Lower asset yields were primarily driven by lower yields across the fixed income and property portfolios. 1H20 investment yield (policyholders) includes $8m (8 bps) in relation to a perpetual fixed income bond that was fully repaid during 1H20.
- Lower income on shareholder capital -8 bps. The return on shareholder capital fell due to the impact of lower interest rates, with shareholder capital not hedged for interest rate movements. For example, the 3-month bank bill rate was 73 bps lower in 1H20 than in 2H19.
- Lower normalised capital growth -11 bps. Normalised capital growth fell as a result of a reduction in the equity and other normalised growth assumption from 4.5% to 3.5% per annum from 1 July 2019. The assumption change reduced normalised capital growth by $12m in the period.

Life Risk

Life Risk revenue represents premiums net of expected claims on wholesale reinsurance longevity and mortality transactions.

Undertaking wholesale longevity and mortality transactions is a natural business extension for the Life business. Life is participating in established markets, has specialised expertise and is taking a disciplined approach to the wholesale Life Risk opportunity.

1H20 Life COE includes $13m of income from Life Risk transactions, representing the release of profit and expense margins, down from $15m in 1H19. Life Risk income was lower than 1H19 (down $2m) due to the timing of Life Risk cashflows.

The present value of future profits arising from the Life Risk portfolio was $830m at 31 December 2019, an increase of 67% ($335m) from $495m at 30 June 2019. The increase in the present value of future profits was due to three longevity risk transactions completed in the UK pension market in 1H20.

The Life Risk portfolio has an average duration of 17 years.

Accurium

Accurium is one of Australia's leading providers of SMSF actuarial certificates. An actuarial certificate is required by an SMSF when one (or more) members are in the retirement phase of superannuation and one (or more) are in the savings (accumulation) phase of superannuation.

Accurium's 1H20 revenue was $3m (1H19 $3m) and is included in other income within Life's Normalised COE.

Expenses

1H20 Life expenses were $59m and increased by $7m on 1H19. The increase in expenses was driven by $6m of additional expenses in relation to Distribution, Product and Marketing (DPM) growth initiatives to drive additional bottom-up customer demand for annuities (refer to page 7 for more detail on the initiatives).

Life's FY19 cost to income ratio was 17.1% and increased by 140 bps on 1H19, as a result of DPM growth initiatives.

Investment experience overview

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the statutory profit and loss, particularly during periods of market volatility. As Challenger is generally a long-term holder of assets, due to them being held to match the term of liabilities, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

Investment experience removes the volatility arising from asset and liability valuation movements to better reflect the underlying performance of the Life business.

Investment experience includes both asset and liability experience and net new business strain.

1H20 investment experience was a gain of $56m (pre-tax), comprising a $55m gain on the fair value of Life's assets and policy liabilities, and a $1m gain in relation to net new business strain.

($m)	Actual capital growth	Normalised capital growth	Investment experience
Fixed income	32	23	55
Property	24	(34)	(10)
Equity and other	20	(42)	(22)
Infrastructure	36	(18)	18
Policy liability	14	-	14
Assets and policy liability experience	**126**	**(71)**	**55**
New business strain	1	-	1
Total investment experience (pre-tax)	**127**	**(71)**	**56**

Asset and liability experience

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.

Asset and liability experience include the impact of changes in macroeconomic variables on the valuation of Life's assets and liabilities and assumption changes to bond yields and inflation factors, expense assumptions and other factors applied in the valuation of life contract liabilities.

Asset and liability experience was $55m in 1H20, comprising:

- Fixed income (+$55m) – representing actual capital growth of $32m and normalised capital growth of $23m. The actual capital growth includes valuation gain of $58m less credit default experience recognised in the profit and loss of -$26m or 20 bps. The $58m valuation gain reflects a ~16 bps contraction in credit spreads across the fixed income portfolio, which was broadly consistent with the movement in broad credit indices.
- Property (-$10m) – reflects the revaluation of Life's property portfolio, with positive office revaluations offset by weaker retail revaluations. The property valuation gain averaged ~1.5% per annum across the portfolio which is less than the normalised growth assumption of 2% per annum.
- Equity and other portfolio (-$22m) – reflects higher domestic and international equity markets and lower absolute return fund gains relative to the normalised growth assumption of 3.5% per annum. The total return (capital and income) across the equity & other portfolio was broadly in line with expected benchmark returns.

  Challenger's normalised growth assumption for equity and other was reduced from 4.5% to 3.5% per annum from 1 July 2019 (FY20) reflecting lower long term growth expectations due to changes in the composition of the equity and other portfolio.
- Infrastructure ($18m) – reflects strong listed and unlisted infrastructure gains outperforming Challenger's normalised growth assumption of 4% per annum.
- Policy liability ($14m) – reflects changes in economic and actuarial assumptions, including changes to bond yields used to hedge policy liabilities, expected inflation rates, expense assumptions on policy liabilities, and changes to the illiquidity premium (refer below).

Illiquidity premium

In accordance with prudential standards and Australian Accounting Standards, Challenger Life values term annuities at fair value and lifetime annuities using a risk-free discount rate, both of which are based on the Australian Government bond curve plus an illiquidity premium.

Movements in credit spreads impact the fair value of assets as well as the illiquidity premium which forms part of the discount rate used to value policy liabilities.

The illiquidity premium used to value policy liabilities is calculated in accordance with AASB 1038 Life Insurance Contracts and AASB 139 Financial Instruments: Recognition and Measurement.

New business strain

Life offers annuity rates to customers that are higher than the rates used to value the liabilities. As a result, a loss is recognised when issuing a new annuity contract due to using lower discount rates together with the inclusion of an allowance for future maintenance expenses in the liability.

New business strain is a non-cash item and, subsequently, reverses over the future period of the contract. The new business strain reported in the period represents the non-cash loss on new sales net of the reversal of the new business strain of prior period sales.

The 1H20 net new business strain was a gain of $1m (1H19 $36m loss) reflecting lower annuity net book growth.

Life sales and AUM

Total Life sales

Total Life sales were $3.1bn in 1H20 and increased by 15% or $0.4bn on 1H19. The increase was driven by higher other Life sales (GIR and Challenger Index Plus Fund) of $1.2bn (up $0.6bn), partially offset by lower annuity sales of $2.0bn (down $0.2bn).

Annuity sales

Life relies on third party financial advisers, both independent and part of the major advice hubs, to distribute its products.

Following the public hearings and completion of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) in 2019, there has been significant disruption across the Australian financial advice market which has reduced customer confidence in financial advice and reduced the acquisition of new customers by third party financial advisers.

While Challenger was not called to give evidence at the Royal Commission, nor are Life's customers questioning the quality of its products or services, the disrupted advice market is impacting the productivity of third party financial advisers' and reducing the number of financial advisers. In the 2019 calendar year, 15% or approximately 4,400 advisers exited the advice market leaving approximately 24,000 advisers in Australia at 31 December 2019[1]. This impacted Challenger's domestic annuity sales in 1H20.

In FY20, Challenger is investing up to $15 million across a range of Distribution, Product and Marketing (DPM) initiatives to increase demand for annuities. The initiatives focus on building additional bottom-up customer demand, increasing the allocation made to annuities through financial advice and broadening Challenger's distribution channels including expanding institutional relationships. During 1H20, $6m was spent on these initiatives and is included in Life's 1H20 expenses.

In November 2016, Challenger formed an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of Australian dollar annuity and life insurance products in Japan (refer to page 28 for more information). The MS Primary annuity relationship provides access to the Japanese foreign currency annuities market and is helping to diversify Challenger's distribution channels and product offering.

Term annuity sales

1H20 term annuity sales were $1.7bn and increased by 3% ($47m) on 1H19. Term annuity sales increased as a result of higher MS Primary (Japan) annuity sales (up $0.3bn) and institutional annuity sales (up $0.3bn), largely offset by lower domestic retail term annuity sales (down $0.5bn).

MS Primary annuity sales increased 169% ($0.3bn) to $471m following Challenger commencing reinsurance of US dollar denominated annuities on 1 July 2019. MS Primary annuity sales accounted for 27% of Life's 1H20 term annuity sales, up from 10% in 1H19.

Term annuity sales include $0.3bn of institutional annuities, which are a result of a new institutional relationship in 1H20.

Domestic term annuity sales continue to be impacted by the adviser and industry disruption, which is expected to be ongoing in 2020.

Lifetime annuity sales

Lifetime annuity sales were $211m in 1H20 and decreased by 52% ($230m) from 1H19. 1H20 lifetime sales comprised Liquid Lifetime sales of $143m and CarePlus sales of $68m.

Liquid Lifetime sales were down 47% on 1H19 and have been impacted by the transition to new means test rules that commenced on 1 July 2019.

The Liquid Lifetime Regular option is less attractive under the new rules, while the Flexible and Enhanced options are generally more attractive and deliver higher age pension payments than under the old rules. The Flexible and Enhanced options offer a different client proposition. Advisers are transitioning from the Regular to the Flexible and Enhanced options and a new cohort of advisers writing the Flexible and Enhanced options is emerging, with Lifetime sales in the second quarter of FY20 up 22% on the prior quarter.

CarePlus, launched in early FY16, is a product that pays income for life and is specifically designed for the aged care market. CarePlus sales were $68m in 1H20, a decrease of 60% on 1H20. CarePlus has been reviewed and updated following the commencement of the new means test rules. The regulatory change was one factor in the review which focused on providing the best overall product and outcomes for aged care customers.

Focus on long-term annuity sales

Challenger is focused on growing its long-term annuity business as it embeds significant value for Challenger shareholders. 35% of 1H20 annuity sales were either lifetime annuities or long-term MS Primary annuities, up from 29% in 1H19.

Lifetime and long-term MS Primary annuities accounted for just over 50% of total annuities in force at 31 December 2019, up from only 25% five years ago (1H16). 1H20 was the first period where lifetime and long-term MS Primary annuities exceeded the size of the term annuity book.

Long-term annuity business is attractive for Challenger as it:

- lengthens the annuity book tenor;
- improves the maturity outlook;
- assists future book growth;
- enhances overall book quality; and
- allows investing in longer term less liquid assets generating an illiquidity premium.

[1] ASIC Financial Advisers Dataset, January 2020

New business tenor

With Challenger's focus on long-term annuities, the tenor of new business sales has been increasing. New business tenor over the past five years has increased from 5.6 years in 1H16 to 9.1 years in 1H20.

New business tenor in 1H20 was 9.1 years, up from 8.6 years in 1H19. New business tenor is benefiting from an increase in long term MS Primary (Japan) sales.

Other Life sales

Other Life sales represent Challenger's Guaranteed Index Return (GIR) product and the Challenger Index Plus Fund, which is a liquid GIR product backed by high-grade liquid fixed income.

1H20 other Life sales were $1.2bn, and increased by 97% on 1H19, driven by strong demand from superannuation and institutional clients seeking guaranteed returns in the low interest rate environment.

Life book liability maturity profile

The annuity maturity rate, which represents annuity maturities and repayments (excluding interest payments) divided by the opening period annuity liability, was 14.5% in 1H20, up 50 bps on 1H19.

1H20 maturities includes a ~$150m early withdrawal across a portfolio of clients advised by one adviser, which increased the maturity rate by ~1.2%. A surrender penalty was paid in respect of the early withdrawal and is included in investment experience.

As a result of the early withdrawal in 1H20, the FY20 maturity rate is expected to increase by 1% to ~26%.

Net book growth

Life annuity book growth

1H20 Life annuity net flows (i.e. annuity sales less capital repayments) were $94m.

Based on the opening Life annuity book liability ($12,870m), 1H20 annuity book growth was 0.7% and was down from 4.2% in 1H19. Annuity net book growth was lower than 1H19 as a result of the domestic advice and industry disruption and the ~$150m early withdrawal.

Other Life book growth

Other Life net flows (i.e. other Life sales less capital repayments) represent net flows on Challenger's GIR product and Challenger Index Plus Fund. In 1H20, other Life book growth was $830m, up $740m on 1H19.

