2019 Analyst Pack

Providing our customers with financial security for retirement

challenger.com.au
Challenger Limited ACN 106 842 371

challenger

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can be downloaded from Challenger's online Shareholder Centre

› challenger.com.au/shareholder

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Important note

Information presented in the 2019 (FY19) 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 2019 Annual Report is available from Challenger's shareholder centre at:

› www.challenger.com.au/shareholder

The 2019 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*. Challenger's external auditor, Ernst & Young, has reviewed the statutory net profit after tax as disclosed in the consolidated profit and loss. 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. The normalised profit framework is disclosed in the Operating Financial Review in the Directors' Report in the 2019 Annual Report. The normalised net profit after tax has 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, many of which are outside the control of, and are 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.

FY19 financial highlights[1]

Group	• Normalised net profit before tax $548m, up $1m • Normalised net profit after tax $396m, down 2% • Statutory net profit after tax $308m (including investment experience of -$88m), down 5% • Normalised EPS[2] 65.5 cents per share, down 4% • Statutory EPS 50.9 cents per share, down 6% • Net income $821m, down $1m • Expenses $267m, down $1m • Normalised cost to income ratio decreased by 10 bps to 32.6% • Group assets under management $81.8bn, up 1% • Normalised Return On Equity (pre-tax) 15.8%, down 70 bps • Full year dividend 35.5 cents per share (fully franked), unchanged • Normalised dividend payout ratio 54.2%
Life	• Cash Operating Earnings (COE) $670m, unchanged • COE margin 3.62%, down 31 bps • Expenses $107m, unchanged • EBIT[3] $564m, unchanged • Total Life sales $4.6bn, down 18% • Total Life book growth $475m, or 3.4% of opening liabilities • Annuity sales $3.5bn, down 11%, with domestic sales down 4% and Japan sales down 54% • Annuity book growth $686m, or 5.8% of opening liabilities • Average investment assets $18.5bn, up 9% • Normalised Return On Equity (pre-tax) 17.8%, down 70 bps • Prescribed Capital Amount (PCA) ratio 1.53 times, stable • Common Equity Tier 1 (CET1) ratio 1.06 times, up from 1.05 times • Capital intensity down 30 bps to 13.8%
Funds Management	• Net income $150m, down 1% • Net income excluding performance fees $146m, up 11% • Expenses $99m, up 6% • EBIT $51m, down 12% • EBIT excluding performance fees $47m, up 23% • Net flows -$2.4bn • Funds Under Management (FUM) $79.0bn, up 1% • Return On Equity (pre-tax) 23.5%, down 590 bps

[1] All percentage movements compare FY19 to the prior corresponding period (FY18) unless otherwise stated.
[2] Earnings per share (EPS).
[3] Earnings before interest and tax (EBIT).

Market overview and outlook

Challenger is an investment management firm focusing on providing customers with financial security for retirement.

Challenger has two businesses, Life and Funds Management, both providing products for Australia's growing superannuation system.

Australia's superannuation system commenced in 1992 and is now the fourth largest pension system globally, with pension assets having increased 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 currently 9.5% of gross salaries to 12.0% by 2025. The superannuation system is forecast to grow from $2.8 trillion today[2] and forecast to double over the next 10 years[3]. Growth in the superannuation system is also supported by changing demographics and the Government enhancing the retirement phase of superannuation.

Both Life and Funds Management are expected to benefit from 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], providing reliable guaranteed[5] incomes to approximately 60,000 Australian customers.

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 ~56% over the next 20 years[6].

Reflecting the demographic changes underway, and growth in Australia's superannuation system, the annual transfer from the retirement savings phase of superannuation to the retirement spending phase was estimated to be ~$67bn[7] in 2019. Industry annuity sales (term and lifetime annuities) currently represent approximately 5% of the annual transfer and lifetime annuities represent 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 toward 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 total financial wealth at retirement of $680,000[8], despite the system only being in place for half the working life of today's retirees.

There are a range of Government retirement income regulatory reforms that are being implemented and are currently being proposed (refer to page 29 for more detail), which 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 age pension. These 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, 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.

Life has a range of initiatives underway to build bottom-up customer demand for annuities and to increase the allocation of retirement savings made to annuities through retail financial advice.

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. As a result, 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 product innovator and, in 2019, was awarded the Association of Financial Advisers Annuity Provider of the Year, as well as the Long Term Income Stream and Annuity and Income Stream Innovation Award for its Deferred Lifetime Annuity product. Challenger is also recognised by 95%[9] of advisers as a leader in retirement incomes.

The Life business is resilient and well-positioned to capture the long-term growth opportunity through increased superannuation savings and a greater allocation made to annuities. Over the short term, the Australian wealth management and adviser market is being disrupted, which is impacting Life's domestic annuity sales.

Life relies on third party financial advisers, both independent and part of the major advice hubs[10], to distribute its products. Following the public hearings and completion of the Royal Commission into Misconduct in the Banking and Financial Services Industry (Royal Commission), there has been significant disruption across the Australian financial advice market which has reduced customer confidence in retail 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, with the March 2019 quarter being the lowest quarter in 15 years for retail flows[11].

[1] Willis Towers Watson Global Pension Study 2018.
[2] The Association of Superannuation Funds of Australia, Superannuation Statistics as at the end of March 2019.
[3] Rice Warner 2017 superannuation projections.
[4] Strategic Insights – March 2019 – based on annuities under administration at 31 March 2019.
[5] The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited from the assets of its relevant statutory fund.
[6] 2018 – 2038 comparison based on Australian Bureau of Statistics population projections series B, Cat No 3222.0.
[7] Australian Taxation Office.
[8] 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.
[9] Market Pulse Adviser Study December 2018.
[10] Major advice hubs include AMP and the wealth management operations of the major Australian banks.
[11] Strategic Insights – March 2019.

While Challenger was not called to give evidence at the Royal Commission and Life's customers are not questioning the quality of its products or services, the disrupted financial advice market is impacting third party financial advisers productivity and reducing the number of financial advisers. Despite this, Life's domestic annuity sales reduced by only 4% in FY19.

Life has a strong reputation with both consumers and advisers and is undertaking a range of initiatives to support sales while the financial advice market is being disrupted.

Life is engaging and educating customers to increase consumer understanding in order to build bottom-up demand. Initiatives include enhancing and simplifying its product offering, developing engagement and education initiatives and nurturing prospective clients.

Following the Royal Commission, the financial advice landscape is evolving and there are opportunities to improve the adviser experience. Challenger is evolving its service model to cater for an increased number of independent financial advisers and has a range of initiatives under way to support advisers by providing efficiencies and support in order to assist them meet client best interests duty requirements.

The profit-for-member sector of superannuation is growing strongly, and as their members transition to retirement, focus on providing retirement solutions to retiree 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. Refer to page 28 for more detail on the MS Primary and MS&AD Insurance Group Holdings Inc. (MS&AD) relationship.

MS Primary is a leading provider of annuity products in Japan and is part of the MS&AD group.

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

In March 2019, Challenger entered into a new agreement with MS Primary to commence reinsuring US-dollar annuities from 1 July 2019.

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[1,2].

MS&AD also announced its intention to increase its shareholding in Challenger to over 15% of issued capital and seek representation on the Challenger Limited Board. At 30 June 2019, MS&AD held ~16% of Challenger's issued capital and a representative from MS&AD is expected to join the Challenger Limited Board in early FY20.

Funds Management

Funds Management focuses on building savings for retirement by providing products seeking to deliver superior investment returns. Funds Management is one of Australia's largest[3] active fund managers.

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.

The Fidante Partners business model involves taking minority equity interests in separately branded, boutique fund management firms, with Challenger providing the distribution, administration and business support, leaving investment managers to focus on managing investment portfolios.

Challenger's Fidante Partners business model has allowed it to attract and build successful alliances with traditional and alternative investment managers.

Fidante Partners has operations in Australia and the United Kingdom. Fidante Partners is authorised and regulated by the Financial Conduct Authority in the United Kingdom and also holds a registration as a broker-dealer with the Financial Industry Regulatory Authority in the United States.

Fidante Partners is expanding its product offering by adding new boutiques and accessing new distribution channels. During FY19, new products were added, including new boutiques and new investment strategies, and Fidante Partners launched its first actively managed exchange traded fund.

Funds Management also includes Challenger Investment Partners (CIP), a manager that principally originates and manages fixed income and property assets for leading global and Australian institutions, including Challenger Life. CIP clients benefit from the broad product offering and market insights CIP gains through its experienced team and scale of its investment business.

Funds Management is also expanding its presence in Japan, with Challenger opening a Tokyo office in order to support the MS&AD strategic relationship and to develop distribution opportunities in the region. A Japanese real estate funds management licence and an investment advisory licence have been granted, which will facilitate distribution of investment products in Japan.

Funds Management is expected to continue to benefit from the overall growth in Australia's superannuation system and Challenger's 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; and
- general uncertainty around the global economy and its impact on markets in which Challenger operates and invests.

[1] Challenger Life has entered into a new agreement with MS Primary to commence reinsuring the US dollar version of the 20-year term product. 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.

[2] Subject to review in the event of a material adverse change for either MS Primary or Challenger Life and based on the exchange rate as at 30 June 2019.

[3] Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, March 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 our customers with excellent funds management solutions; and
- maintain leading operational and people practices.

To provide our customers with financial security for retirement

Increase the use of secure retirement income streams

Lead the retirement incomes market and be the partner of choice

Provide our customers with excellent funds management solutions

Maintain leading operational and people practices

FY19 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.

FY19 progress includes:

- Australian annuity sales down 4%;
- Term annuities sales down 6%
- Lifetime annuity sales unchanged; and
- Japan annuity sales down 54%.

Significant financial advice market disruption

In FY19, Challenger's Australian annuity sales reduced by 4% as a result of disruption to the wealth management and financial advice industry following the Royal Commission. The major financial advice hubs[1] have been more impacted than independent financial advisers, and as a result Challenger annuity sales via major hubs reduced by 16% on FY18 and represented 62% of Challenger's total Australian annuity sales.

Partially offsetting the decline in sales by major advice hubs was strong growth in sales by independent financial advisers (IFAs), which increased by 26% on FY18. Growth in IFA sales reflect the evolution of the advice industry over the past 12 months, with advisers moving from the major hubs to independent advice groups. Challenger is evolving its service model to support an increased proportion of advisers being independent and not aligned to the major financial advice hubs.

[1] Major advice hubs include AMP and the wealth management operations of the major Australian banks.

Life sales mix and focus on long-term products

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

In FY19, long-term annuity sales, which represent Australian lifetime annuities and fixed term annuities distributed through MS Primary in Japan, represented 32% of total annuity sales, down from 36% in FY18. The reduction in long-term annuity sales relates to lower MS Primary Australian dollar annuity sales as a result of higher US interest rates relative to Australia. The higher relative US interest rates increased demand for US-dollar products and reduced demand for Australian-dollar denominated products.

Long-term annuity sales are expected to benefit from a new reinsurance agreement with MS Primary that commenced on 1 July 2019 and includes US dollar annuity reinsurance (refer to page 28 for more detail), and new means test rules that support lifetime income streams (refer to page 29 for more detail).

Solid lifetime annuity sales in disrupted advice market

Despite the significant disruption occurring in the Australian financial advice market, Challenger’s lifetime annuity sales were unchanged from FY18. Lifetime sales by major financial advice hubs were down 22% on FY18, reflecting the industry disruption, while lifetime sales by independent financial advisers increased by 35%.

Lifetime annuity sales are benefiting from rising superannuation savings and retirees taking less risk in retirement and placing more value on lifetime income streams. Sales of CarePlus, a lifetime annuity specifically designed for the aged care market, are benefiting from demographic trends with approximately 300 older Australians entering home or residential care each day.

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.

From 1 July 2019, new pension means test rules commenced for lifetime income stream products. The new means test rules are expected 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.

Following the Australian federal election in May 2019, the Government has indicated it is considering accepting the Productivity Commission’s recommendation for an independent review of Australia’s retirement income system. The terms of reference and timeline for the review have not yet been released.

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

Maintaining thought leadership position

As a key thought leader in retirement incomes in Australia, Challenger works with industry and consumer organisations and the Government to develop policy outcomes that will provide Australians with financial security for retirement.

In FY19, Challenger partnered with National Seniors Australia to understand retirees’ attitudes to and confidence in managing the financial aspects of retirement. Challenger has also supported the Council of the Ageing (COTA) to explore consumer-related retirement income issues.

Throughout FY19, Challenger published a range of thought leadership papers; made presentations; and conducted workshops focusing on retirement income policy settings and outcomes.

Lead the retirement incomes market and be the partner of choice

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

FY19 progress includes:

Leading adviser ratings

Among Australian financial advisers, Challenger continues to be the most recognised retirement income provider with 95%[2] of financial advisers rating Challenger as a leader in retirement income.

Challenger's leadership position in retirement increased by 2 percentage points over the year, despite the adviser and industry disruption. Challenger's retirement income leadership position, which is important in supporting new distribution relationships, is 36 percentage points above its nearest competitor and has increased by 31 percentage points over the past 8 years.

In 2019, Wealth Insights undertook an analysis to compare the service level of Challenger Annuities to the broader Australian funds management market. When compared to the market, Challenger annuities rated number one across six key categories, including Overall Adviser Satisfaction (4th consecutive year); BDM Team (8th consecutive year); Adviser Contact Centre (4th consecutive year); Image and Reputation (4th consecutive year); Technical Services (4th consecutive year) and Website (3rd consecutive year).

Increased product access via investment and administration platforms

Challenger's strategic priorities include making its annuity products available on leading investment and administration platforms, allowing 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 easily create solutions that combine lifetime income streams with other products, such as account-based pensions.

In FY19, Challenger's full range of annuity products were made available via BT Panorama, and leading independent platforms HUB24 and Netwealth. By making annuities available via platform, it makes it simple and easy for advisers to include secure and stable income streams in their client portfolios.

These new annuity relationships further expand Challenger's distribution reach, with Challenger annuities now available on a wide range of traditional retail hub platforms and the fast-growing independent platform market. Challenger annuities are now available to over 70% of Australian financial advisers via their primary investment and administration platform.

New brand campaign

In June 2019, Challenger launched a new integrated consumer brand campaign that responds to extensive adviser and consumer research undertaken. The new integrated campaign focuses on building product familiarity, with annuities an important component to creating confidence in retirement. Previous brand campaigns have focused on building Challenger brand awareness rather than promoting product familiarity.

Investing in new customer and adviser growth initiatives

In FY20, Challenger will invest up to $15 million in a range of new initiatives to drive the next phase of growth. Research conducted in FY19 identified two areas of focus to drive growth, which centred around building bottom-up customer demand and increasing the allocation made to annuities via retail financial advice.

Customer research showed that improving understanding of annuities leads to a higher consideration of them in retirement. A range of customer initiatives has been identified and will be implemented in FY20 with a focus on greater engagement and education on retirement income and the role annuities can play, which is expected to build more bottom-up customer demand. Challenger will also be investing in improving the adviser experience to drive increased use of annuities in financial advice. Investment will focus on increasing efficiency for advisers and providing more tailored marketing and sales support to better

[1] Strategic Insights – March 2019 – based on annuities under administration at 31 March 2019.
[2] Marketing Pulse Adviser Study December 2018.

meet the needs of more diverse financial advice groups, including independent financial advisers.

In FY19, Challenger also simplified its product offering, including removing over 1,000 lifetime product permutations from its Liquid Lifetime product range. Product positioning was also refined, with improved marketing collateral. Simplifying the product offering is expected to assist both consumers and advisers in their understanding of Challenger's products.

Provide our customers with excellent funds management solutions

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

FY19 progress includes:

Maintaining superior investment performance

Funds Management has a long track record of achieving superior investment performance, which has helped in attracting superior net flows. Long-term performance for Fidante Partners Australian boutiques and CIP remains strong with 93% of FUM outperforming benchmark over five years[1].

For Fidante Partners, over the past 10 years, 80% of funds have achieved either first or second quartile investment performance[2], with most funds performing well above average. Over three years, 76% of funds achieved first or second quartile investment performance.

Adding new boutiques and investment strategies

Fidante Partners continues to expand its product offering by adding new boutiques and new investment strategies for existing managers. In April 2019, Eiger Capital, a new Australian small cap boutique, was formed through partnering with an experienced and highly rated small caps team.

During FY19, Funds Management expanded its product offering:

- Ardea Investment Management commenced development of the High Alpha Real Outcome Fund, which is a higher returning version of the flagship Ardea Real Outcome Fund;
- Kapstream launched the Kapstream Absolute Return Income Plus strategy, which targets an absolute return of 3–4% above the cash rate;
- Whitehelm Capital launched the Smart City Infrastructure Fund backed by Dutch pension fund APG; and
- Eiger Capital launched its flagship Australian Small Companies Fund, which aims to outperform its benchmark over rolling five-year periods.

Award-winning investment strategies

The quality of Fidante Partners' investment managers continues to be externally recognised. During FY19, the following funds won investment manager awards:

- Ardea Investment Management – Kanganews Australian Rates Fund Manager of the Year (2018);
- Bentham Asset Management – Money Magazine Best of the Best Award for Best Income Fund (2019);
- Greencape Capital – Money Magazine Best of the Best Award for Best Australian Share Fund (2019);
- Kapstream – Kanganews Australian Credit Fund Manager of the Year (2018);
- Lennox Capital Partners – SuperRatings & Lonsec Rising Star Award (2018); and
- Lennox Capital Partners – Lonsec/Money Management Emerging Manager of the Year (2019).

[1] As at 30 June 2019. Percentage of Funds Management Australian boutiques and CIP funds meeting or exceeding performance benchmark over five years.
[2] Mercer as at March 2019.

Highly rated investment products

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

- 39% 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
- 95% of ratings are a 'buy' rating compared to an average of approximately 70% across the Australian funds management industry.

Expanding capability into exchange traded fund (ETF) market

There is strong demand from investors for simple and easy-to-access liquid investment products. ETFs have experienced very 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 identified an opportunity to expand ETF usage to active manager products.

In December 2018, Fidante Partners launched one of Australia's first active fixed income ETFs, the ActiveX Ardea Real Outcome Bond Fund (Managed Fund) (ASX: XARO). The fund was listed on the Australian Securities Exchange (ASX) in December 2018 and is managed by Ardea Investment Management.

Fidante Partners is well advanced to launch more ETFs for its boutique managers, which are expected to be rolled out progressively throughout FY20.

Expanding into Japanese funds management market

Funds Management is expanding its presence in Japan. Following the opening of a Tokyo office to support the MS&AD strategic relationship, in 2H18 the business was granted a licence to manage real estate assets in Japan. In late March 2019, the Funds Management business was granted an investment advisory and agency business licence, which enables it to introduce Fidante Partners and CIP investment capabilities into the Japanese market. Following granting of the relevant investment licences, Funds Management has assumed responsibility for managing Life's Japanese commercial property portfolio and is well progressed to start managing Japanese property on behalf of its third party client base.

Challenger Investment Partners (CIP) Credit Income Fund

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

In October 2017, CIP launched its first fund, the CIP Credit Income Fund. The fund is a floating rate, multi-sector credit income strategy that invests in 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 diversifying investment without taking excessive credit or interest rate risk.

The Credit Income Fund is performing strongly and since inception has outperformed its benchmark, which is a return of 3% above the Bank Bill rate and is currently ranked top quartile in relevant investment surveys. Importantly, the fund has demonstrated its defensive characteristics during periods of heightened market volatility during the year.

Reflecting the success of the fund, during FY19 the fund continued to attract interest from institutions looking to benefit from the enhanced yield without taking excessive credit risk. As a result of investor interest, distribution of the fund will be expanded to target high-net-worth investors.

[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 and a strong risk and compliance culture is essential for providing customers and shareholders with superior outcomes.

FY19 progress includes:

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's latest employee engagement survey, which was conducted by Willis Towers Watson in March 2019, recorded a sustainable employee engagement score of 84%, which was above both the Australian Company and Global Financial Services Norm.