Average AUM

Life's average investment assets were $19.4bn in 1H20 and increased by 6% ($1.0bn) on 1H19. The increase in average investment assets reflects total Life net flows and changes in retained earnings.

Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) annuity relationship

Consistent with Challenger's strategy to diversify its range of products and expand its distribution relationships, in November 2016 Challenger commenced a new annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited.

MS Primary provides annuity and life insurance products to Japanese customers and is part of MS&AD Insurance Group Holdings Inc. (MS&AD), a Nikkei 225 company.

Japan has one of the world's most rapidly ageing populations who are looking for income from longer dated products due to the low Japanese interest rate environment. This has driven significant demand for foreign currency annuities.

In August 2016, MS Primary launched an innovative Australian dollar product with a 20-year fixed rate in Japan. The product is being distributed through the Japanese bancassurance channel.

In relation to reinsuring this product, from 1 November 2016, Challenger commenced issuing Australian dollar fixed rate annuities with a 20-year term to support the reinsurance agreement with MS Primary. Challenger provides a guaranteed interest rate and assumes the investment risk on a portion of each new policy issued by MS Primary.

During FY18, Challenger and MS Primary developed a new Australian dollar lifetime annuity product for the Japanese market, with Challenger reinsuring a portion of each new policy issued by MS Primary. Challenger began reinsuring this product in FY19.

In March 2019, Challenger and MS&AD announced an expansion to its strategic relationship. This expanded partnership supports Challenger's growth strategy both domestically and internationally. Under the expanded strategic relationship, from 1 July 2019, Challenger commenced a quota share reinsurance of US dollar-denominated annuities issued in the Japanese market by MS Primary.

MS Primary will provide to Challenger an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (currently ~A$660 million[1]) per year for a minimum of five years. This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

The MS Primary annuity portfolio is invested in broadly similar key asset classes Challenger currently invests in and is accounted for under Australian Generally Accepted Accounting Principles and Challenger's normalised profit framework, consistent with Challenger's Life business.

MS Primary is responsible for marketing and providing the products in Japan, including making payments to policyholders. Challenger guarantees a rate to MS Primary, which effectively includes Challenger's contribution toward marketing, distribution and administration costs in Japan. As such, for these products Challenger incurs limited distribution and operational costs as part of its direct expense base.

Under the reinsurance agreement, the guaranteed interest rate on new business can be revised and there are mechanisms to regulate volumes between MS Primary and Challenger. The agreement also includes the usual termination rights for both parties, including material breach, failure to make payments and events that may be triggered by changes in MS Primary's regulatory environment.

Expanding the strategic relationship

MS&AD's subsidiary, MS Primary, is a key Challenger annuity distribution partner. Challenger is broadening its relationship with MS&AD and both parties have identified potential growth opportunities.

In recognition of the importance of the MS&AD strategic relationship and to facilitate Challenger's future growth, a $500m equity placement to MS&AD was completed on 23 August 2017. At the time, the equity placement represented 6.3% of Challenger's issued capital.

As part of expanding the MS&AD strategic relationship with MS&AD (March 2019), MS&AD also announced its intention to increase its Challenger shareholding to over 15% of issued capital and seek representation on the Challenger Limited Board.

In August 2019, a representative from MS&AD, Mr Masahiko Kobayashi, was appointed as a Non-Executive Director of Challenger Limited. In December 2019, Mr Hiroyuki Iioka was appointed as Alternate Director to Mr Kobayashi.

At 31 December 2019, MS&AD held ~16% of Challenger's issued capital.

[1] Based on the exchange rate as at 31 December 2019.

Retirement income regulatory reforms

The Government has noted the retirement phase of the superannuation system is currently underdeveloped and there is limited availability and take-up of products that manage the risks people face in retirement, in particular the risk of outliving their savings. Currently most people invest their superannuation savings in an account-based pension and withdraw only legislated minimum amounts, without being aware of all choices.

The Australian Government has enacted or proposed a range of reforms to enhance the retirement phase of superannuation.

These reforms include:

- removing impediments to longevity product development through the Retirement Income Streams Review;
- introducing new means test rules for lifetime products; and
- creating a Retirement Income Framework.

The Government has also commissioned an independent review of the retirement income system (the Retirement Income Review) to improve understanding of its operation and the outcomes it is delivering for Australian retirees.

Retirement income rules – innovative superannuation income streams

In the May 2016 Federal Budget, the Government announced reforms to enable a wider range of retirement income products to be offered. The new product rules removed regulatory impediments to certain longevity products, including Deferred Lifetime Annuities (DLAs) and group self-annuitisation products. These products are intended to enable retirees to better manage consumption and longevity risk in retirement. The regulations came into effect on 1 July 2017.

New means test rules for lifetime products

As part of the May 2016 Federal Budget, the Government also committed to consult on the social security means test arrangements for retirement income streams. The Department of Social Services undertook a review and consulted with stakeholders during 2017 and 2018 on the means test rules for lifetime retirement income streams, including lifetime annuities and new products, such as DLAs. The means test rules govern the eligibility and level of access to the Government-provided age pension and are based on a retiree's level of income and/or assets owned.

In November 2018, the Government introduced the *Social Services Legislation Amendment (Supporting Retirement Incomes) Bill* into parliament, which is designed to support the take-up of lifetime income stream products.

The Bill received royal assent on 1 March 2019 and commenced on 1 July 2019. The new means test rules have been designed to encourage the development of innovative lifetime income products that will help retirees manage the risk of outliving their savings, while ensuring a fair and consistent means test treatment for all retirement income products.

Complying products are assessed under the income test at 60% of all pooled lifetime product payments, and under the asset test at 60% of the purchase price of the product until age 84, or a minimum of five years, and then 30% for the rest of the person's life.

The new means test rules do not impact term annuities, which accounted for approximately 90% of Challenger's 1H20 annuity sales.

Retirement Income Framework

The Government has proposed a Retirement Income Framework to increase flexibility and choice for retirees and help boost living standards.

The first stage of the proposed Retirement Income Framework is to include a Retirement Income Covenant in the *Superannuation Industry (Supervision) Act 1993*, which would require superannuation trustees to have a retirement income strategy in place for members by 1 July 2020.

The Government released a position paper on the Retirement Income Covenant in May 2018 with industry consultation closing in June 2018. The position paper notes the proposed Retirement Income Framework is intended to:

- enable individuals to increase their standard of living in retirement through increased availability and take-up of products that more efficiently manage longevity risk, and in doing so increase the efficiency of the superannuation system and better align the system with its objective; and
- enable trustees to provide individuals with an easier transition into retirement by offering retirement income products that balance competing objectives of high income, flexibility and risk management.

The second stage of the Retirement Income Framework is to develop simplified, standardised metrics in product disclosures to help members make decisions about the most appropriate retirement income product for them. Key information would ensure members are supported to make informed decisions about the income, risk and flexibility associated with different retirement income products. The Government issued a Retirement Income Disclosure Consultation Paper in December 2018, with consultation completed in March 2019. Following the consultation process, it is anticipated the Government will undertake consumer testing on the design and content of product disclosures to ensure its effectiveness in assisting members to choose retirement income products that align with their needs and preferences.

Retirement Income Review

Following the Australian federal election in May 2019, the Government commissioned an independent review of the retirement income system in September 2019. This Retirement Income Review was recommended by the Productivity Commission.

The focus of the Retirement Income Review is to establish a fact base to improve understanding of how the Australian retirement income system is operating and how it will respond to an ageing society. The review will also consider the incentives for people to self-fund their retirement, the fiscal sustainability of the retirement system, the role of the three pillars of the retirement system, and the level of support provided to different cohorts over time.

The Government has established a three person independent panel to undertake the review and is expected to provide its final report to Government by June 2020.

Life balance sheet

$m	1H20	FY19	1H19	FY18	1H18	FY17	1H17
Assets							
Life investment assets							
Cash and equivalents	760.0	361.0	1,518.3	1,671.6	950.1	1,430.1	1,172.7
Asset backed-securities	6,289.3	5,293.3	5,062.2	4,763.1	4,542.2	4,416.7	4,362.8
Corporate credit	5,907.4	6,805.5	5,434.0	5,293.1	5,584.2	4,568.2	3,985.4
Fixed income and cash (net)	**12,956.7**	**12,459.8**	**12,014.5**	**11,727.8**	**11,076.5**	**10,415.0**	**9,520.9**
Australian – Office	1,919.4	1,833.9	2,097.1	2,011.3	1,855.6	1,670.6	1,563.1
Australian – Retail	751.2	883.3	954.1	954.8	962.5	941.1	921.3
Australian – Industrial	193.3	185.2	180.4	159.5	152.0	170.1	195.6
Japanese	359.5	325.6	314.6	297.4	234.0	229.3	226.9
Other	114.4	154.0	193.2	417.5	450.5	396.7	421.4
Property (net)	**3,337.8**	**3,382.0**	**3,739.4**	**3,840.5**	**3,654.6**	**3,407.8**	**3,328.3**
Equity and other investments	2,541.6	2,315.1	2,113.4	1,799.1	1,642.7	1,360.1	1,231.6
Infrastructure (net)	833.2	853.5	757.0	717.7	666.3	494.4	526.4
Life investment assets	**19,669.3**	**19,010.4**	**18,624.3**	**18,085.1**	**17,040.1**	**15,677.3**	**14,607.2**
Other assets (including intangibles)	915.9	702.3	560.9	509.5	644.1	479.7	389.4
Total assets	**20,585.2**	**19,712.7**	**19,185.2**	**18,594.6**	**17,684.2**	**16,157.0**	**14,996.6**
Liabilities							
Life annuity book	12,845.3	12,870.2	12,323.7	11,728.3	11,115.8	10,322.2	9,784.9
GIR[1] and Challenger Index Plus Fund liabilities	2,705.6	1,966.2	2,172.3	2,135.0	1,909.3	1,687.8	1,633.2
Subordinated debt	404.9	403.9	400.6	403.7	405.3	393.6	384.8
Challenger Capital Notes	805.0	805.0	805.0	805.0	805.0	805.0	345.0
Other liabilities	350.6	348.5	412.9	317.7	296.1	277.4	295.3
Total liabilities	**17,111.4**	**16,393.8**	**16,114.5**	**15,389.7**	**14,531.5**	**13,486.0**	**12,443.2**
Net assets	**3,473.8**	**3,318.9**	**3,070.7**	**3,204.9**	**3,152.7**	**2,671.0**	**2,553.4**

[1] Guaranteed Index Return (GIR).

Life investment portfolio overview

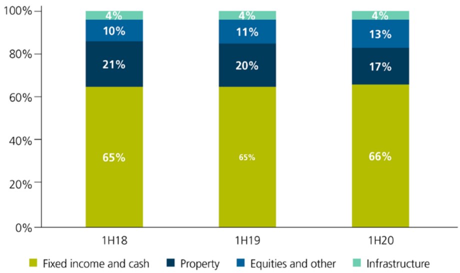
Life maintains a high-quality investment portfolio in order to generate cash flows to meet future annuity obligations.

Life reviews its investment asset allocation based on the relative value of different asset classes, expected ROE, and the tenor of annuity sales as Life maintains a cash flow matched portfolio. Accordingly, Life's investment asset allocation may vary from time to time.

Life's investment assets at 31 December 2019 comprised:

- fixed income and cash 66%;
- property 17%;
- equities and other investments 13%; and
- infrastructure 4%.

Detailed information on Life's investment assets is included on pages 31 to 40.



Fixed income portfolio overview

Life's fixed income and cash portfolio was $13.0bn (net of debt) at 31 December 2019 and increased by 4% from $12.5bn at 30 June 2019.

The fixed income and cash portfolio represented 66% of Life's investment assets at 31 December 2019 and comprises of approximately 1,400 different securities.

Challenger manages credit risk by maintaining a high-quality investment portfolio and applying a rigorous investment process. The fixed income portfolio is diversified across different industries, rating bands, asset classes and geographies.