Challenger's employee engagement survey also measured employee attitudes to important matters such as risk culture and views on diversity and flexibility. Challenger's risk culture score was 85%, which was well above all Willis Towers Watson benchmarks, including the Global High Performance Norm.

Diversity and gender pay equality

Challenger seeks to create an inclusive workforce and values the capability and experience that diversity brings to the organisation. 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 30 June 2019, Challenger had 37% of management roles held by women.

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

During FY19, Challenger was recognised as an Employer of Choice for Gender Equality (WGEA) for the second year running. Challenger's commitment to diversity was recognised in Challenger's March 2019 employee engagement survey, with a diversity and flexibility engagement score of 94%, which was well above all Willis Towers Watson benchmarks, including the Global High Performance Norm.

Flexible work

Challenger has a focus on providing its employees with flexibility. At the end of FY19, almost 90 employees moved to a formal flexible working arrangement, representing approximately 15% of Challenger's people. In addition, a large number of men and women took 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%. The cost to income ratio in FY19 was a record low of 32.6% and has fallen by 12 percentage points over the past 10 years.

Challenger maintains one of the leading cost to income ratios in the Australian wealth management industry.

Enhancing sustainability capability

At Challenger, being sustainable is about addressing environmental, social and governance (ESG) opportunities and risks that have the potential to affect Challenger's vision to provide financial security for retirement.

Challenger has made significant progress during the year on implementing priorities under its sustainability strategy and this is highlighted in Challenger's Sustainability Report.

Challenger continues to be a constituent of the FTSE4Good index and a signatory to the Principles for Responsible Investment (PRI). In 2019, Challenger received an overall score for its 2019 FTSE4Good assessment of 4.3 out of 5 (up from 4.1 in 2018). This ranks Challenger at the 87 percentile for companies within the insurance FTSE industry classification benchmark sector.

Challenger has adopted an integrated investment management approach to deliver responsible investment outcomes and believes there are links between long-term sustainable returns and the quality of an organisation’s ESG practices.

In FY19, ESG capability was increased across Challenger with the appointment of specialist resources. In addition, Challenger Life Company Limited (CLC) released a Responsible Investment statement in May 2019 outlining Challenger's approach to ESG risks and opportunities in investment analysis and decision-making.

Challenger continued to support Fidante Partners to develop ESG practices across their boutique firms. As a result, most of the boutiques have become signatories to the Principles for Responsible Investing and many have developed standalone ESG policies. Challenger has also supported a number of boutiques in documenting their own responsible investment policies.

Commitment to reducing impact on the environment

Challenger is committed to reducing the environmental impact of its operations and offsets all known greenhouse gas emissions, making Challenger’s business operations carbon neutral. In FY19, Challenger extended its emissions boundary to include scope 2 and scope 3 emissions from its overseas offices, and the emissions calculation was independently verified. In FY19, greenhouse emissions were 4% lower than in FY18 and electricity usage in Challenger’s three largest offices (Sydney, Melbourne and Hobart) reduced by 5%.

Key performance indicators

	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Earnings									
Normalised NPBT ($m)	548.3	547.3	505.0	278.3	270.0	272.7	274.6	250.9	254.1
Normalised NPAT ($m)	396.1	406.1	384.9	196.3	199.8	198.2	207.9	188.3	196.6
Statutory NPAT ($m)	307.8	322.5	397.6	301.7	6.1	127.1	195.4	196.1	201.5
Underlying operating cash flow ($m)	236.9	197.4	299.9	133.2	103.7	143.6	53.8	131.4	168.5
Normalised cost to income ratio (%)	32.6%	32.7%	33.4%	32.5%	32.7%	33.2%	32.1%	33.9%	32.9%
Normalised effective tax rate (%)	27.8%	25.8%	23.8%	29.5%	26.0%	27.3%	24.3%	24.9%	22.6%
Earnings per share (cents)									
Basic – normalised	65.5	68.1	68.5	32.4	33.1	32.9	35.2	33.5	35.0
Basic – statutory	50.9	54.0	70.7	49.8	1.0	21.1	33.1	34.9	35.8
Diluted – normalised	56.0	64.2	65.8	27.8	30.1	30.9	33.8	32.1	33.3
Diluted – statutory	44.8	52.2	67.8	41.2	1.0	20.9	31.9	33.4	34.1
Return On Equity (%)									
Normalised ROE – pre-tax	15.8%	16.5%	18.3%	16.2%	15.6%	16.1%	16.8%	18.0%	18.7%
Normalised ROE – post-tax	11.4%	12.2%	14.0%	11.4%	11.5%	11.7%	12.7%	13.5%	14.5%
Statutory ROE – post-tax	8.9%	9.7%	14.4%	17.5%	0.3%	7.5%	11.9%	14.0%	14.8%
Capital management									
Net assets – average[1] ($m)	3,462	3,323	2,754	3,469	3,443	3,419	3,249	2,818	2,694
Net assets – closing ($m)	3,600	3,485	2,888	3,600	3,388	3,485	3,470	2,888	2,781
Net assets per basic share ($)	5.94	5.79	5.14	5.94	5.60	5.79	5.75	5.14	4.95
Net tangible assets ($m)	3,019	2,893	2,300	3,019	2,793	2,893	2,878	2,300	2,192
Net tangible assets per basic share ($)	4.98	4.81	4.09	4.98	4.61	4.81	4.77	4.09	3.90
Dividend (cps)	35.5	35.5	34.5	18.0	17.5	18.0	17.5	17.5	17.0
Dividend franking (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Normalised dividend payout ratio (%)	54.2%	52.1%	50.4%	55.6%	52.9%	54.7%	49.7%	52.2%	48.6%
Sales, net flows and assets under management									
Life annuity sales ($m)	3,543.1	4,000.7	4,011.2	1,402.6	2,140.5	1,711.2	2,289.5	1,815.1	2,196.1
Other Life sales ($m)	1,006.9	1,554.9	941.2	407.1	599.8	520.4	1,034.5	378.9	562.3
Total Life sales ($m)	4,550.0	5,555.6	4,952.4	1,809.7	2,740.3	2,231.6	3,324.0	2,194.0	2,758.4
Life annuity flows ($m)	685.8	1,392.7	900.4	192.3	493.5	634.5	758.2	451.5	448.9
Life annuity book ($m)	12,870	11,728	10,322	12,870	12,324	11,728	11,116	10,322	9,785
Life annuity book growth (%)	5.8%	13.5%	9.4%	1.6%	4.2%	6.2%	7.3%	4.7%	4.7%
Total Life flows ($m)	474.8	1,796.3	1,312.9	(108.9)	583.7	848.4	947.9	469.5	843.4
Total Life book[2] ($m)	14,836	13,863	12,010	14,836	14,496	13,863	13,025	12,010	11,418
Total Life book growth (%)	3.4%	15.0%	12.1%	(0.8%)	4.2%	7.1%	7.9%	4.3%	7.8%
Funds Management – net flows ($m)	(2,438.4)	5,301.2	6,220.6	(1,461.3)	(977.1)	1,366.9	3,934.3	3,003.5	3,217.1
Total Group AUM ($m)	81,770	81,143	69,988	81,770	78,386	81,143	76,523	69,988	64,705
Other									
Headcount – closing FTEs[3]	687	676	655	687	675	676	682	655	632
Weighted average number of basic shares on issue (m)	605.0	596.7	562.2	605.7	604.4	602.2	591.1	562.1	562.3
Number of basic shares on issue (m)	605.8	601.7	561.9	605.8	605.4	601.7	603.3	561.9	562.3
Share price closing ($)	6.64	11.83	13.34	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	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Cash earnings	515.0	539.1	526.4	263.5	251.5	262.7	276.4	261.1	265.3
Normalised capital growth	155.1	130.5	105.0	77.0	78.1	70.8	59.7	53.9	51.1
Normalised Cash Operating Earnings (COE)	**670.1**	**669.6**	**631.4**	**340.5**	**329.6**	**333.5**	**336.1**	**315.0**	**316.4**
Net fee income	149.9	151.2	134.0	74.7	75.2	79.2	72.0	68.7	65.3
Other income	1.0	1.0	0.8	0.5	0.5	0.5	0.5	0.4	0.4
Total net income	**821.0**	**821.8**	**766.2**	**415.7**	**405.3**	**413.2**	**408.6**	**384.1**	**382.1**
Personnel expenses	(185.3)	(187.8)	(179.3)	(93.2)	(92.1)	(96.8)	(91.0)	(91.4)	(87.9)
Other expenses	(82.1)	(80.6)	(76.6)	(41.8)	(40.3)	(40.5)	(40.1)	(38.8)	(37.8)
Total expenses	**(267.4)**	**(268.4)**	**(255.9)**	**(135.0)**	**(132.4)**	**(137.3)**	**(131.1)**	**(130.2)**	**(125.7)**
Normalised EBIT	**553.6**	**553.4**	**510.3**	**280.7**	**272.9**	**275.9**	**277.5**	**253.9**	**256.4**
Interest and borrowing costs	(5.3)	(6.1)	(5.3)	(2.4)	(2.9)	(3.2)	(2.9)	(3.0)	(2.3)
Normalised profit before tax	**548.3**	**547.3**	**505.0**	**278.3**	**270.0**	**272.7**	**274.6**	**250.9**	**254.1**
Normalised tax	(152.2)	(141.2)	(120.1)	(82.0)	(70.2)	(74.5)	(66.7)	(62.6)	(57.5)
Normalised profit after tax	**396.1**	**406.1**	**384.9**	**196.3**	**199.8**	**198.2**	**207.9**	**188.3**	**196.6**
Investment experience after tax	(88.3)	(76.0)	12.7	105.4	(193.7)	(63.5)	(12.5)	7.8	4.9
Significant items after tax[1]	-	(7.6)	-	-	-	(7.6)	-	-	-
Statutory net profit after tax	**307.8**	**322.5**	**397.6**	**301.7**	**6.1**	**127.1**	**195.4**	**196.1**	**201.5**
Performance analysis									
Normalised earnings per share – basic (cents)	65.5	68.1	68.5	32.4	33.1	32.9	35.2	33.5	35.0
Shares for basic EPS calculation (m)	605.0	596.7	562.2	605.7	604.4	602.2	591.1	562.1	562.3
Normalised cost to income ratio (%)	32.6%	32.7%	33.4%	32.5%	32.7%	33.2%	32.1%	33.9%	32.9%
Normalised tax rate (%)	27.8%	25.8%	23.8%	29.5%	26.0%	27.3%	24.3%	24.9%	22.6%
Total net income analysis (%)									
Cash earnings (Life)	62.7%	65.6%	68.7%	63.4%	62.1%	63.6%	67.7%	68.0%	69.4%
Normalised capital growth (Life)	18.9%	15.9%	13.7%	18.5%	19.3%	17.1%	14.6%	14.0%	13.4%
Net fee income (Funds Management)	18.3%	18.4%	17.5%	18.0%	18.5%	19.2%	17.6%	17.9%	17.1%
Other income (Corporate)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Normalised EBIT by division ($m)									
Life	563.6	562.7	531.2	285.7	277.9	279.7	283.0	264.2	267.0
Funds Management	50.9	57.9	45.1	24.8	26.1	30.8	27.1	24.4	20.7
Corporate	(60.9)	(67.2)	(66.0)	(29.8)	(31.1)	(34.6)	(32.6)	(34.7)	(31.3)
Normalised EBIT	**553.6**	**553.4**	**510.3**	**280.7**	**272.9**	**275.9**	**277.5**	**253.9**	**256.4**

[1] 2H18 significant items (after tax) represents $14m (after tax) of one-off expenses, including the impairment of residual software and a Fidante Partners boutique following its closure and restructure costs, offset by $6m (after tax) of 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

FY19 normalised profit after tax was $396m and decreased by $10m (2%) from $406m in FY18. The decrease in normalised profit after tax reflects a small increase in normalised profit before tax (up $1m), offset by higher normalised tax (up $11m) as a result of a higher normalised effective tax rate.

Normalised earnings per share (EPS)

Normalised EPS decreased by 4% in FY19 to 65.5 cps. The decrease in normalised EPS reflects lower normalised profit after tax (down 2%) and an increase in the weighted average number of shares on issue. The weighted average number of shares on issue increased by 8m (1%) shares in FY19.

Net income

Total net income was $821m in FY19, and was down $1m on FY18, with:

- Life Cash Operating Earnings (COE) stable at $670m, with higher average investment assets offset by a lower COE margin; and
- Funds Management fee income decreased by $1m, with higher underlying FUM-based and transaction fee income offset by lower Fidante Partners performance fees.

Expenses

FY19 total expenses were $267m and reduced by $1m on FY18. The reduction in expenses primarily related to higher other costs (up $2m), offset by lower personnel expenses (down $3m).

The FY19 normalised cost to income ratio was a record low of 32.6% and decreased by 10 bps on FY18. The FY19 normalised cost to income ratio is toward the mid-point of Challenger's target range of between 30% and 34%.

Challenger has a highly scalable business and is one of Australia's most efficient financial services companies. Over the past 10 years, Challenger's normalised cost to income ratio has fallen by 12 percentage points.

Normalised EBIT

FY19 normalised EBIT was $554m and was stable on FY18. Higher Life EBIT (up $1m) and Corporate EBIT (up $6m), was offset by lower Funds Management EBIT (down $7m).

Life EBIT was stable at $564m and reflected higher average investment assets, offset by a reduction in Life's COE margin. Life’s FY19 COE margin fell 31 bps to 3.62% reflecting lower distributions on Life’s equity portfolio and a change in portfolio composition as a result of Life reducing its property allocation from 21% to 18% in FY19 (refer to page 23 for more detail).

Funds Management EBIT decreased by $7m (down 12%) to $51m, with higher average FUM (up 6%) driving strong growth in underlying earnings, which was more than offset by lower performance fees (down $16m). Excluding performance fees, Funds Management EBIT increased by 23%.

Corporate EBIT improved by $6m (up 9%) due to lower expenses, which benefited from both lower personnel and lower long term incentive costs.

Normalised Return On Equity (ROE)

FY19 normalised ROE (pre-tax) was 15.8% and decreased by 70 bps on FY18. The lower normalised ROE reflects marginally higher normalised net profit before tax, offset by higher levels of capital. Group net assets were 3% higher in FY19.

Normalised tax

Normalised tax was $152m in FY19 and increased by $11m on FY18. The higher normalised tax reflects a higher normalised effective tax rate.

The FY19 normalised effective tax rate was 27.8% (up 2%) and reflects the composition of Challenger’s business. This includes a combination of domestic earnings (generally taxed at 30%) and offshore earnings (generally taxed at rates below 30%).

The normalised effective tax rate was at the top end of Challenger’s normalised tax rate target of between 26% and 28%.

Investment experience after tax

Challenger Life 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 annuities (refer to page 54 for more detail).

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

FY19 investment experience was a loss of $88m (after tax). Refer to page 25 for more detail.

Significant items

There were no significant items in FY19.

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 $308m in FY19, down from $323m in FY18. FY19 statutory net profit after tax includes an after-tax investment experience loss of $88m.

Dividends

FY19 dividend

The Board has declared a final FY19 dividend of 18.0 cps (fully franked), bringing the full year dividend to 35.5 cps (fully franked) and was unchanged on the FY18 full year dividend.

Dates for the final FY19 dividend are as follows:

- ex-date: 30 August 2019;
- record date: 2 September 2019;
- Dividend Reinvestment Plan (DRP) election date: 3 September 2019; and
- dividend payment date: 25 September 2019.

The FY19 dividend payout ratio was 54.2%, which is above Challenger's normalised dividend payout ratio target of between 45% and 50% of normalised profit after tax. The payout ratio is currently above the target reflecting the resilience of Challenger's business and its strong capital position.

Challenger has a Dividend Reinvestment Plan (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 30 June 2019 was $89m.

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 interim FY19 dividend (paid in March 2019) was 3% 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 interim FY19 dividend, the DRP had the effect of reducing the effective cash dividend payout ratio by approximately 2%.

For the final FY19 dividend (to be paid in September 2019), new Challenger shares will be issued in order to fulfil DRP requirements and will also be issued based on a 10-day VWAP, with no share price discount applied.

Credit ratings

In December 2018, 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.

FY20 outlook

Normalised profit before tax

Challenger provides normalised profit before tax guidance, which is expected to be in a range of $500m to $550m for FY20 and includes:

- lower equities normalised growth assumption in FY20 (-$23m impact – refer to page 53 for more detail);
- investing up to $15m in a range of Distribution, Product and Marketing initiatives (refer to pages 6 and 7 for more detail); and
- lower interest rates reducing the return on shareholder capital.

Normalised Return On Equity (ROE)

Commencing in FY20, the Group's normalised ROE (pre-tax) target was revised from 18% to be based on the Reserve Bank of Australia (RBA) cash rate plus a margin of 14%. The change in ROE target reflects the structural change in interest rates, which are expected to be lower for longer. Using a ROE target based on the RBA cash rate (currently 1.00%) removes the interest rate impact from the ROE target.

There has been no change to how the target is applied in business decision-making including capital allocation, annuity pricing and business case assessment.

Normalised cost to income ratio

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%.

In FY20, Challenger expects to exceed the normalised cost to income ratio target as a result of the ~$15m of Distribution, Product and Marketing initiatives being undertaken to drive demand for annuities. Excluding these initiatives, organic expense growth in FY20 is expected to be less than 5%.

Normalised effective tax rate

The FY20 normalised effective tax rate is expected to be between 28% and 30%.

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.

Reflecting the resilience of Challenger's business and its strong capital position, in FY20 the Challenger Limited 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.

Group balance sheet[1]

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

Change in Group net assets

$m	2H19	1H19	2H18	1H18	2H17	1H17
Opening net assets	**3,387.9**	**3,485.4**	**3,469.5**	**2,888.1**	**2,780.5**	**2,680.9**
Statutory net profit after tax	301.7	6.1	127.1	195.4	196.1	201.5
Dividends paid	(106.4)	(109.4)	(106.1)	(99.5)	(96.3)	(93.3)
New share issue	3.4	3.4	3.3	503.3	3.9	4.1
Reserve movements	13.7	(32.7)	14.2	(31.0)	13.4	(22.0)
CPP[4] Trust movements	-	35.1	(22.6)	13.2	(9.5)	9.3
Closing net assets	**3,600.3**	**3,387.9**	**3,485.4**	**3,469.5**	**2,888.1**	**2,780.5**