Life's policy liability cash flows are long term in nature, and contracted, providing the opportunity to invest in longer dated and less liquid fixed income investments, allowing Life to earn an illiquidity premium on fixed income.

Life's fixed income investment-grade (i.e. BBB or higher) target is 75%. Investment grade at 31 December 2019 was 75%, up from 74% at 30 June 2019.

A total of approximately 82% of the fixed income portfolio is externally rated (Standard & Poor's, Fitch or Moody's) with the remainder internally rated based on methodologies calibrated to Standard & Poor's or Moody's ratings framework.

The fixed income and cash portfolio is predominantly Australian focused, with approximately 65% of the fixed income portfolio invested in Australian-based securities.

Approximately 20% of Life's fixed income portfolio represents fixed income investments originated by Challenger. Direct fixed income origination includes senior secured loans, asset backed securities and commercial real estate lending. Life's direct origination capability provides opportunities to capture additional earnings including illiquidity premiums. The average direct fixed income illiquidity premium generated over the last five years has been between 1% and 2%.

Fixed income credit default experience

Challenger's normalised growth assumption for fixed income is -35 bps, representing an allowance for credit default losses. In 1H20, the credit default loss recognised in investment experience was -20 bps, (-$26m).

Over the past five financial years, the average credit default loss experience recognised in investment experience has been -18 bps per annum.

Detailed disclosure of Life's fixed income portfolio is included on pages 32 to 35. The fixed income disclosures include the following tables:

1. Table 1 – fixed income portfolio overview;
2. Table 2 – fixed income portfolio by credit rating;
3. Table 3 – fixed income portfolio by rating type;
4. Table 4 – fixed income portfolio by industry sector; and
5. Table 5 – fixed income portfolio by geography and credit rating.

Table 1: Fixed income portfolio overview

31 December 2019		$m	% portfolio	
Liquids		761	6%	Includes cash and equivalents and Government Bonds (net of repurchase agreements).
Asset-Backed Securities (ABS)	Residential Mortgage-Backed Securities (RMBS)	3,452	27%	RMBS expertise developed when Challenger was Australia's largest non-bank securitiser of RMBS (via Mortgage Management business sold in 2009). Also includes NIM notes.
	Other ABS	1,808	14%	Financing secured against underlying assets. Asset security includes motor vehicle, equipment and consumer finance.
	Senior Secured Bank Loans	594	4%	Senior debt secured by collateral and typically originated by Challenger.
	Aviation Finance	207	1%	Secured commercial aircraft financing.
	CMBS	228	2%	Commercial Mortgage-Backed Securities (CMBS).
Corporate Credit	Banks and Financials	1,179	9%	Corporate loans to banks, insurance companies and fund managers.
	Infrastructure	1,631	13%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies.
	Non-Financial Corporates	2,145	17%	Traded commercial loans to non-financial corporates (includes exposures to retail, construction, hotels, media, mining and health care).
	Commercial Real Estate	952	7%	Loans secured against commercial real estate assets and typically originated by Challenger.
Total		12,957	100%	

Table 2: Fixed income portfolio by credit rating

31 December 2019 ($m)	Investment grade						Non-investment grade			Total
	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	$m
Liquids										
Government bonds[1]	604	-	-	-	-	604	-	-	-	604
Covered bonds	157	-	-	-	-	157	-	-	-	157
Asset-Backed Securities										
RMBS	-	1,767	642	535	287	3,231	135	86	221	3,452
Other ABS	-	499	202	223	142	1,066	606	136	742	1,808
Senior Secured Bank Loans	-	247	18	41	172	478	116	-	116	594
Aviation Finance	-	-	-	127	58	185	22	-	22	207
CMBS	-	37	23	66	75	201	21	6	27	228
Corporate Credit										
Banks and Financials	-	(1)	151	345	508	1,003	151	25	176	1,179
Infrastructure	-	1	134	511	592	1,238	248	145	393	1,631
Non-Financial Corporates	-	-	16	114	626	756	776	613	1,389	2,145
Commercial Real Estate	-	30	8	390	388	816	106	30	136	952
Total	761	2,580	1,194	2,352	2,848	9,735	2,181	1,041	3,222	12,957
Fixed income portfolio (%)	6%	20%	9%	18%	22%	75%	17%	8%	25%	100%
Average duration (years)	-	2.0	2.7	3.9	3.0	2.9	3.3	3.8	3.5	3.1

31 December 2019 (%)	Investment grade						Non-investment grade			Total
	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	%
Liquids										
Government bonds[1]	100%	-	-	-	-	100%	-	-	-	100%
Covered bonds	100%	-	-	-	-	100%	-	-	-	100%
Asset-Backed Securities										
RMBS	-	52%	19%	15%	8%	94%	4%	2%	6%	100%
Other ABS	-	28%	11%	12%	8%	59%	33%	8%	41%	100%
Senior Secured Bank Loans	-	41%	3%	7%	29%	80%	20%	-	20%	100%
Aviation Finance	-	-	-	61%	28%	89%	11%	-	11%	100%
CMBS	-	16%	10%	29%	33%	88%	9%	3%	12%	100%
Corporate Credit										
Banks and Financials	-	-	13%	29%	43%	85%	13%	2%	15%	100%
Infrastructure	-	1%	8%	31%	36%	76%	15%	9%	24%	100%
Non-Financial Corporates	-	-	1%	5%	29%	35%	36%	29%	65%	100%
Commercial Real Estate	-	3%	1%	41%	41%	86%	11%	3%	14%	100%
Total	6%	20%	9%	18%	22%	75%	17%	8%	25%	100%

[1] Gross Government Bonds are shown net of $1,571m of Australian Government Bonds and $2,889m of Australian Semi-Government Bonds, that are held via repurchase agreements. Government bonds refinanced with repurchase agreements are used to hedge movements in interest rates. Refer to page 41 for more detail.

Table 3: Fixed income portfolio by rating type

	Investment grade						Non-investment grade			Total
31 December 2019 ($m)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	$m
Liquids										
Externally rated	761	-	-	-	-	761	-	-	-	761
Internally rated	-	-	-	-	-	-	-	-	-	-
Asset-Backed Securities										
Externally rated	-	2,392	854	843	409	4,498	282	85	367	4,865
Internally rated	-	159	32	148	324	663	618	143	761	1,424
Corporate Credit										
Externally rated	-	31	302	1,340	1,939	3,612	802	553	1,355	4,967
Internally rated	-	(2)	6	21	176	201	479	260	739	940
Total	761	2,580	1,194	2,352	2,848	9,735	2,181	1,041	3,222	12,957
Externally rated	100%	94%	97%	93%	82%	91%	50%	61%	53%	82%
Internally rated	0%	6%	3%	7%	18%	9%	50%	39%	47%	18%

	Investment grade						Non-investment grade			Total
31 December 2019 (%)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	%
Liquids										
Externally rated	100%	-	-	-	-	100%	-	-	-	100%
Internally rated	-	-	-	-	-	-	-	-	-	-
Asset-Backed Securities										
Externally rated	-	49%	18%	17%	8%	92%	6%	2%	8%	100%
Internally rated	-	11%	2%	10%	24%	47%	43%	10%	53%	100%
Corporate Credit										
Externally rated	-	1%	6%	27%	39%	73%	16%	11%	27%	100%
Internally rated	-	-	1%	2%	18%	21%	51%	28%	79%	100%
Total	6%	20%	9%	18%	22%	75%	17%	8%	25%	100%

Table 4: Fixed income portfolio by industry sector

	Investment grade						Non-investment grade			Total
31 December 2019 ($m)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	$m
Industrials and consumers	-	727	325	477	966	2,495	1,435	743	2,178	4,673
Residential property	-	1,757	553	530	329	3,169	136	87	223	3,392
Banks, financials & insurance	157	26	151	378	519	1,231	206	25	231	1,462
Government	604	-	-	-	-	604	-	-	-	604
Commercial property	-	69	31	456	418	974	127	35	162	1,136
Infrastructure and utilities	-	1	134	511	592	1,238	248	145	393	1,631
Other	-	-	-	-	24	24	29	6	35	59
Total	761	2,580	1,194	2,352	2,848	9,735	2,181	1,041	3,222	12,957

	Investment grade						Non-investment grade			Total
31 December 2019 (%)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	%
Industrials and consumers	-	15%	7%	10%	21%	53%	31%	16%	47%	100%
Residential property	-	51%	16%	16%	10%	93%	4%	3%	7%	100%
Banks, financials & insurance	11%	2%	10%	26%	35%	84%	14%	2%	16%	100%
Government	100%	-	-	-	-	100%	-	-	-	100%
Commercial property	-	6%	3%	40%	37%	86%	11%	3%	14%	100%
Infrastructure and utilities	-	-	8%	32%	36%	76%	15%	9%	24%	100%
Other	-	-	-	-	41%	41%	49%	10%	59%	100%
Total	6%	20%	9%	18%	22%	75%	17%	8%	25%	100%

Table 5: Fixed income portfolio by geography and credit rating

	Investment grade						Non-investment grade			Total
31 December 2019 ($m)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	$m
Australia	691	1,928	828	1,495	1,903	6,845	1,115	534	1,649	8,494
United States	36	26	24	323	360	769	835	431	1,266	2,035
United Kingdom	-	189	107	191	251	738	20	40	60	798
Europe	3	54	95	152	211	515	60	3	63	578
New Zealand	-	206	80	104	73	463	91	33	124	587
Rest of World	31	177	60	87	50	405	60	-	60	465
Total	761	2,580	1,194	2,352	2,848	9,735	2,181	1,041	3,222	12,957

	Investment grade						Non-investment grade			Total
31 December 2019 (%)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	%
Australia	8%	23%	10%	18%	22%	81%	13%	6%	19%	100%
United States	2%	1%	1%	16%	18%	38%	41%	21%	62%	100%
United Kingdom	-	24%	13%	24%	31%	92%	3%	5%	8%	100%
Europe	-	35%	14%	18%	12%	79%	15%	6%	21%	100%
New Zealand	7%	37%	13%	19%	11%	87%	13%	-	13%	100%
Rest of the World	1%	9%	16%	26%	37%	89%	10%	1%	11%	100%
Total	6%	20%	9%	18%	22%	75%	17%	8%	25%	100%

Property portfolio overview

Life's property portfolio principally comprises directly held properties and is diversified across office, retail and industrial properties.

Life's property portfolio was $3.3bn (net of debt) at 31 December 2019 and declined by $0.4bn in 1H20 following settlement of a number of properties sold in 2H19. Property represented 17% of Life's investment portfolio at 31 December 2019.

Life's property portfolio is mainly focused on domestic properties that provide long-term income streams. Australian properties accounted for 89% of the portfolio, and Australian office 58%.

Property includes a net $360m exposure to Japanese property (11% of the portfolio), consisting of suburban shopping centres that are focused on non-discretionary retailing.

Challenger Life has a policy that all properties are independently valued each year with approximately 50% valued in June and 50% valued in December. Internal valuations are also undertaken for properties not independently valued each June and December. An independent valuation is subsequently undertaken if the internal valuation shows a significant variance to the most recent independent valuation. In 1H20, external valuations were obtained for 66% of the direct property portfolio.

The weighted average cap rate on Life's Australian direct portfolio[1] was 5.80% at 31 December 2019, down 4 bps in 1H20.

Rental income is diversified across sectors and tenants, with 52% (by 1H20 gross rental income) of tenants classified investment grade (i.e. rated BBB or higher).

The property portfolio generates long-term cash flows to match long-term liabilities, with a weighted average lease expiry of 6 years and 57% of leasing area having contracted leases expiring in FY24 and beyond. The portfolio had an occupancy rate of 93% at 31 December 2019.

Approximately 63% of contracted leases have either annual fixed increases or inbuilt increases based on inflation outcomes (e.g. CPI).