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

Issued share capital, dilutive share count and earnings per share

	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Earnings per share (cents)									
Basic – normalised	65.5	68.1	68.5	32.4	33.1	32.9	35.2	33.5	35.0
Basic – statutory	50.9	54.0	70.7	49.8	1.0	21.1	33.1	34.9	35.8
Diluted – normalised	56.0	64.2	65.8	27.8	30.1	30.9	33.8	32.1	33.3
Diluted – statutory	44.8	52.2	67.8	41.2	1.0	20.9	31.9	33.4	34.1
Number of shares (m)									
Basic share count	605.8	601.7	561.9	605.8	605.4	601.7	603.3	561.9	562.3
CPP[1] Trust treasury shares	5.8	9.2	10.1	5.8	5.8	9.2	7.3	10.1	9.4
Total issued shares	611.6	610.9	572.0	611.6	611.2	610.9	610.6	572.0	571.7
Movement in basic share count									
Opening	601.7	561.9	558.8	605.4	601.7	603.3	561.9	562.3	558.8
CPP[1] Trust deferred share purchase	(0.8)	(4.0)	(2.8)	-	(0.8)	(2.0)	(2.0)	(0.8)	(2.0)
Net treasury shares (acquired)/released	4.2	4.9	5.1	-	4.2	0.1	4.8	0.1	5.0
New share issues	0.7	38.9	0.8	0.4	0.3	0.3	38.6	0.3	0.5
Closing	605.8	601.7	561.9	605.8	605.4	601.7	603.3	561.9	562.3
Movement in CPP Trust treasury shares									
Opening	9.2	10.1	12.4	5.8	9.2	7.3	10.1	9.4	12.4
Shares vested to participants	(4.2)	(5.7)	(6.1)	-	(4.2)	(0.1)	(5.6)	(0.1)	(6.0)
CPP[1] Trust deferred share purchase	0.8	4.0	2.8	-	0.8	2.0	2.0	0.8	2.0
Shares bought into CPP Trust	-	0.8	1.0	-	-	-	0.8	-	1.0
Closing	5.8	9.2	10.1	5.8	5.8	9.2	7.3	10.1	9.4
Weighted average number of shares (m)									
Basic EPS shares									
Total issued shares	611.2	605.2	571.7	611.4	611.0	610.9	599.4	571.9	571.4
Less CPP[1] Trust treasury shares	(6.2)	(8.5)	(9.5)	(5.7)	(6.6)	(8.7)	(8.3)	(9.8)	(9.1)
Shares for basic EPS calculation	605.0	596.7	562.2	605.7	604.4	602.2	591.1	562.1	562.3
Diluted shares for normalised EPS									
Shares for basic EPS calculation	605.0	596.7	562.2	605.7	604.4	602.2	591.1	562.1	562.3
Add dilutive impact of unvested equity awards	4.5	10.7	14.4	2.9	7.1	10.5	11.9	14.1	14.7
Add dilutive impact of Capital Notes	117.8	65.6	34.8	117.8	85.1	65.6	57.8	43.2	31.8
Add dilutive impact of subordinated notes	58.5	19.6	-	58.5	42.3	32.6	5.9	-	-
Shares for diluted normalised EPS calculation	785.8	692.6	611.4	784.9	738.9	710.9	666.7	619.4	608.8
Diluted shares for statutory EPS									
Shares for basic EPS calculation	605.0	596.7	562.2	605.7	604.4	602.2	591.1	562.1	562.3
Add dilutive impact of unvested equity awards	4.5	10.7	14.4	2.9	7.1	10.5	11.9	14.1	14.7
Add dilutive impact of Capital Notes	117.8	65.6	34.8	117.8	-	65.6	57.8	43.2	31.8
Add dilutive impact of subordinated notes	58.5	19.6	-	58.5	-	32.6	5.9	-	-
Shares for diluted statutory EPS calculation	785.8	692.6	611.4	784.9	611.5	710.9	666.7	619.4	608.8
Summary of shares rights (m)									
Hurdled Performance Share Rights									
Opening	8.2	10.2	12.5	7.4	8.2	8.2	10.2	10.4	12.5
New grants	2.2	2.0	2.5	-	2.2	-	2.0	-	2.5
Vesting/forfeiture	(3.2)	(4.0)	(4.8)	(0.2)	(3.0)	-	(4.0)	(0.2)	(4.6)
Closing	7.2	8.2	10.2	7.2	7.4	8.2	8.2	10.2	10.4
Deferred Performance Share Rights									
Opening	2.8	3.7	3.8	2.6	2.8	2.9	3.7	3.7	3.8
New grants	1.4	1.3	1.6	-	1.4	-	1.3	-	1.6
Vesting/forfeiture	(1.7)	(2.2)	(1.7)	(0.1)	(1.6)	(0.1)	(2.1)	-	(1.7)
Closing	2.5	2.8	3.7	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 30 June 2019 was 611.6m shares. The number of shares on issue increased by 0.7m shares during FY19 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 below 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.

Basic weighted average share count

The basic weighted average number of shares used to determine both the normalised and statutory basic EPS increased by 8.3m shares in FY19 to 605.0m shares. The increase reflected the time weighted impact of 38.3m shares issued to MS&AD in FY18, 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 normalised and statutory diluted EPS increased by 93.2m shares in FY19 to 785.8m shares. The increase reflects the higher weighted average basic share count (up 8.3m), the reduction in dilutive shares for unvested equity awards (down 6.2m), the dilutive impact of Capital Notes (up 52.2m shares – refer to page 18 for more detail), and the dilutive impact of the subordinated debt issued in November 2017 (up 38.9m shares – 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 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 30 June 2019 was $6.90.

Mandatory conversion of Challenger's convertible debt is subject to a VWAP floor, being 50.0% 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 diluted EPS for FY19 of 56.0 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 FY19 and the weighted average number of shares used to determine the normalised diluted EPS increased by 93.2m shares in FY19.

The FY19 normalised profit is adjusted by $44m of interest expense on Capital Notes, Capital Notes 2 and subordinated notes in order to determine the normalised diluted EPS.

Statutory diluted EPS

The statutory diluted EPS for FY19 of 44.8 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 FY19 and the weighted average number of shares used to determine the statutory diluted EPS increased by 93.2m shares in FY19. The increase is due to the weighted average Challenger share price for the last 20 trading days of FY19 being $6.90 per share, down from $12.40 for the last 20 trading days of FY18.

Consolidated operating cash flow

$m	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Receipts from customers	700.9	670.2	673.0	364.6	336.3	333.7	336.5	334.0	339.0
Dividends received	101.7	94.8	66.5	34.1	67.6	41.0	53.8	30.5	36.0
Interest received	780.4	750.1	673.7	367.0	413.4	364.5	385.6	347.2	326.5
Interest paid	(729.2)	(571.9)	(527.1)	(362.7)	(366.5)	(296.9)	(275.0)	(293.6)	(233.5)
Payments to suppliers and employees	(561.5)	(548.3)	(508.1)	(258.0)	(303.5)	(253.6)	(294.7)	(246.6)	(261.5)
Income tax paid	(55.4)	(197.5)	(78.1)	(11.8)	(43.6)	(45.1)	(152.4)	(40.1)	(38.0)
Underlying operating cash flow	236.9	**197.4**	**299.9**	133.2	103.7	**143.6**	**53.8**	**131.4**	**168.5**
Adjusted for:									
Net annuity policy capital receipts	685.8	1,392.7	900.4	192.1	493.7	634.5	758.2	451.5	448.9
Net other Life capital receipts/(payments)	(211.0)	403.6	412.5	(301.2)	90.2	214.0	189.6	67.5	345.0
Other[1]	(59.4)	(16.3)	(15.6)	(26.3)	(33.1)	18.6	(34.9)	6.9	(22.5)
Operating cash flow per financial report	652.3	**1,977.4**	**1,597.2**	(2.2)	654.5	**1,010.7**	**966.7**	**657.3**	**939.9**

[1] Other includes net SPV operating cash flow adjustments for differences between statutory operating cash flow and Normalised Cash Operating Earnings.

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

FY19 underlying operating cash flow was $237m, up $39m on FY18. The increase in underlying operating cash flow reflects a reduction in income tax paid, partially offset by the timing of interest payments and receipts.

FY19 underlying operating cash flow of $237m is $159m lower than normalised net profit after tax, which was mainly due to non-cash normalised capital growth of $155m.

Net annuity policy capital receipts

FY19 net annuity policy capital receipts were $686m and comprised:

- annuity sales of $3,543m; less
- annuity capital payments of $2,857m.

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

FY19 annuity net flows ($686m) represent annuity book growth of 5.8% for the year and can be calculated as FY19 annuity total net flows divided by the opening period annuity liability of $11,728m.

Net other Life capital receipts

FY19 net other Life capital receipts were -$211m and comprise:

- other Life sales of $1,007m; less
- other Life capital payments of $1,218m.

FY19 other Life net flows of -$211m were down from +$404m in FY18, reflecting lower reinvestment of maturities.

FY19 total Life book growth was 3.4% for the year (FY18 15.0%) and can be calculated as total FY19 net flows ($475m) divided by the sum of the opening period liabilities of $13,863m (Life annuity book, GIR and Challenger Index Plus Fund – refer to page 30 for more detail).