The Australian Government is a major tenant, leasing a range of commercial office buildings, and accounted for approximately 28% of 1H20 gross rental income[2].

With strong demand from offshore capital compressing property cap rates in certain sectors, the relative attractiveness of holding property over fixed income has declined.

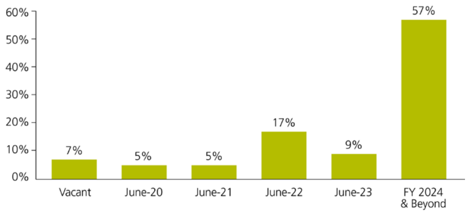
During FY19, Challenger disposed of ten direct properties for approximately $1bn, with the sales proceeds reinvested in other investments, including fixed income. As a result of the property sales, the property allocation reduced from 21% at 30 June 2018 to 17% at 31 December 2019.

Full details of Life's property portfolio are listed on pages 36 to 39.

Property portfolio summary

% of total portfolio	1H20	1H19
Australian office	58%	56%
Australian retail	23%	26%
Australian industrial	6%	5%
Other	2%	4%
Australian total	**89%**	**91%**
Japanese retail	11%	8%
Other (including offshore)	0%	1%
Total	**100%**	**100%**

Portfolio lease expiry overview[3]



[1] Excluding the Victorian County Court.
[2] Represents total gross passing income attributable to the direct property portfolio (domestic and offshore).
[3] Direct property portfolio and jointly held assets only and development assets.

Direct property portfolio overview[1]

31 December 2019		Office	Retail	Industrial	Total
Total rent (%)[2]		49%	44%	7%	100%
WALE[3] (years)		6.7	6.4	3.7	6.4
Tenant credit ratings					
	AAA	28%	0%	0%	28%
	AA	5%	1%	0%	6%
	A	0%	2%	0%	2%
	BBB	2%	11%	3%	16%
	BB	6%	17%	3%	26%
	B or below	1%	2%	1%	4%
	Not rated	2%	9%	0%	11%
	Vacant	5%	2%	0%	7%
	Total	**49%**	**44%**	**7%**	**100%**
% of total gross net	Investment grade	35%	14%	3%	52%
	Non-investment grade	9%	28%	4%	41%
	Vacant	5%	2%	0%	7%

1 Direct property portfolio and jointly held assets only and excludes Australian REITs and development assets.
2 Includes vacant floors/suites available for lease.
3 Weighted Average Lease Expiry (WALE) assumes tenants do not terminate leases prior to expiry of specified lease term.

Direct property investments

31 December 2019		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate 1H20 (%)[3]	Last external valuation date
Australia						
Office						
	6 Chan Street (formerly DIBP Building), ACT	01-Dec-01	116.6	186.0	5.50	31 Dec 19
	14 Childers Street, ACT	01-Dec-17	97.3	93.7	6.50	30 Jun 19
	35 Clarence Street, NSW	15-Jan-15	148.8	235.0	5.00	31 Dec 19
	45 Benjamin Way (formerly ABS Building), ACT	01-Jan-00	149.4	222.5	5.75	31 Dec 19
	82 Northbourne Avenue, ACT	01 Jun 17	60.9	56.0	5.75	31 Dec 19
	215 Adelaide Street, QLD	31-Jul-15	252.3	251.3	6.00	30 Jun 19
	565 Bourke Street, VIC	28-Jan-15	105.9	156.5	5.00	31 Dec 19
	839 Collins Street, VIC	22-Dec-16	212.0	239.0	4.75	31 Dec 19
	County Court, VIC	30-Jun-00	218.0	322.7	n/a	31 Dec 19
	Discovery House, ACT	28 Apr 98	100.5	150.9	5.50	30 Jun 19
	Executive Building, TAS	30-Mar-01	34.6	46.6	6.75	31 Dec 19
Retail						
	Bunbury Forum, WA	03-Oct-13	155.3	87.0	7.00	31 Dec 19
	Channel Court, TAS	21 Aug 15	83.5	80.8	7.00	30 Jun 19
	Gateway, NT	01-Jul-15	121.6	112.8	6.10	31 Dec 19
	Golden Grove, SA	31-Jul-14	157.1	159.0	6.00	31 Dec 19
	Karratha, WA	28-Jun-13	55.2	47.7	7.50	30 Jun 19
	Kings Langley, NSW	29-Jul-01	16.2	23.8	6.25	30 Jun 19
	Lennox, NSW	27-Jul-13	61.6	61.9	6.90	30 Jun 19
	North Rocks, NSW	18 Sep 15	182.8	178.2	6.00	30 Jun 19
Industrial						
	21 O'Sullivan Circuit, NT	27 Jan 16	47.7	35.6	8.25	31 Dec 19
	31 O'Sullivan Circuit, NT	27 Jan 16	29.2	25.8	8.25	31 Dec 19
	Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	92.3	131.9	5.00	31 Dec 19
Total Australia			2,498.8	2,904.7		

[1] Acquisition date represents the date of Challenger Life Company Limited (CLC's) initial acquisition or consolidation of the investment vehicle holding the asset.
[2] Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date.
[3] The capitalisation rate is the rate at which net market income is capitalised to determine the value of the property. The rate is determined with regard to market evidence.

Direct property investments

31 December 2019		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate FY19 (%)[3]	Last external valuation date
Japan						
Retail						
	Aeon Kushiro	31-Jan-10	30.5	37.4	5.40	30 Jun 19
	Carino Chitosedai	31-Jan-10	118.4	138.7	4.40	31 Dec 19
	Carino Tokiwadai	31-Jan-10	77.0	84.4	4.60	30 Jun 19
	DeoDeo Kure	31-Jan-10	32.2	34.0	5.50	30 Jun 19
	Fitta Natalie Hatsukaichi	28-Aug-15	11.4	14.7	5.90	31 Dec 19
	Izumiya Hakubaicho	31-Jan-10	69.3	78.4	4.80	31 Dec 19
	Kansai Super Saigo	31-Jan-10	13.1	14.4	5.50	31 Dec 19
	Kojima Nishiarai	31-Jan-10	12.2	16.0	4.40	30 Jun 19
	Kotesashi Towers	28 Nov 19	25.2	23.5	5.00	-
	Life Asakusa	31-Jan-10	27.8	37.6	4.30	30 Jun 19
	Life Higashi Nakano	31-Jan-10	32.9	40.4	4.40	30 Jun 19
	Life Nagata	31-Jan-10	25.2	29.5	4.20	30 Jun 19
	MaxValu Tarumi	28-Aug-15	16.9	19.9	5.70	31 Dec 19
	Seiyu Miyagino	31-Jan-10	9.8	11.7	5.20	30 Jun 19
	TR Mall Ryugasaki	30 Mar 18	86.7	98.2	5.50	31 Dec 19
	Valor Takinomizu	31 Jan 10	26.9	25.7	5.80	31 Dec 19
	Valor Toda	31-Jan-10	42.5	45.4	5.20	30 Jun 19
	Yaoko Sakato Chiyoda	31-Jan-10	19.6	21.1	4.90	31 Dec 19
Industrial						
	Aeon Matsusaka XD	26 Sep 19	14.7	13.2	5.80	-
Total Japan			692.3	784.2		
Europe						
Retail						
	Aulnay sous Bois, Avenue de Savigny, France	31-Dec-08	20.3	10.0	7.50	31 Dec 19
Total Europe			20.3	10.0		
Total overseas			712.6	794.2		
Development						
	Maitland, NSW	6-Dec-06	5.6	4.7	n/a	n/a
Total development			5.6	4.7		
Total direct portfolio investments			3,217.0	3,703.6		

1 Acquisition date represents the date of Challenger Life Company Limited (CLC) initial acquisition or consolidation of the investment vehicle holding the asset.
2 Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date.
3 The capitalisation rate is the rate at which net market income is capitalised to determine the value of the property. The rate is determined with regard to market evidence.

Equity and other portfolio overview

Life's equity and other portfolio of $2.5bn increased by $0.2bn in 1H20. Equity and other investments represented 13% of Life's total investment assets at 31 December 2019, up from 12% at 30 June 2019.

Life's equity and other portfolio is diversified, provides liquidity and uses strategies to provide downside protection.

The beta portfolio of $0.2bn represents private equity investments and long-only listed equities. Investment returns for both private equity and listed equities are expected to be broadly in line with listed equity market indices over the long-term; however, private equity investment returns tend to lag listed investment market returns. The total return on the beta portfolio is expected to be correlated to the MSCI World Net Daily Total Return Index.

Life's low beta portfolio of $1.0bn remained unchanged in 1H20. Low beta investments include an equity collar strategy and a range of credit-linked investments. The equity collar strategy uses options, with monthly rebalancing to provide downside protection while capping upside performance. As a result, the investment has a lower capital intensity and returns are expected to be less correlated to listed equity markets than equity beta investments and have lower volatility.

For the equity collar strategy, over the long-term, Life expects to participate in 40% of monthly equity market sell offs and participate in 60% of monthly equity market rallies, resulting in an equity market beta for the strategy of approximately 0.5 times. However, over shorter time periods, and periods of higher equity market volatility, the total return for the strategy is expected to have a higher tracking error.

Life's absolute return portfolio of $1.0bn increased by $0.2bn in 1H20 and includes systematic global macro funds and market-neutral long/short equity funds. Investment returns are expected to have a lower correlation to listed equity markets. Over the long term, the total return on Life's absolute return portfolio is expected to be correlated to the Société Générale CTA Index.

Life's alternatives portfolio of $0.3bn includes insurance-related and other investments. These investments are expected to have a low correlation to listed equity markets. There is no appropriate index that can be used to track total returns on the alternative portfolio.

Equity and other portfolio

31 December 2019	Domestic	Offshore	Total
Equity beta	88	75	163
Low beta	127	913	1,040
Absolute return funds	297	732	1,029
Alternatives	-	310	310
Total	**512**	**2,030**	**2,542**

Infrastructure portfolio overview

Life's infrastructure portfolio of $0.8bn (net of debt) decreased by $21m (2%) in 1H20.

Challenger Life seeks infrastructure assets that generate reliable and consistent cash flows, which are preferably inflation linked, giving rise to sustainable income growth over time. Infrastructure investments comprise directly held infrastructure assets and indirectly held listed and unlisted investments.

Approximately 20% of the infrastructure portfolio is unlisted, down from approximately 30% at June 2019 reflecting the sale of unlisted assets and strong performance from listed infrastructure.

The infrastructure portfolio is diversified across a number of geographic regions and sectors.

Infrastructure portfolio by sector

31 December 2019	$m	%
Utilities	66	8%
Patronage	22	2%
Airport	25	3%
Power generation	6	1%
Renewable	130	16%
Core infrastructure	584	70%
Total	**833**	**100%**

Infrastructure portfolio by geography

31 December 2019	$m	%
North America	348	42%
Australia	237	29%
United Kingdom	36	4%
Asia	81	10%
Europe	127	15%
South America	3	0%
Total	**833**	**100%**

Challenger Life Company Limited (CLC) debt facilities

$m	1H20	FY19	1H19	FY18	1H18	FY17	1H17
Repurchase agreements	4,460.0	4,448.5	4,397.4	3,816.0	3,387.9	3,287.5	3,482.9
Controlled property debt	455.0	466.6	476.9	560.5	491.9	534.5	535.8
Subordinated debt	404.9	403.9	400.6	403.7	405.3	393.6	384.8
Challenger Capital Notes	805.0	805.0	805.0	805.0	805.0	805.0	345.0
Infrastructure debt	189.0	192.0	194.7	197.2	199.2	201.1	202.9
Other finance	0.7	13.2	13.9	15.0	16.0	17.0	17.8
Total CLC debt facilities	**6,314.6**	**6,329.2**	**6,288.5**	**5,797.4**	**5,305.3**	**5,238.7**	**4,969.2**

Life debt facilities

Life debt facilities include debt which is non-recourse to the broader Challenger Group and secured against assets held in Challenger Life investment vehicles, including direct properties and infrastructure investments.