Life financial results

$m	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Investment yield – policyholders' funds	871.3	869.0	813.5	438.8	432.5	433.6	435.4	408.5	405.0
Interest expense	(515.4)	(485.4)	(426.7)	(255.3)	(260.1)	(250.7)	(234.7)	(216.4)	(210.3)
Distribution expense	(18.3)	(22.1)	(27.8)	(7.3)	(11.0)	(10.4)	(11.7)	(11.3)	(16.5)
Other income[1]	33.6	22.8	36.4	15.3	18.3	12.0	10.8	11.9	24.5
Product cash margin	**371.2**	**384.3**	**395.4**	**191.5**	**179.7**	**184.5**	**199.8**	**192.7**	**202.7**
Investment yield – shareholders' funds	143.8	154.8	131.0	72.0	71.8	78.2	76.6	68.4	62.6
Cash earnings	**515.0**	**539.1**	**526.4**	**263.5**	**251.5**	**262.7**	**276.4**	**261.1**	**265.3**
Normalised capital growth	155.1	130.5	105.0	77.0	78.1	70.8	59.7	53.9	51.1
Normalised Cash Operating Earnings	**670.1**	**669.6**	**631.4**	**340.5**	**329.6**	**333.5**	**336.1**	**315.0**	**316.4**
Personnel expenses	(68.9)	(67.7)	(61.8)	(34.8)	(34.1)	(33.9)	(33.8)	(31.7)	(30.1)
Other expenses	(37.6)	(39.2)	(38.4)	(20.0)	(17.6)	(19.9)	(19.3)	(19.1)	(19.3)
Total expenses	**(106.5)**	**(106.9)**	**(100.2)**	**(54.8)**	**(51.7)**	**(53.8)**	**(53.1)**	**(50.8)**	**(49.4)**
Normalised EBIT	**563.6**	**562.7**	**531.2**	**285.7**	**277.9**	**279.7**	**283.0**	**264.2**	**267.0**
Asset and liability experience[2]	(70.2)	(45.0)	78.8	164.1	(234.3)	(60.5)	15.5	34.9	43.9
New business strain[2]	(33.3)	(58.9)	(57.4)	2.6	(35.9)	(21.5)	(37.4)	(22.0)	(35.4)
Total investment experience	**(103.5)**	**(103.9)**	**21.4**	**166.7**	**(270.2)**	**(82.0)**	**(21.9)**	**12.9**	**8.5**
Net profit after investment experience before tax	**460.1**	**458.8**	**552.6**	**452.4**	**7.7**	**197.7**	**261.1**	**277.1**	**275.5**
Reconciliation of investment experience to capital growth									
Asset and liability experience	(70.2)	(45.0)	78.8	164.1	(234.3)	(60.5)	15.5	34.9	43.9
Normalised capital growth	155.1	130.5	105.0	77.0	78.1	70.8	59.7	53.9	51.1
Asset and liability capital growth	**84.9**	**85.5**	**183.8**	**241.1**	**(156.2)**	**10.3**	**75.2**	**88.8**	**95.0**
Performance analysis									
Cost to income ratio[3] (%)	15.9%	16.0%	15.9%	16.1%	15.7%	16.1%	15.8%	16.1%	15.6%
Net assets – average[4] ($m)	3,164	3,034	2,525	3,164	3,151	3,127	2,959	2,586	2,468
Normalised ROE (pre-tax) (%)	17.8%	18.5%	21.0%	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	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Sales									
Fixed term sales	2,689.8	3,145.8	3,024.3	990.9	1,698.9	1,278.6	1,867.2	1,382.4	1,641.9
Lifetime sales	853.3	854.9	986.9	411.7	441.6	432.6	422.3	432.7	554.2
Life annuity sales	**3,543.1**	**4,000.7**	**4,011.2**	**1,402.6**	**2,140.5**	**1,711.2**	**2,289.5**	**1,815.1**	**2,196.1**
Maturities and repayments	(2,857.3)	(2,608.0)	(3,110.8)	(1,210.3)	(1,647.0)	(1,076.7)	(1,531.3)	(1,363.6)	(1,747.2)
Life annuity flows	**685.8**	**1,392.7**	**900.4**	**192.3**	**493.5**	**634.5**	**758.2**	**451.5**	**448.9**
Closing Life annuity book	12,870.2	11,728.3	10,322.2	12,870.2	12,323.7	11,728.3	11,115.8	10,322.2	9,784.9
Annuity book growth[1]	**5.8%**	**13.5%**	**9.4%**	**1.6%**	**4.2%**	**6.2%**	**7.3%**	**4.7%**	**4.7%**
Other Life sales	1,006.9	1,554.9	941.2	407.1	599.8	520.4	1,034.5	378.9	562.3
Other maturities and repayments	(1,217.9)	(1,151.3)	(528.7)	(708.3)	(509.6)	(306.5)	(844.8)	(360.9)	(167.8)
Other Life flows	**(211.0)**	**403.6**	**412.5**	**(301.2)**	**90.2**	**213.9**	**189.7**	**18.0**	**394.5**
Closing GIR[2] and Challenger Index Plus Fund liabilities	1,966.2	2,135.0	1,687.8	1,966.2	2,172.3	2,135.0	1,909.3	1,687.8	1,633.2
Other Life net book growth[1]	**(9.9%)**	**23.9%**	**31.4%**	**(14.1%)**	**4.2%**	**12.7%**	**11.2%**	**1.4%**	**30.0%**
Total Life sales	4,550.0	5,555.6	4,952.4	1,809.7	2,740.3	2,231.6	3,324.0	2,194.0	2,758.4
Total maturities and repayments	(4,075.2)	(3,759.3)	(3,639.5)	(1,918.6)	(2,156.6)	(1,383.2)	(2,376.1)	(1,724.5)	(1,915.0)
Total Life net flows	**474.8**	**1,796.3**	**1,312.9**	**(108.9)**	**583.7**	**848.4**	**947.9**	**469.5**	**843.4**
Closing total Life book[3]	14,836.4	13,863.3	12,010.0	14,836.4	14,496.0	13,863.3	13,025.1	12,010.0	11,418.1
Total Life book growth[1]	**3.4%**	**15.0%**	**12.1%**	**(0.8%)**	**4.2%**	**7.1%**	**7.9%**	**4.3%**	**7.8%**
Assets									
Closing investment assets	**19,010**	**18,085**	**15,677**	**19,010**	**18,624**	**18,085**	**17,040**	**15,677**	**14,607**
Fixed income and cash[4]	12,022	11,189	9,746	12,241	11,802	11,380	10,984	10,028	9,434
Property	3,588	3,543	3,274	3,535	3,661	3,714	3,388	3,350	3,205
Equity and other investments	2,122	1,671	1,183	2,154	2,090	1,807	1,532	1,262	1,110
Infrastructure	762	620	524	785	739	681	566	510	538
Average investment assets[5]	**18,494**	**17,023**	**14,727**	**18,715**	**18,292**	**17,582**	**16,470**	**15,150**	**14,287**
Liabilities									
Closing liabilities	**16,045**	**15,072**	**13,209**	**16,045**	**15,702**	**15,072**	**14,235**	**13,209**	**12,148**
Annuities, GIR[2] and Challenger Index Plus Fund	14,414	13,051	11,471	14,646	14,194	13,530	12,568	11,802	11,133
Capital Notes	805	805	451	805	805	805	805	542	345
Subordinated debt	405	404	481	405	405	407	401	392	556
Average liabilities[5]	**15,624**	**14,260**	**12,403**	**15,856**	**15,404**	**14,742**	**13,774**	**12,736**	**12,034**
Margins[6]									
Investment yield – policyholders' funds	4.71%	5.11%	5.52%	4.73%	4.69%	4.97%	5.25%	5.44%	5.62%
Interest expense	(2.79%)	(2.85%)	(2.90%)	(2.75%)	(2.82%)	(2.87%)	(2.83%)	(2.88%)	(2.92%)
Distribution expense	(0.10%)	(0.13%)	(0.19%)	(0.08%)	(0.12%)	(0.12%)	(0.14%)	(0.16%)	(0.23%)
Other income	0.19%	0.13%	0.25%	0.16%	0.20%	0.14%	0.13%	0.16%	0.34%
Product cash margin	**2.01%**	**2.26%**	**2.68%**	**2.06%**	**1.95%**	**2.12%**	**2.41%**	**2.56%**	**2.81%**
Investment yield – shareholders' funds	0.77%	0.91%	0.89%	0.78%	0.78%	0.89%	0.92%	0.92%	0.87%
Cash earnings	**2.78%**	**3.17%**	**3.57%**	**2.84%**	**2.73%**	**3.01%**	**3.33%**	**3.48%**	**3.68%**
Normalised capital growth	0.84%	0.76%	0.72%	0.83%	0.84%	0.82%	0.72%	0.71%	0.71%
Normalised Cash Operating Earnings (COE)	**3.62%**	**3.93%**	**4.29%**	**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 Includes average NIM (FY19 $64m, FY18 $83m, FY17 $94m).
5 Average investment assets and average liabilities calculated on a monthly basis.
6 Ratio of Normalised Cash Operating Earnings components divided by average investment assets.

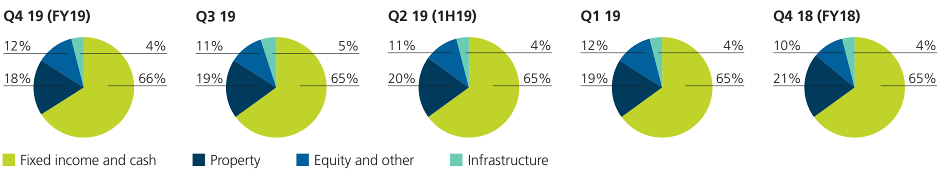
Life financial results

Life quarterly sales and investment assets

$m	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18
Life sales					
Fixed term sales	488	503	750	949	735
Lifetime sales[1]	252	159	220	222	216
Life annuity sales	**740**	**662**	**970**	**1,171**	**951**
Maturities and repayments	(614)	(596)	(846)	(801)	(632)
Life annuity flows	**126**	**66**	**124**	**370**	**319**
Annuity book growth[2]	**1.0%**	**0.6%**	**1.0%**	**3.2%**	**3.1%**
Other Life sales	199	208	205	395	182
Other maturities and repayments	(264)	(444)	(170)	(340)	(281)
Other Life flows	**(65)**	**(236)**	**35**	**55**	**(99)**
Other Life net book growth[2]	**(3.0%)**	**(11.1%)**	**1.6%**	**2.6%**	**(5.8%)**
Total Life sales	939	870	1,175	1,566	1,133
Total maturities and repayments	(87)	(1,040)	(1,016)	(1,141)	(913)
Total Life net flows	**61**	**(170)**	**159**	**425**	**220**
Total Life book growth[2]	**0.4%**	**(1.2%)**	**1.1%**	**3.1%**	**1.9%**
Life					
Fixed income and cash[3]	12,460	12,116	12,015	11,913	11,728
Property[3]	3,382	3,582	3,739	3,504	3,840
Equity and other	2,315	2,116	2,113	2,188	1,799
Infrastructure[3]	853	825	757	742	718
Total Life investment assets	**19,010**	**18,639**	**18,624**	**18,347**	**18,085**
Average Life investment assets[4]	**18,752**	**18,659**	**18,380**	**18,217**	**17,824**

[1] Lifetime sales includes CarePlus, a product that pays income for life and 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.

As Australia's largest annuity provider, Challenger Life Company Limited (CLC) provides reliable guaranteed incomes to approximately 60,000 Australian customers.

Life's annuity products appeal to retirees because they provide security and certainty of guaranteed[1] income while protecting against risks from 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 fixed income and commercial property investments. These investments generate investment income which is used to fund retirement incomes paid to customers.

Life's products are distributed via third party financial advisers, both independent and within 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 investment and administration platforms, such as BT Panorama, HUB24 and Netwealth.

Life is a market leader in Australian retirement incomes, with a 76%[2] annuity market share, and has won the Association of Financial Advisers Annuity Provider of the Year for the last decade, and in 2019 won the Long Term Income Stream and Annuity and Income Stream Innovation Award for its Deferred Lifetime Annuity product.

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 $564m in FY19 and increased by $1m on FY18. The increase in EBIT reflects both stable Normalised Cash Operating Earnings (COE) and stable expenses.

Life's normalised ROE (pre-tax) was 17.8% in FY19 and decreased by 70 bps on FY18 as a result of higher levels of capital.

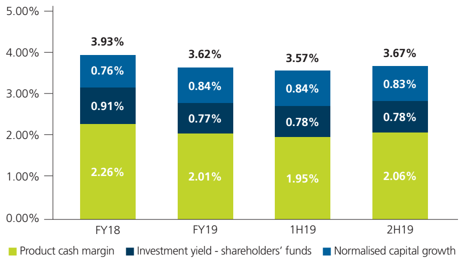
Life has a strong regulatory capital position, with $1.4bn of excess capital above APRA's minimum requirement, which results in a PCA ratio of 1.53 times at 30 June 2019 (refer to page 42 for more detail).

Normalised Cash Operating Earnings (COE) and COE margin

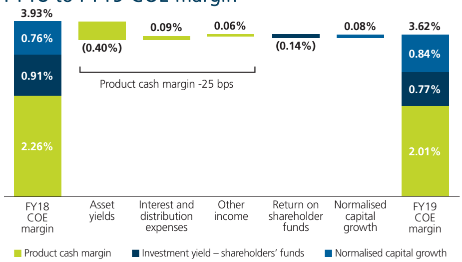
FY19 normalised COE was $670m, unchanged from FY18. Normalised COE reflects higher average investment assets (up 9%) offset by a reduction in Life's COE margin.

Life's COE margin was impacted by a change in asset allocation, compressed asset risk premiums and lower return on shareholder capital as a result of lower interest rates.

Life COE margin composition



FY18 to FY19 COE margin



Life's FY19 COE margin was 3.62% and decreased by 31 bps on FY18. The change in COE margin was a result of:

- Lower product cash margin -25 bps. The product cash margin includes lower asset yields of 40 bps, partially offset by lower interest and distribution expenses (9 bps) and higher other income (6 bps).

  Lower asset yields were impacted by a change in portfolio composition and lower asset risk premiums.

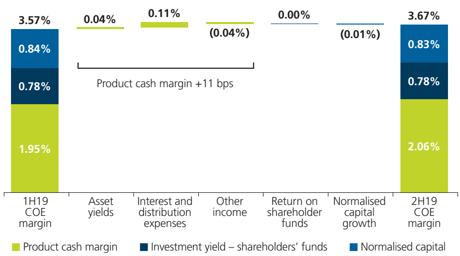
  During FY19, Life reduced its property allocation from 21% of the portfolio to 18% with ~$1bn of property sales. The asset yield was also impacted by lower equity distributions in 1H19.

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

[2] Strategic Insights – March 2019 – based on annuities under administration at 31 March 2019.

- Lower income on shareholder capital -14 bps. The return on shareholder capital fell due to the impact of higher shareholder capital being more than offset by a lower return. The return on shareholder capital was lower as fixed income backing shareholder capital is not hedged for interest rate movements.
- Higher normalised capital growth +8 bps due to a higher allocation to equities.

1H19 to 2H19 COE margin



Life's 2H19 COE margin was 3.67% and increased by 10 bps on 1H19. The change in COE margin was a result of:

- Higher product cash margin +11 bps. The product cash margin benefited from higher asset yields (4 bps) and lower interest and distribution expenses (11 bps), partially offset by a decrease in other income (4 bps).

  Higher asset yields benefited from higher equity distributions in 2H19 compared to 1H19, partially offset by lower fixed income yields.

  2H19 other income was 4 bps lower than 1H19 as a result of the timing of Life Risk cash flows.
- Stable return on shareholder capital with a lower return offset by higher shareholder capital.
- Lower normalised capital growth -1 bps. Normalised capital growth reduced due to a lower allocation to property.

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.

FY19 Life COE includes $27m of income from Life Risk transactions, representing premiums net of expected claims, up from $15m in FY18.

The present value of future profits arising from the Life Risk portfolio was $495m at 30 June 2019, up $22m in FY19. The Life Risk portfolio has an average duration of 15 years. The increase in the present value of future profits was due to a lower discount rate used in FY19 reflecting lower interest rates.

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 FY19 revenue was $6m (FY18 $7m) and is included in other income within Life's Normalised Cash Operating Earnings.

Expenses

FY19 Life expenses were $107m and were unchanged on FY18. Personnel expenses were $69m and increased by $1m due to salary and wage increases. Other expenses were $38m and reduced by $1m.

Life's FY19 cost to income ratio was 15.9% and decreased by 10 bps on FY18.

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.

FY19 investment experience was a loss of $103m (pre-tax), comprising a $70m loss on the fair value of Life's assets and policy liabilities, and a $33m loss in relation to net new business strain.

($m)	Actual capital growth	Normalised capital growth	Investment experience
Fixed income	9	42	51
Property	44	(72)	(28)
Equity and other	(91)	(95)	(186)
Infrastructure	117	(30)	87
Policy liability	6	-	6
Assets and policy liability experience	**85**	**(155)**	**(70)**
New business strain	(33)	-	(33)
Total investment experience (pre-tax)	**52**	**(155)**	**(103)**

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 includes 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 -$70m in FY19, comprising:

- Fixed income (+$51m) – reflects a ~30 bps contraction in credit spreads across the fixed income portfolio, resulting in a valuation gain of $41m. Investment experience represents the net of the $41m of valuation gains and $42m on normalised growth, offset by credit defaults. The credit default experience recognised in the profit and loss in FY19 was -$32m or 27 bps.
- Property (-$28m) – reflects the gain on sale of a number of direct properties and the revaluation of Life's property portfolio, with strong office revaluations offset by retail revaluations.

  The gain on sale of properties and the net property revaluations were less than Life's assumed 2% per annum normalised growth assumption, resulting in -$28m of investment experience.
- Equity & Other portfolio (-$186m) – reflects actual capital growth of -$91m (-4.3%) underperforming Challenger's normalised capital growth assumption of +4.5% for the year. This was driven by benchmark returns for market beta, low beta, and absolute return funds being lower than Challenger's total return expectations. In addition, the timing of asset allocation changes and portfolio tracking differences impacted actual capital growth compared to expected returns based on relevant benchmarks. The alternatives portfolio also underperformed Challenger's normalised capital growth assumption due to lower returns on insurance linked assets.
- Infrastructure ($87m) – reflects infrastructure outperforming Challenger's normalised growth assumption of 4% per annum. Infrastructure investment experience benefited from the gain on sale of an unlisted UK logistics asset in 2H19 and strong revaluation gains on listed infrastructure.
- Policy liability ($6m) – 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. The total impact of changes in economic and actuarial assumptions was +$6m and includes a benefit in respect of recapturing one of Life's longevity risk reinsurance arrangements with a global reinsurer.

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.

In FY19, `A' rated corporate bond spreads relative to Australian Government securities expanded by approximately 1 bps, which increased the liability discount rate used to value annuity liabilities at fair value and resulted in a lower annuity liability. As a result, FY19 investment experience includes a gain of ~$2m due to a change in the illiquidity premium used to value policy liabilities.

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 as a result of 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 FY19 net new business strain was a loss of $33m (FY18 -$59m).

Life sales and AUM

Total Life sales

Total Life sales were $4.6bn in FY19 and decreased by 18% or $1.0bn on FY18. The decrease was due to lower annuity sales of $3.5bn (down $0.5bn) and lower other Life sales (institutional GIR and Challenger Index Plus Fund) sales of $1.0bn (down $0.5bn).

Annuity sales

The Australian wealth management and adviser market is currently being disrupted, with the March 2019 quarter being the lowest quarter for retail industry sales in the last 15 years[1].

While Challenger was not called to give evidence at the Royal Commission and Life's customers are not 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. This in turn impacted Challenger's domestic term annuity sales.

Challenger 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 and Financial Services Industry (Royal Commission), there has been significant disruption across the financial advice market which has reduced customer confidence in retail financial advice and reduced the acquisition of new customers by third party financial advisers.

During FY19, Challenger made its annuities available on three leading investment and administration platforms that support independent advisers, being BT Panorama, HUB24 and Netwealth. As a result, Challenger's range of annuities are accessible by more than 70% of Australia's financial advisers via their primary investment and administration platform.

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

FY19 term annuity sales were $2.7bn and decreased by 14% ($0.5bn) on FY18. Term annuity sales decreased as a result of lower MS Primary (Japan) annuity sales, which reduced by 54% ($0.3bn), and adviser and industry disruption in Australia.

MS Primary annuity sales decreased following an increase in US interest rates relative to Australian rates, making US dollar-denominated annuities relatively more attractive. MS Primary annuity sales were 10% of Life's FY19 term annuity sales, down from 18% in FY18.

Term annuity sales, excluding MS Primary, decreased by 6% or $144m and were impacted by the domestic adviser and industry disruption.

Lifetime annuity sales

Lifetime annuity sales were $853m in FY19 and were unchanged from FY18. FY19 lifetime sales comprised Liquid Lifetime sales of $517m and CarePlus sales of $336m.

Liquid Lifetime sales were down 1% on FY18. Growth in Liquid Lifetime sales was impacted by uncertainty surrounding new means test rules that commenced on 1 July 2019 (refer to page 29 for more information on the new means test rules).

Lifetime annuity sales in the fourth quarter increased by 17% on the prior corresponding period, benefiting from higher sales of the Liquid Lifetime Regular option.

CarePlus is a product that pays income for life and specifically designed for the aged care market and was launched in early FY16. CarePlus sales were $336m in FY19, an increase of 2% on FY18.

Focus on long-term annuity sales

Challenger is focused on growing its long-term annuity business as it embeds significant value for Challenger shareholders.

Lifetime and long-term MS Primary annuities accounted for 48% of total annuities in force at 30 June 2019, up from only 21% five years ago (FY14).

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.

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 6.4 years in FY14 to 9.2 years in FY19.

New business tenor in FY19 was 9.2 years, up from 9.1 years in FY18 as a result of a higher proportion of lifetime annuity sales.

[1] Strategic Insights – March 2019.

Other Life sales

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

FY19 other Life sales were $1.0bn, mainly representing existing GIR client mandate rollovers.

FY19 other Life sales were $0.5bn lower than FY18 due to lower reinvestment of maturities.

Life book liability maturity profile

Long-term annuity business is attractive for Challenger as it improves the maturity outlook and enhances overall net book growth.

The annuity maturity rate, which represents annuity maturities and repayments (excluding interest payments) divided by the opening period annuity liability, was 24% in FY19, down from 25% in FY18.

The annuity maturity rate in FY20 is expected to be ~25%.