Life debt facilities decreased by $15m during 1H20, primarily due to an increase in repurchase agreements used to hedge interest rate movements (up $12m), offset by a decrease in controlled property debt (down $11m) and lower other finance (down $13m).

Repurchase agreements

Life enters into repurchase agreements whereby fixed income securities are sold for cash while simultaneously agreeing to repurchase the fixed income security at a fixed price and fixed date in the future. The use of repurchase agreements is part of Challenger’s strategy to hedge interest rate movements.

Life uses Australian Government and Semi-Government Bonds with repurchase agreements, interest rate swaps and bond futures to hedge movements in interest rates and inflation on its asset portfolio, annuity policy liabilities, Guaranteed Index Return mandates, and the Challenger Index Plus Fund.

Derivatives such as interest rate swaps and bond futures are self-financing, whereas the use of bonds requires repurchase agreement financing.

Subordinated debt

In November 2017, Challenger Life Company (CLC) issued $400m of Tier 2 subordinated notes. The subordinated notes fully qualify as Tier 2 regulatory capital under APRA's prudential standards and are floating rate notes, paying interest at a margin of 2.10% above the 90-day Bank Bill rate.

The subordinated notes mature in November 2042, with CLC having the option to redeem the notes in November 2022, subject to APRA approval.

The subordinated notes qualify 100% as Tier 2 regulatory capital until November 2038.

The subordinated notes include a holder conversion option, allowing the noteholder to convert the notes into Challenger ordinary shares in November 2024 if CLC has not already called the subordinated notes in November 2022.

If CLC exercises its option to redeem, there will be no conversion of subordinated debt to Challenger ordinary shares and no subsequent shareholder dilution.

Capital Notes

Over the past five years, Challenger has issued two separate tranches of subordinated, unsecured convertible notes (Challenger Capital Notes and Challenger Capital Notes 2), with proceeds used to fund qualifying Additional Tier 1 regulatory capital of CLC.

Challenger Capital Notes (ASX code 'CGFPA')

In October 2014, Challenger issued Challenger Capital Notes to the value of $345m, which are subordinated, unsecured convertible notes issued by Challenger Limited. Challenger Capital Notes pay a margin of 3.40% above the 90-day Bank Bill rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes are convertible to ordinary shares at any time before May 2022 on the occurrence of certain events, and mandatorily convertible to ordinary shares thereafter, in both cases subject to meeting certain conditions.

However, Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes on the occurrence of some of the events referred to above, including on the ‘Optional Exchange Date’ of 25 May 2020 (subject to certain conditions being met). Subject to market conditions, Challenger plans to exercise its option to redeem the Capital Notes and concurrently launch a replacement Capital Notes Offer. Given the planned redemption there will be no conversion of Challenger Capital Notes to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Capital Notes 2 (ASX code 'CGFPB')

In April 2017, Challenger issued Challenger Capital Notes 2, to the value of $460m, which are subordinated, unsecured convertible notes issued by Challenger Limited. Challenger Capital Notes 2 pay a margin of 4.40% above the 90-day Bank Bill rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes 2 are convertible to ordinary shares at any time before May 2025 on the occurrence of certain events, and mandatorily convertible to ordinary shares thereafter, in both cases subject to meeting certain conditions.

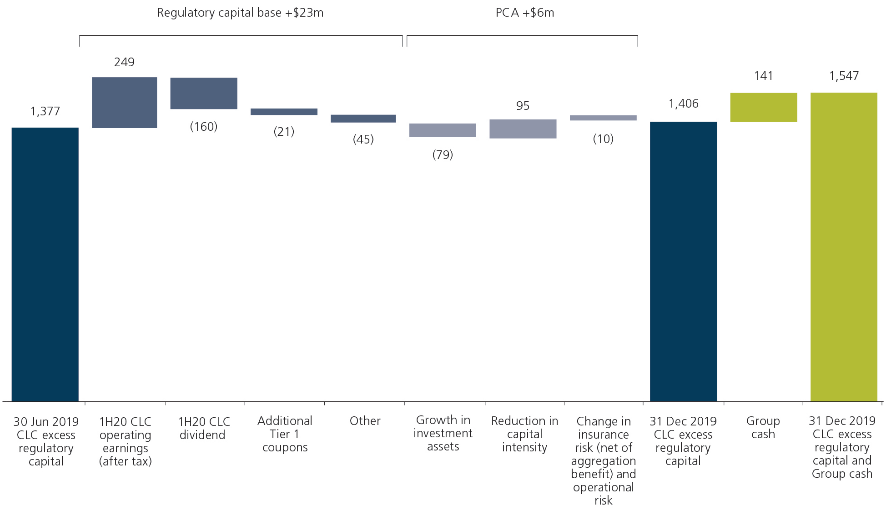
However, Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 2 on the occurrence of some of the events referred to above, including on the ‘Optional Exchange Date’ 22 May 2023 (subject to certain conditions being met). If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 2 to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Life Company Limited (CLC) regulatory capital

$m	1H20	FY19	1H19	FY18	1H18	FY17	1H17
CLC regulatory capital							
Common Equity Tier 1 (CET1) regulatory capital	2,811.3	2,789.4	2,517.6	2,677.8	2,638.4	2,169.0	2,046.0
Additional Tier 1	805.0	805.0	805.0	805.0	805.0	805.0	345.0
Tier 2 regulatory capital – subordinated debt[1]	406.2	405.3	402.2	405.4	406.8	395.4	386.7
CLC total regulatory capital base	**4,022.5**	**3,999.7**	**3,724.8**	**3,888.2**	**3,850.2**	**3,369.4**	**2,777.7**
CLC Prescribed Capital Amount (PCA)							
Asset risk charge	2,523.6	2,539.5	2,355.2	2,484.7	2,502.4	2,067.1	1,933.3
Insurance risk charge	164.6	135.3	83.3	70.0	164.9	157.5	152.7
Operational risk charge	53.4	51.8	47.5	46.4	42.8	38.7	34.9
Aggregation benefit	(125.4)	(104.0)	(64.8)	(54.8)	(125.7)	(119.2)	(115.5)
CLC PCA	**2,616.2**	**2,622.6**	**2,421.2**	**2,546.3**	**2,584.4**	**2,144.1**	**2,005.4**
CLC excess over PCA	**1,406.3**	**1,377.1**	**1,303.6**	**1,341.9**	**1,265.8**	**1,225.3**	**772.3**
PCA ratio (times)	1.54	1.53	1.54	1.53	1.49	1.57	1.39
Tier 1 ratio (times)	1.38	1.37	1.37	1.37	1.33	1.39	1.19
CET1 ratio (times)	1.07	1.06	1.04	1.05	1.02	1.01	1.02
Capital intensity ratio (%)[2]	13.3%	13.8%	13.0%	14.1%	15.2%	13.7%	13.7%

[1] 1H20 Tier 2 regulatory capital – subordinated debt ($406.2m) differs to the Group balance sheet ($404.9m) due to accrued interest and amortised costs ($1.3m).
[2] Capital intensity ratio is calculated as CLC PCA divided by Life closing investment assets.

Movement in CLC excess regulatory capital and Group cash ($m)



Challenger Life Company Limited (CLC) regulatory capital

Capital management

Challenger Life Company Limited (CLC) holds capital to ensure that under a range of adverse scenarios it can continue to meet its regulatory requirements and contractual obligations to customers.

CLC is regulated by APRA and is required to hold a minimum level of regulatory capital.

CLC's regulatory capital base and prescribed capital amount (PCA) have been calculated based on APRA prudential capital standards.

CLC's excess regulatory capital

CLC's excess capital above PCA at 31 December 2019 was $1.4bn and increased by $29m in 1H20.

CLC's regulatory capital base at 31 December 2019 was $4.0bn and increased by $23m in 1H20. The increase in the regulatory capital base mainly reflects higher retained earnings.

CLC's PCA at 31 December 2019 was $2.6bn and decreased by $6m in 1H20, reflecting:

- lower capital intensity (-$95m); offset by
- growth in investment assets (+$79m); and
- increased insurance risk charge (net of aggregation benefit) and changes in operational risk (+$10m).

CLC's capital intensity, as measured by the ratio of PCA to investment assets, decreased from 13.8% at 30 June 2019 to 13.3% at 31 December 2019.

The reduction in capital intensity is due to changes in the composition of Life's investment portfolio, including a greater allocation to fixed income and cash which has a lower capital intensity and increase in the fixed income credit quality.

CLC's capital ratios at 31 December 2019 were as follows:

- PCA ratio 1.54 times – up 1 bps from 30 June 2019;
- Total Tier 1 ratio 1.38 – up 1 bps from 30 June 2019; and
- Common Equity Tier 1 (CET1) ratio 1.07 times – up 1 bps from 30 June 2019.

APRA's prudential standards require Total Tier 1 capital to be at least 80% of the PCA and CET1 capital to be at least 60% of the PCA. Both Challenger's Total Tier 1 capital ratio (1.38 times) and CET1 capital ratio (1.07 times) are well in excess of APRA's minimum requirements.

CLC maintains a target level of capital representing APRA's PCA plus a target surplus. The target surplus is a level of excess capital CLC seeks to carry over and above APRA's minimum requirement to ensure it provides a buffer for adverse market or insurance risk experience.

CLC uses internal capital models to determine its target surplus, which are risk based and responsive to changes in CLC's asset allocation and market conditions.

CLC does not target a fixed PCA ratio. CLC's internal capital models generate a PCA ratio range based on asset allocation, business mix and economic circumstances. Based on this, CLC's target PCA range is currently 1.3 times to 1.6 times. This range may change over time.

Additional Tier 1 regulatory capital and subordinated debt

Challenger Limited has issued two separate subordinated, unsecured convertible notes (Challenger Capital Notes and Challenger Capital Notes 2), with proceeds used to fund qualifying Additional Tier 1 regulatory capital for CLC.

In November 2017, CLC issued new Tier 2 subordinated notes ($400m) which fully qualify as Tier 2 regulatory capital under APRA's prudential standards.

Further details on Challenger's convertible debt instruments is included on page 41.

Group cash

In addition to CLC's excess regulatory capital, Challenger maintains cash at a Group level, which can be utilised to meet regulatory requirements. Group cash at 31 December 2019 was $141m and increased by $50m during 1H20.

Challenger also maintains a $400m Group banking facility to provide additional financial flexibility. The banking facility was undrawn throughout the period.

Profit and equity sensitivities

$m	Change in variable	Profit/(loss) after tax 1H20	Change in equity 1H20	Profit/(loss) after tax FY19	Change in equity FY19
Credit risk					
Fixed income assets (change in credit spreads)[1]	+50bps	(126.0)	(126.0)	(133.6)	(133.6)
	-50bps	126.0	126.0	133.6	133.6
Policy liabilities (illiquidity premium change in credit spreads)	+50bps	79.3	79.3	59.7	59.7
	-50bps	(79.3)	(79.3)	(59.7)	(59.7)
Property risk					
Direct and indirect properties	+1%	26.6	26.6	25.8	25.8
	-1%	(26.6)	(26.6)	(25.8)	(25.8)
Infrastructure risk					
Infrastructure investments	+10%	58.3	58.3	59.7	59.7
	-10%	(58.3)	(58.3)	(59.7)	(59.7)
Equity risk					
Equity investments	+10%	177.9	177.9	162.1	162.1
	-10%	(177.9)	(177.9)	(162.1)	(162.1)
Life Insurance risk					
Mortality, morbidity and longevity[2]					
Life insurance contract liabilities	+50%	24.1	24.1	(20.3)	(20.3)
	-50%	(24.1)	(24.1)	20.3	20.3
Interest rate risk					
Change in interest rates	+100bps	0.9	0.9	0.5	0.5
	-100bps	(0.9)	(0.9)	(0.5)	(0.5)
Foreign exchange risk					
British pound	+10%	0.3	0.3	0.1	0.1
	-10%	(0.3)	(0.3)	(0.1)	(0.1)
US dollar	+10%	(0.1)	(0.1)	-	-
	-10%	0.1	0.1	-	-
Euro	+10%	-	-	0.7	0.7
	-10%	-	-	(0.7)	(0.7)
Japanese yen	+10%	-	-	-	(0.4)
	-10%	-	-	-	0.4

[1] Credit risk sensitivities excludes Australian Government Bonds and Australian Semi-Government bonds.
[2] Mortality, morbidity and longevity life insurance contract liabilities sensitivity is net of any reinsurance with third parties.

Profit and equity sensitivities

Profit and equity sensitivities set out the expected impact from changes in a range of economic and investment market variables on Challenger's earnings and balance sheet. These sensitivities represent the after-tax impact on statutory profit, assuming a tax rate of 30%.

The sensitivities are not forward looking and make no allowance for events occurring after 31 December 2019. If using these sensitivities as forward looking, an allowance for changes post-31 December 2019, such as sales, asset growth and changes in asset allocation, should be made.

These sensitivities assess changes in economic, insurance and investment markets on the valuation of assets and liabilities, which, in turn, impact earnings. The earnings impact is included in investment experience and does not take into consideration the impact of any under- or over-performance of normalised growth assumptions for each asset category. Refer to page 53 for normalised growth assumptions.

These sensitivities do not include the indirect impact on fees for the Funds Management business.

Refer to the risk management framework for additional detail on how to apply the profit and equity sensitivities.

Risk management framework

CLC is required under APRA prudential standards to maintain regulatory capital in order to ensure that under a range of adverse scenarios it can continue to meet its regulatory and contractual obligations to customers.

Challenger is exposed to a variety of financial risks, including market risk (credit spread risk, currency risk, interest rate risk, equity risk), credit default risk, life insurance risk, liquidity risk and operational risk.

The management of these risks is fundamental to Challenger's business and building long-term shareholder value.

The Challenger Limited Board is responsible, in conjunction with senior management, for understanding risks associated with the business and implementing structures and policies to adequately monitor and manage these risks.

The Board has established the Group Risk Committee (GRC) and Group Audit Committee (GAC) to assist in discharging certain responsibilities. In particular, these committees assist the Board in setting the risk appetite and ensuring Challenger has an effective risk management framework, incorporating management, operational and financial controls.

The Executive Risk Management Committee (ERMC) is an executive committee, chaired by the Chief Risk Officer (CRO), which assists the GRC, GAC and Board in discharging their risk management obligations by implementing the Board-approved risk management framework.

The Group's Risk Management division has day-to-day responsibility for monitoring the implementation of the framework with oversight, analysis, monitoring and reporting of risks. The CRO provides regular reporting to the GRC and the Board.

Risk appetite

Challenger's risk appetite statement provides that, subject to acceptable returns and limits, Challenger can retain exposure to credit risk, property risk, equity and infrastructure risk, life insurance risk and other active trading strategies.

Accept exposure (subject to appropriate returns)	Minimise exposure
✓ Credit risk	× Asset and liability mismatch risk
✓ Property risk	× Foreign exchange risk
✓ Equity and infrastructure risk	× Interest rate risk
✓ Life insurance risk	× Inflation risk
✓ Other active trading strategies	× Liquidity risk
	× Licence risk
	× Operational risk

Asset and liability mismatch risk

Challenger's asset allocation strategy is based on running a cash flow matched portfolio of assets and liabilities and to minimise the risk of cash flow mismatch. Annuity cash payments are generally met from contracted investment cash flows together with assets held in Challenger's liquidity pool, which are continually rebalanced through time. As a result, liabilities and asset cash flows are well matched and are continually rebalanced through time.

Credit default risk

Credit default risk is the risk of loss in value of an investment due to a counterparty failing to discharge an obligation.

Challenger's approach to credit management utilises a credit risk framework to ensure that the following principles are adhered to:

- credit risk management team separation from risk originators;
- recognition of the different risks in the various businesses;
- credit exposures being systematically controlled and monitored;
- credit exposures being regularly reviewed in accordance with existing credit procedures; and
- ensuring credit exposures include the impact from derivative transactions.

Challenger makes use of external ratings agencies (Standard & Poor's, Fitch, Moody's) to determine credit ratings.

Where a counterparty or debt obligation is rated by multiple external ratings agencies, Challenger will use Standard & Poor's ratings where available.

All credit exposures with an external rating are also reviewed internally and cross-referenced to the external rating, if applicable.

Where external credit ratings are not available, internal credit ratings are assigned by appropriately qualified and experienced credit personnel who operate separately from the asset originators.

Credit spread risk sensitivity

Challenger is exposed to price movements resulting from credit spread fluctuations through its fixed income securities (net of subordinated debt) and the fair value of annuity and other liabilities.

As at 31 December 2019, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of $126m (after tax) on fixed income investments (net of debt).

In accordance with prudential standards and Australian Accounting Standards, Challenger Life values term annuities at fair value, and lifetime annuities using a risk-free discount rate, both of which are based on the Australian Government bond curve plus an illiquidity premium. Movements in fixed income credit spreads impact the illiquidity premium.

As at 31 December 2019, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of $79m (after tax) on the fair value of annuity liabilities.

Property risk

Property risk is the potential impact of movements in the market value of property investments on Challenger's profit and loss.

Property risk sensitivity

Challenger is exposed to movements in the market value of property investments, through both directly held investment properties and property securities.

The property sensitivities included on page 44 show the impact of a change in property valuations at balance date and are based on Life's gross property investments of $3.8bn (net investments of $3.3bn plus debt of $0.5bn). A 1% move in the direct and indirect property portfolio at 31 December 2019 would result in a $27m (after tax) movement in property valuations.

Infrastructure risk

Challenger is exposed to movements in the market value of listed and unlisted infrastructure investments. The infrastructure portfolio is diversified across a number of geographic regions and sectors, with approximately 70% of infrastructure investments offshore.

Infrastructure risk sensitivity

The infrastructure risk sensitivities included on page 44 show a 10% move in the infrastructure portfolio at 31 December 2019 would have resulted in a $58m (after tax) movement in the valuation of infrastructure investments.

Equity risk

Equity risk is the potential impact of movements in the market value of listed and unlisted equity investments, including movements in the value of absolute return strategies.

Challenger holds equities as part of its investment portfolio to provide diversification across the investment portfolio.

Equity risk sensitivity

The equity risk sensitivity on page 44 assumes a 10% market move in the equity and other portfolio at 31 December 2019 would have impacted the valuation of equity and other investments by 10% or $178m (after tax) . Life has in place a number of strategies to reduce the impact of investment markets on the valuation of its equity investments, including a collar strategy (refer to page 40 for more detail) and an absolute return strategy. As a result, a 10% movement in equity markets is expected to have a smaller impact on the valuation of Life's equity investments with the portfolio having a weighted average equity market beta of 0.5x.

Liquidity risk

Liquidity risk is the risk Challenger will encounter difficulty in raising funds to meet cash commitments associated with financial instruments and contracted payment obligations to annuitants. This may result from either the inability to sell financial assets at face value, a counterparty failing to repay contractual obligations, or the inability to generate cash inflows as anticipated.

Challenger's Liquidity Management Policy aims to ensure that it has sufficient liquidity to meet its obligations on a short, medium and long-term basis. In setting the level of sufficient liquidity, Challenger considers new business activities in addition to current contracted obligations.

In determining the required levels of liquidity, Challenger considers:

- minimum cash requirements;
- collateral and margin call buffers;
- Australian Financial Services Licence requirements;
- cash flow forecasts;
- associated reporting requirements;
- other liquidity risks; and
- contingency plans.

Required annuity cash outflows are met from contracted investment cash flows together with assets in Challenger's liquidity pool. As a result, cash flows are well matched and continue to be rebalanced through time.

Life insurance risk

Lifetime annuities provide guaranteed payments to customers for life. Through selling lifetime annuities and assuming wholesale reinsurance agreements, CLC is assuming longevity risk, which is the risk annuitants live longer, in aggregate, than expected. This is in contrast to mortality risk, which is the risk that people die earlier than expected. CLC is exposed to mortality and morbidity risks on its wholesale mortality reinsurance business.

CLC is required under APRA prudential standards to maintain regulatory capital in relation to the longevity, mortality and morbidity risks. CLC manages some of its longevity risk exposure by using reinsurance for closed lifetime annuity portfolios. CLC regularly reviews the portfolio for longevity experience to ensure longevity assumptions remain appropriate.

Mortality and morbidity rates are based on industry standards, which are adjusted for CLC's own recent experience and include an allowance for future mortality improvements.

CLC assumes future mortality rates for individual lifetime annuities will improve by between 0.3% and 2.6% per annum, depending on different age cohorts and sex. This has the impact of increasing the life expectancy of a male aged 65 from 22 years (per the base mortality rates) to 25 years.

Mortality, morbidity and longevity sensitivities

The mortality sensitivities on page 44 set out the expected impact of an improvement in mortality. This is in addition to the mortality improvements Challenger already assumes.

A 50% increase in the annual mortality improvement rates already assumed would increase the life expectancy of a male aged 65 from 25 years to 26 years and increase the policy liability valuation by $24m (after tax).

Interest rate risk

Interest rate risk is the risk of fluctuations in Challenger's earnings arising from movements in market interest rates, including changes in the absolute level of interest rates, the shape of the yield curve and the margin between different yield curves.

CLC's market risk policy sets out the relevant risk limits for interest rate exposure. It is CLC's policy to minimise the impact of interest rate movements on its projected future cash flows, which are required to meet future annuitant obligations.

CLC does not seek to minimise the impact of fluctuations of interest rates on shareholder capital earnings. As a result, the investment yield on CLC's shareholder capital will be impacted by changes in interest rates.

Interest rate sensitivity

The impact of movements in interest rates on Challenger's profit and loss and balance sheet are set out on page 44.

The sensitivities assume the change in variable occurs on 31 December 2019 and is based on assets and liabilities held at that date.

The impact of movements in interest rates is minimised through the use of interest rate swaps, Australian Government bonds, Semi Government bonds and bond futures. As a result, the interest rate sensitivities on page 44 show Challenger's profit is not materially sensitive to changes in base interest rates.

The sensitivities on page 44 do not include the impact of changes in interest rates on earnings from CLC's shareholder capital as investment earnings are earned over the period, whereas the sensitivities on page 44 assume a change in interest rates occurred on 31 December 2019.

Foreign exchange risk

It is Challenger's policy to seek to hedge the exposure of all balance sheet items for movements in foreign exchange rates.

Currency exposure arises primarily in relation to Life's investments in Europe (including the United Kingdom), Japan and the United States. As a result, currency risk arises primarily from fluctuations in the value of the euro, British pound, Japanese yen and US dollar against the Australian dollar.

In order to minimise foreign currency exchange rate risk, Challenger enters into foreign currency derivatives to limit Challenger's exposure to currency movements.

Foreign exchange sensitivity

The impact of movements in foreign currencies on Challenger's profit and loss and balance sheet are set out on page 44. As a result of foreign currency derivatives in place, Challenger's profit and loss is not materially sensitive to movements in foreign currency rates.

Challenger invests with a range of third party managers, for example absolute return fund managers. While Challenger does not actively seek to take foreign exchange risk, some foreign exchange exposure can be embedded in those third party managed portfolio's.

Funds Management financial results

$m	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Fidante Partners							
Fidante Partners income[1]	42.0	39.4	43.8	37.1	36.5	38.1	39.5
Performance fees	3.5	1.0	2.5	12.9	6.4	1.3	1.1
Net income	**45.5**	**40.4**	**46.3**	**50.0**	**42.9**	**39.4**	**40.6**
Challenger Investment Partners (CIP)							
CIP income[2]	32.2	34.3	28.9	29.2	29.1	29.3	24.7
Total net fee income	**77.7**	**74.7**	**75.2**	**79.2**	**72.0**	**68.7**	**65.3**
Personnel expenses	(31.7)	(32.9)	(31.9)	(32.4)	(29.9)	(30.7)	(31.9)
Other expenses	(18.1)	(17.0)	(17.2)	(16.0)	(15.0)	(13.6)	(12.7)
Total expenses	**(49.8)**	**(49.9)**	**(49.1)**	**(48.4)**	**(44.9)**	**(44.3)**	**(44.6)**
EBIT	**27.9**	**24.8**	**26.1**	**30.8**	**27.1**	**24.4**	**20.7**
Performance analysis							
Fidante Partners – income margin (bps)[3]	15	14	16	18	16	16	18
CIP – income margin (bps)[3]	32	36	31	32	34	38	34
Cost to income ratio	64.1%	66.8%	65.3%	61.1%	62.4%	64.5%	68.3%
Net assets – average[4]	232.5	221.8	212.3	201.6	194.9	185.4	176.9
ROE (pre-tax)	23.8%	22.6%	24.4%	30.8%	27.6%	26.5%	23.2%
Fidante Partners	62,693	58,912	56,330	59,630	56,031	50,960	46,958
Challenger Investment Partners	20,153	20,117	18,684	18,354	17,397	15,945	15,155
Closing FUM – total	**82,846**	**79,029**	**75,014**	**77,984**	**73,428**	**66,905**	**62,113**
Fidante Partners	60,887	58,173	58,621	57,559	54,120	48,791	44,815
Challenger Investment Partners	20,170	19,042	18,747	18,272	16,853	15,725	14,308
Average FUM – total[4]	**81,057**	**77,215**	**77,368**	**75,831**	**70,973**	**64,516**	**59,123**
FUM and net flows analysis							
Fidante Partners	1,943.4	(2,590.3)	(1,045.8)	1,375.3	2,497.0	2,384.8	1,741.0
Challenger Investment Partners	(63.8)	1,129.0	68.7	(8.4)	1,437.3	618.7	1,476.1
Net flows	1,879.6	(1,461.3)	(977.1)	1,366.9	3,934.3	3,003.5	3,217.1
Distributions	(464.7)	(353.0)	(441.7)	(318.6)	(339.1)	(248.2)	(256.0)
Market-linked movement	2,401.9	5,829.2	(1,550.7)	3,507.4	2,927.3	2,037.1	2,490.3
Total FUM movement	**3,816.8**	**4,014.9**	**(2,969.5)**	**4,555.7**	**6,522.5**	**4,792.4**	**5,451.4**

[1] Fidante Partners income includes equity-accounted profits, distribution fees, administration fees, and Fidante Partners Europe transaction fees.
[2] CIP income includes asset-based management fees and other income. Other income includes leasing fees, asset acquisition and disposal fees, development and placement fees.
[3] Income margin represents net income divided by average FUM.
[4] Calculated on a monthly basis.

Funds Management financial results

Funds Under Management and net flows

$m	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Funds Under Management						
Fidante Partners						
Equities	28,107	26,726	25,864	26,463	23,806	26,578
Fixed income	27,452	26,890	25,988	24,527	24,334	24,611
Alternatives	7,134	7,107	7,060	8,290	8,190	8,337
Total Fidante Partners	62,693	60,723	58,912	59,280	56,330	59,526
Challenger Investment Partners						
Fixed income	14,618	14,788	14,568	13,082	12,839	13,053
Property	5,535	5,448	5,549	5,723	5,845	5,654
Total Challenger Investment Partners	20,153	20,236	20,117	18,805	18,684	18,707
Total Funds Under Management	**82,846**	**80,959**	**79,029**	**78,085**	**75,014**	**78,233**
Average Fidante Partners	61,760	59,999	58,540	58,083	57,634	59,834
Average Challenger Investment Partners	20,247	20,110	19,308	18,717	18,814	18,670
Total average Funds Under Management[1]	**82,007**	**80,109**	**77,848**	**76,800**	**76,448**	**78,504**
Analysis of flows						
Equities	836	22	(2,345)	231	(67)	(44)
Fixed income	628	659	1,128	(238)	(167)	(447)
Alternatives	0	(201)	(1,327)	(39)	(166)	(155)
Total Fidante Partners	**1,464**	**480**	**(2,544)**	**(46)**	**(400)**	**(646)**
Challenger Investment Partners	(21)	(43)	1,120	9	(155)	224
Net flows	**1,443**	**437**	**(1,424)**	**(37)**	**(555)**	**(422)**

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

Reconciliation of total group assets and Funds Under Management

$m	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Funds Management Funds Under Management	82,846	80,959	79,029	78,085	75,014	78,233
Life investment assets	19,669	19,683	19,010	18,639	18,624	18,347
Adjustments to remove double counting of cross-holdings	(16,176)	(16,292)	(16,269)	(15,311)	(15,252)	(15,308)
Total Assets Under Management	86,339	84,350	81,770	81,413	78,386	81,272

Funds Management financial results

Funds Management focuses on building savings for retirement by providing investment strategies that seek to deliver superior investment returns. Funds Management has operations in Australia, the United Kingdom and Japan and is one of Australia's largest active investment managers[1].

Funds Management invests across a broad range of asset classes including fixed income, commercial property and Australian and global equities.

Funds Management is growing strongly, with funds under management (FUM) of $83bn at 31 December 2019, up from $55bn five years ago. Growth in FUM can be attributed to the strength of Challenger's retail and institutional distribution teams, a market-leading business model focused on investor alignment and strong long-term investment performance.

Funds Management comprises Fidante Partners and Challenger Investment Partners (CIP).

Fidante Partners is a multi-boutique platform and forms long-term alliances with investment teams to create, support and grow specialist asset management businesses. Fidante Partners' deep experience in asset management, extensive investor distribution networks and operational infrastructure enable investment teams to focus on managing investment portfolios.

Fidante Partners has been successful in attracting new investment managers, adding new investment strategies and building its manager and distribution footprint. In September 2019, Fidante announced a new strategic joint venture with global alternative asset manager, Ares Management Corporation (NYSE: ARES). The joint venture will provide Australian retail investors with access to alternative investment products managed by Ares Management Corporation.

Fidante Partners continues to expand its product offering by adding new boutique managers and accessing new distribution channels. In 2018, Fidante Partners launched the ActiveX Series, a series of actively managed exchange traded funds (ETFs). The series currently features fixed income active ETFs from Ardea and Kapstream.

CIP originates and manages assets for leading global and Australian institutions, including Challenger Life. CIP works with institutional clients on global opportunities, principally across fixed income and real estate investments. CIP's clients benefit from a broad product offering, deep market insights, strong investment performance and experienced investment teams.

EBIT and ROE

Funds Management EBIT was $28m and increased by $2m (7%) on 1H19. The increase in Funds Management EBIT was due to higher fee income (up $3m) partially offset by an increase in expenses (up $1m).

Net income benefited from higher FUM and performance fees, partially offset by lower transaction fees.

Funds Management ROE was 23.8% in 1H20 and decreased by 60 bps from 24.4% in 1H19. ROE was impacted by higher average net assets which were 10% higher than 1H19 due to capital supporting the growth in Funds Management's Japanese operations.

Total net fee income

1H20 total net income was $78m and increased by $3m (up 3%) on 1H20. Net fee income increased as a result of higher average FUM (up $3m or 5%) and higher performance fees (up $1m), offset by lower transaction fees (down $1m).

Expenses

1H20 Funds Management expenses were $50m and increased by $1m (1%) on 1H19. Personnel expenses remained unchanged on 1H19. Other expenses increased by $1m due to increased technology and communication costs.

The 1H20 cost to income ratio was 64.1% and decreased by 120 bps from 65.3% in 1H19.

Fidante Partners' net income

Fidante Partners' net fee income includes distribution fees, administration fees, transaction fees from Fidante Partners Europe, performance fees and a share in the equity-accounted profits of boutique investment managers.

Fidante Partners' net income was $46m in 1H20, down $1m from 1H19. Fidante Partners' net income benefited from higher FUM-based income (up $1m) and higher performance fees (up $1m), offset by lower Fidante Partners transaction fees (down $3m).

Fidante Partners' income margin (net income to average FUM) was 15 bps in 1H20, down 1 bps from 1H19. Fidante Partners' income margin was impacted by lower Fidante Partners Europe transaction fees (-1 bps).

Fidante Partners' FUM and net flows

Fidante Partners' FUM at 31 December 2019 was $62.7bn and increased by $3.8bn (6%) for the half year was due to:

- net flows of $1.9bn that included strong retail net inflows into fixed income boutiques; and
- positive investment markets (net of distributions) of $1.9bn due to favourable domestic and international equity markets.

Fidante Partners' 31 December 2019 FUM is invested in the following asset classes:

- 45% in equities (FY19 44%);
- 44% in fixed income (FY19 44%); and
- 11% in alternatives (FY19 12%).

Fidante Partners Europe

Fidante Partners includes a European alternative investments group comprising interests in a number of specialist boutique fund managers.

Fidante Partners Europe is an important part of Funds Management's international distribution and product expansion. It provides a scalable platform to replicate Fidante Partners' multi-boutique platform in Europe.

Fidante Partners Europe FUM was $6.9bn at 31 December 2019, up $99m for the half year. The increase in Fidante Partners Europe FUM was driven by positive investment markets.

[1] Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, September 2019.

Challenger Investment Partners' net income

Challenger Investment Partners' net income was $32m in 1H20 and increased by $3m (11%) on 1H19.

CIP's income margin (net income to average FUM) was 32 bps in 1H20 and was up 1 bps from 1H19. The increase in CIP's margin reflects higher property development and leasing fees.

Challenger Investment Partners' FUM and net flows

CIP's FUM at 31 December 2019 was $20.2bn and was unchanged from FY19 due to:

- net outflows of $0.1bn from a property disposal; and
- positive market movement of $0.1bn.

CIP's 31 December 2019 FUM is invested in the following asset classes:

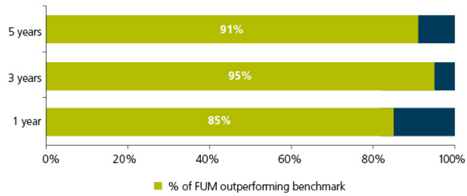
- 73% in fixed income (FY19 72%); and
- 27% in property (FY19 28%).

Third party clients accounted for ~22% of CIP's 1H20 FUM.

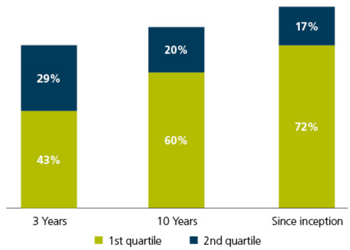
Funds Management investment performance

Investment performance represents the percentage of FUM meeting, or exceeding performance benchmarks for Fidante Partners' Australian boutiques and CIP, with performance weighted by FUM.

Long term performance for Fidante Partners Australian boutiques remains strong with 91% of FUM outperforming benchmark over five years. Over one year, 85% of FUM outperformed benchmark[1].



For Fidante Partners, 89% of funds have achieved either first or second quartile investment performance since inception[2]. Over the past ten years, 80% Fidante Partner's funds have achieved first or second quartile investment performance.



[1] As at 31 December 2019. Percentage of Fidante Partners Australian boutiques meeting or exceeding performance benchmark.

[2] Mercer as at December 2019.

Corporate financial results

$m	1H20	2H19	1H19	2H18	1H18	2H17	1H17
Other income	**0.2**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**
Personnel expenses	(18.1)	(19.6)	(19.0)	(21.7)	(20.1)	(20.7)	(17.8)
Other expenses	(9.8)	(4.8)	(5.5)	(4.6)	(5.8)	(6.1)	(5.8)
Total expenses (excluding LTI)	**(27.9)**	**(24.4)**	**(24.5)**	**(26.3)**	**(25.9)**	**(26.8)**	**(23.6)**
Long-term incentives (LTI)	(4.9)	(5.9)	(7.1)	(8.8)	(7.2)	(8.3)	(8.1)
Total expenses	**(32.8)**	**(30.3)**	**(31.6)**	**(35.1)**	**(33.1)**	**(35.1)**	**(31.7)**
Normalised EBIT	**(32.6)**	**(29.8)**	**(31.1)**	**(34.6)**	**(32.6)**	**(34.7)**	**(31.3)**
Interest and borrowing costs	(2.5)	(2.4)	(2.9)	(3.2)	(2.9)	(3.0)	(2.3)
Normalised loss before tax	**(35.1)**	**(32.2)**	**(34.0)**	**(37.8)**	**(35.5)**	**(37.7)**	**(33.6)**

The Corporate division comprises central functions such as Group executives, finance, treasury, legal, human resources, risk management and strategy.

Corporate also includes interest received on Group cash balances and any interest and borrowing costs associated with Group debt facilities.

Normalised EBIT

Corporate normalised EBIT was a loss of $33m in 1H20, up $2m on 1H19 as a result of higher expenses.

Other income

1H20 other income represents interest received on Group cash and was $0.2m in 1H20, down $0.3m on 1H19.

Group cash at 31 December 2019 was $141m, up $50m.

Total expenses

1H20 Corporate expenses were $33m and increased by $1m on 1H19.

Corporate expenses include personnel costs of $18m, which decreased by $1m on 1H19 and other expenses of $10m, which increased by $4m on 1H19 and is inclusive of insurance costs, professional fees, IT costs and industry levies.

Long-term incentive (LTI) costs relate to the non-cash amortisation of equity grants. LTI costs were $5m in 1H20 and decreased by $2m on 1H19 driven by the lapse of unvested equity awards.

Interest and borrowing costs

Interest and borrowing costs relate to debt facility fees on the Group's banking facility. 1H20 interest and borrowing costs were $3m and were unchanged on 1H19.

The Group maintains a $400m banking facility in order to provide financial flexibility. The Group banking facility was undrawn throughout 1H20.

Normalised Cash Operating Earnings framework

Life Normalised Cash Operating Earnings (COE) is Challenger's preferred profitability measure for the Life business, as it aims to reflect the underlying performance trends of the Life business.

The Life Normalised COE framework was introduced in June 2008 and has been applied consistently since.

The framework removes the impact of market and economic variables, which are generally non-cash and the result of external market factors. The normalised profit framework is subject to a review performed by Ernst & Young each half year.

Life normalised COE includes cash earnings plus normalised capital growth, but excludes investment experience (refer below).

Cash earnings

Cash earnings represents investment yield and other income, less interest expenses and distribution expenses.

Investment yield

Represents the investment return on assets held to match annuities and the return on shareholder investment assets.

Investment yield includes net rental income, dividend income, infrastructure distributions, accrued interest on fixed income and cash, and discounts/premiums on fixed income assets amortised on a straight-line basis.

Interest expense

Represents interest accrued at contracted rates to annuitants and Life subordinated debt holders and other debt holders.

Distribution expense

Represents payments made for the acquisition and management of Life's products, including annuities.

Other income

Other income includes revenue from Accurium and profits on Life Risk wholesale longevity and mortality transactions (refer to page 24).

Normalised capital growth

Normalised capital growth represents the expected capital growth for each asset class through the investment cycle and is based on Challenger's long-term expected investment returns for each asset class.

Normalised capital growth can be determined by multiplying the normalised capital growth assumption (see below) by the average investment assets for the period (net of debt).

Normalised capital growth assumptions for FY20 are as follows:

- Fixed income and cash – -35bps, representing an allowance for credit default losses;
- Property – 2.00%;
- Infrastructure – 4.00%; and
- Equity and other – 3.50% (down from 4.50% in FY19)

Normalised capital growth assumptions have been set with reference to long-term market growth rates and are reviewed regularly to ensure consistency with prevailing medium to long-term market returns.

Investment experience

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the profit and loss, particularly during periods of market volatility. As Challenger is generally a long-term holder of assets, due to them being held to match the term of life liabilities, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

Investment experience removes the volatility arising from asset and liability valuation movements so as to more accurately reflect the underlying performance of the Life business.

Investment experience includes both asset and liability experience and net new business strain.

Asset and liability experience

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised and based on fair value) and the normalised capital growth in relation to assets plus any economic and actuarial assumption changes in relation to policy liabilities for the period.

Changes in macroeconomic variables impact the value of Life's assets and liabilities. Macroeconomic variables and actuarial assumption changes include changes to bond yields, inflation factors, expense assumptions, and other factors applied in the valuation of life contract liabilities.

New business strain

In accordance with Australian Accounting Standards, Challenger Life values term annuities at fair value and lifetime annuities using a risk-free discount rate, both of which are based on the Australian Government bond curve plus an illiquidity premium.

Life tends to offer annuity rates which are higher than these rates. As a result, on writing new annuity business, a non-cash loss is recognised when issuing the annuity contract due to a lower discount rate used to value the liability. In addition, maintenance expense allowances over the expected future term of new business are also included in the policy liability valuation.

New business strain is a non-cash item and subsequently reverses over the future period of the contract. The new business strain reported in the period represents the non-cash loss on new sales net of the reversal of the new business strain of prior period sales.

Glossary of terms

Terms	Definitions
Additional Tier 1 regulatory capital	High-quality capital that provides a permanent and unrestricted commitment and is freely available to absorb losses, but does not satisfy all the criteria to be included in Common Equity Tier 1 regulatory capital.
Capital intensity ratio	CLC Prescribed Capital Amount (PCA) divided by Life investment assets.
Cash earnings (Life)	Investment yield and other income less interest and distribution expenses.
CET1 ratio	Common Equity Tier 1 regulatory capital divided by Prescribed Capital Amount.
Challenger Index Plus Fund	Liquid version of Guaranteed Index Return (GIR) product.
CIP income	Challenger Investment Partners (CIP) income includes asset-based management fees, and other income such as leasing fees, acquisition and disposal fees, development and placement fees.
Common Equity Tier 1 regulatory capital	The highest quality capital comprising items such as paid-up ordinary shares and retained earnings. Common Equity Tier 1 capital is subject to certain regulatory adjustments in respect of intangibles and adjusting policy liabilities.
Cost to income ratio	Total expenses divided by Normalised Cash Operating Earnings (Life) or Total net fee income (FM)
Distribution expenses (Life)	Payments made for the acquisition and management of annuities and other Life products.
Earnings per share (EPS)	Net profit after tax divided by weighted average number of shares in the period.
Fidante Partners' Income	Distribution and administration fees; Fidante Partners' share of boutique manager profits; and other income from boutique investment managers.
Funds Under Management (FUM)	Total value of listed and unlisted funds/mandates managed by the Funds Management business.
Group assets under management (AUM)	Total value of Life's investment assets and Funds Management FUM.
Group cash	Cash available to Group, excluding cash held by Challenger Life Company Limited.
Guaranteed Index Return (GIR)	Institutional mandate product providing guaranteed investment returns and backed by high grade fixed income.
Interest and borrowing costs (Corporate)	Interest and borrowing costs associated with group debt and group debt facilities.
Interest expenses (Life)	Interest accrued and paid to annuitants, subordinated debt note holders and other debt providers (including Challenger Capital Notes and Challenger Capital Notes 2).
Investment experience (Life)	Represents fair value movements on Life's assets and policy liabilities and net new business strain. Refer to page 54 for more detail.
Investment yield (Life)	Net rental income, dividends received and accrued interest and discounts/premiums on fixed income securities amortised on a straight-line basis.
Investment yield – shareholders' funds (Life)	Represents the return on shareholder capital held by the Life business.
Life annuity book growth	Net annuity policy capital receipts over the period divided by opening policy liabilities (Life annuity book).
Life book growth	Net annuity and other policy capital receipts over the period divided by the opening policy liabilities (Life annuity book, Guaranteed Index Return liabilities and Challenger Index Plus Fund liabilities).
Life investment assets	Total value of investment assets that are managed by the Life business.
Net annuity policy receipts	Life retail annuity sales less annuity capital payments.
Net assets – average	Average net assets over the period (excluding non-controlling interests) calculated on a monthly basis.
Net fee income (FM)	Fidante Partners' income and performance fees (FM) and Challenger Investment Partners' income and performance fees.
Net Interest Margin (NIM)	Net Interest Margin on term-funded prime mortgages and included as part of Life's investment assets.
Net management fees (FM)	Management fees for managing investments.

Glossary of terms

Terms	Definitions
Net tangible assets	Consolidated net assets less goodwill and intangibles.
New business tenor	Represents the maximum product maturity of new business sales. These products may amortise over this period.
Normalised capital growth	Long-term expected capital growth based on long-term return assumptions calculated as long-term capital growth assumption multiplied by average investment assets.
Normalised Cash Operating Earnings (NCOE) (Life)	Cash earnings plus normalised capital growth.
Normalised cost to income ratio	Total expenses divided by total net income.
Normalised dividend payout ratio	Dividend per share divided by normalised earnings per share (basic).
Normalised EBIT (FM)	Net income less total expenses.
Normalised EBIT (Life)	Normalised Cash Operating Earnings less total Life expenses.
Normalised net profit after tax (NPAT)	Statutory net profit after tax, excluding investment experience and net new business strain; and significant items (refer to page 54 for more detail on investment experience).
Normalised net profit before tax (NPBT)	Statutory net profit after tax, excluding normalised tax; investment experience and net new business strain; and significant items (refer to page 54 for more detail on investment experience).
Normalised Return On Equity (ROE) – pre-tax	Normalised Life EBIT, FM EBIT, and/or Normalised NPBT (Group) divided by average net assets.
Normalised Return On Equity (ROE) – post-tax	Group's normalised NPAT divided by average net assets.
Normalised tax rate	Normalised tax divided by normalised profit before tax.
Other expenses	Non-employee expenses, including external professional services, occupancy costs, marketing and advertising, travel, technology and communications costs.
Other income (Corporate)	Includes interest received on Group cash balances.
Other income (Life)	Relates to Accurium revenue and Life Risk. Refer to page 24 for more detail.
Performance fees (FM)	Fees earned for outperforming benchmarks.
Personnel expenses	Includes fixed and short-term variable incentive components of remuneration structures. The amortisation of long-term incentive plans is reported separately within the Corporate results.
Prescribed Capital Amount (PCA)	Amount of capital that a life company must hold which is intended to be sufficient to withstand a 1-in-200-year shock and still meet adjusted policy liabilities and other liabilities. For further details refer to APRA's LPS110 Capital Adequacy.
PCA ratio	The ratio of the total CLC Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.
Product cash margin (Life)	Represents the return on assets backing annuities and other income, less interest and distribution expenses.
Significant items	Non-recurring or abnormal income or expense items.
Statutory Return On Equity (ROE) – post-tax	Statutory NPAT divided by average net assets.
Tier 1 regulatory capital	Tier 1 regulatory capital comprises Common Equity Tier 1 regulatory capital and Additional Tier 1 regulatory capital.
Tier 2 regulatory capital	Tier 2 regulatory capital contributes to the overall strength of a Life Company and its capacity to absorb losses, but does not satisfy all the criteria to be included as Tier 1 regulatory capital.
Total expenses	Personnel expenses plus other expenses.
Total net income	Normalised Cash Operating Earnings (Life) plus net fee income (FM) plus other income (Corporate).

Key dates

Challenger Limited (CGF)	
Q3 20 Sales and AUM	16 April 2020
2020 Investor Day	18 June 2020
2020 Full-year financial results	11 August 2020
Q1 21 Sales and AUM	14 October 2020
2020 Annual General Meeting	29 October 2020

Challenger 2020 interim Dividend	
Ex-dividend date	25 February 2020
Record date	26 February 2020
DRP date	27 February 2020
Payment date	24 March 2020

Challenger 2020 Final Dividend	
Ex-dividend date	31 August 2020
Record date	1 September 2020
DRP date	2 September 2020
Payment date	23 September 2020