Net book growth

Life annuity book growth

FY19 Life annuity net flows (i.e. annuity sales less capital repayments) were $686m.

Based on the opening Life annuity book liability ($11,728m), FY19 annuity book growth was 5.8% (FY18 13.5%).

Other Life book growth

Other Life net flows (i.e. other Life sales less capital repayments) represent net flows on Challenger's institutional GIR product and Challenger Index Plus Fund. In FY19, other Life products experienced a net outflow of $211m, with maturities exceeding sales.

Total Life book growth

FY19 total Life net flows across both annuities and other products (GIR and Challenger Index Plus Fund) were $475m, and include annuity net flows of $686m and other product net outflows of $211m.

Based on the opening FY19 annuity liability ($11,728m) and GIR and Challenger Index Plus Fund liability ($2,135m), FY19 total Life book growth was 3.4%, down from 15.0% in FY18. Total Life book growth was lower as a result of lower annuity sales and other product net outflows.

Average AUM

Life's average investment assets were $18.5bn in FY19 and increased by 9% (or $1.5bn) in FY19. The increase in average investment assets in FY19 reflects total Life net flows, asset revaluations and 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 a significant increase in 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 in order 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 in order to support 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 that 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 FY17, Challenger opened a Tokyo office to support the MS&AD relationship and to develop distribution opportunities within the region.

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.

At 30 June 2019, MS&AD held 16% of Challenger's issued capital and a representative from MS&AD is expected to join the Challenger Limited Board in early FY20.

[1] Based on the exchange rate as at 30 June 2019.

Retirement income regulatory reforms update

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.

Retirement income rules – innovative superannuation income streams

As part of the Federal Budget in May 2016, 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 expected to provide the building blocks for superannuation funds to develop retirement income solutions for their clients.

The new retirement income product regulations allow a range of new longevity products and came into effect on 1 July 2017.

New means test rules for lifetime products

In 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 are expected 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 as income at 60% of all pooled lifetime product payments, and an asset 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 support lifetime annuity use and do not impact term annuities, which accounted for 68% of Challenger's FY19 annuity sales.

Retirement Income Framework

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. As a result, currently most people invest their superannuation savings in an account-based pension and withdraw only legislated minimum amounts, without being aware of all the choices.

The Government has proposed a Retirement Income Framework to increase flexibility and choice for retirees and help boost living standards. The framework is intended to ensure retirees have more retirement income products to choose from and the information they need to make a choice.

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 the product disclosures to ensure its effectiveness in assisting members choose retirement income products that align with their needs and preferences.

Life balance sheet

$m	FY19	1H19	FY18	1H18	FY17	1H17
Assets						
Life investment assets						
Cash and equivalents	361.0	1,518.3	1,671.6	950.1	1,430.1	1,172.7
Asset backed-securities	5,293.3	5,062.2	4,763.1	4,542.2	4,416.7	4,362.8
Corporate credit	6,805.5	5,434.0	5,293.1	5,584.2	4,568.2	3,985.4
Fixed income and cash (net)	12,459.8	12,014.5	11,727.8	11,076.5	10,415.0	9,520.9
Australian – Office	1,833.9	2,097.1	2,011.3	1,855.6	1,670.6	1,563.1
Australian – Retail	883.3	954.1	954.8	962.5	941.1	921.3
Australian – Industrial	185.2	180.4	159.5	152.0	170.1	195.6
Japanese	325.6	314.6	297.4	234.0	229.3	226.9
Other	154.0	193.2	417.5	450.5	396.7	421.4
Property (net)	3,382.0	3,739.4	3,840.5	3,654.6	3,407.8	3,328.3
Equity and other investments	2,315.1	2,113.4	1,799.1	1,642.7	1,360.1	1,231.6
Infrastructure (net)	853.5	757.0	717.7	666.3	494.4	526.4
Life investment assets	19,010.4	18,624.3	18,085.1	17,040.1	15,677.3	14,607.2
Other assets (including intangibles)	702.3	560.9	509.5	644.1	479.7	389.4
Total assets	19,712.7	19,185.2	18,594.6	17,684.2	16,157.0	14,996.6
Liabilities						
Life annuity book	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	1,966.2	2,172.3	2,135.0	1,909.3	1,687.8	1,633.2
Subordinated debt	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	345.0
Other liabilities	348.5	412.9	317.7	296.1	277.4	295.3
Total liabilities	16,393.8	16,114.5	15,389.7	14,531.5	13,486.0	12,443.2
Net assets	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

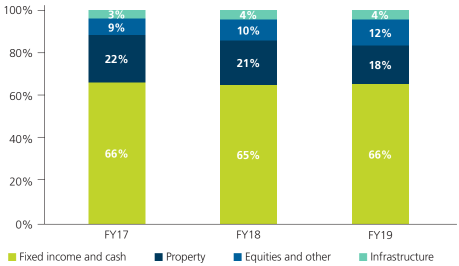
Life maintains a high-quality investment portfolio in order to generate cash flows to meet future annuity obligations.

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 30 June 2019 comprised:

- fixed income and cash 66%;
- property 18%;
- equities and other investments 12%; and
- infrastructure 4%.

Detailed information on Life's investment assets is included on pages 32 to 40.



Fixed income portfolio overview

Life's fixed income and cash portfolio was $12.5bn (net of debt) at 30 June 2019, and increased by 6% from $11.7bn at 30 June 2018.

The fixed income and cash portfolio represented 66% of Life's investment assets at 30 June 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 30 June 2019 was 74%, down from 75% a year prior. The reduction in investment grade reflects deployment of capital into sub-investment-grade opportunities in late 2H19.

Within investment grade, liquid positions were reduced given high levels of liquidity across the investment portfolio and investments in AAA, AA and A all increased.

A total of 80% of the fixed income portfolio is externally rated (Standard & Poor's, Fitch or Moody's) and 20% based on internal ratings calibrated to Standard & Poor's or Moody's ratings framework.

The fixed income and cash portfolio is predominantly Australian focused, with approximately 61% 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 FY19, the credit default loss recognised in investment experience was -27 bps, (-$32m), outperforming the normalised growth assumption.

Over the past five 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

30 June 2019		$m	% portfolio	
Liquids		361	3%	Includes cash and equivalents and Government Bonds (net of repurchase agreements).
Asset-Backed Securities (ABS)	Residential Mortgage-Backed Securities (RMBS)	2,780	22%	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.
	Consumer Finance	1,477	12%	Financing secured against underlying assets. Asset security includes motor vehicle, equipment and consumer finance.
	Senior Secured Bank Loans	506	4%	Senior debt secured by collateral and typically originated by Challenger.
	Aviation Finance	188	2%	Secured commercial aircraft financing.
	CMBS	342	3%	Commercial Mortgage-Backed Securities (CMBS).
Corporate Credit	Banks and Financials	1,293	10%	Corporate loans to banks, insurance companies and fund managers.
	Infrastructure	1,784	14%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies.
	Non-Financial Corporates	2,572	21%	Traded commercial loans to non-financial corporates (includes exposures to retail, construction, hotels, media, mining and health care).
	Commercial Real Estate	1,157	9%	Loans secured against commercial real estate assets and typically originated by Challenger.
Total		12,460	100%	

Table 2: Fixed income portfolio by credit rating

30 June 2019 ($m)	Investment grade Liquids	AAA	AA	A	BBB	Total	Non-investment grade BB	B or lower	Total	Total $m
Liquids										
Government bonds[1]	91	-	-	-	-	91	-	-	-	91
Covered bonds	158	-	-	-	-	158	-	-	-	158
Cash and equivalents	112	-	-	-	-	112	-	-	-	112
Asset-Backed Securities										
RMBS	-	1,200	550	544	287	2,581	101	98	199	2,780
Other ABS	-	280	165	136	136	717	470	290	760	1,477
Senior Secured Bank Loans	-	157	19	41	175	392	114	-	114	506
Aviation Finance	-	-	-	112	52	164	24	-	24	188
CMBS	-	102	49	86	78	315	21	6	27	342
Corporate Credit										
Banks and Financials	-	-	207	382	505	1,094	175	24	199	1,293
Infrastructure	-	2	135	541	763	1,441	215	128	343	1,784
Non-Financial Corporates	-	5	40	233	960	1,238	790	544	1,334	2,572
Commercial Real Estate	-	30	9	503	401	943	115	99	214	1,157
Total	**361**	**1,776**	**1,174**	**2,578**	**3,357**	**9,246**	**2,025**	**1,189**	**3,214**	**12,460**
Fixed income portfolio (%)	3%	14%	9%	21%	27%	74%	16%	10%	26%	100%
Average duration (years)	0.0	2.0	3.0	4.0	3.5	3.3	3.7	4.5	4.0	3.5

30 June 2019 (%)	Investment grade Liquids	AAA	AA	A	BBB	Total	Non-investment grade BB	B or lower	Total	Total %
Liquids										
Government bonds[1]	100%	-	-	-	-	100%	-	-	-	100%
Covered bonds	100%	-	-	-	-	100%	-	-	-	100%
Cash and equivalents	100%	-	-	-	-	100%	-	-	-	100%
Asset-Backed Securities										
RMBS	-	43%	20%	20%	10%	93%	3%	4%	7%	100%
Other ABS	-	19%	11%	9%	10%	49%	32%	19%	51%	100%
Senior Secured Bank Loans	-	31%	4%	8%	34%	77%	23%	-	23%	100%
Aviation Finance	-	-	-	60%	27%	87%	13%	-	13%	100%
CMBS	-	30%	14%	25%	23%	92%	6%	2%	8%	100%
Corporate Credit										
Banks and Financials	-	-	16%	30%	39%	85%	13%	2%	15%	100%
Infrastructure	-	-	8%	30%	43%	81%	12%	7%	19%	100%
Non-Financial Corporates	-	-	2%	9%	37%	48%	31%	21%	52%	100%
Commercial Real Estate	-	3%	1%	43%	35%	82%	9%	9%	18%	100%
Total	**3%**	**14%**	**9%**	**21%**	**27%**	**74%**	**16%**	**10%**	**26%**	**100%**

[1] Gross Government Bonds are shown net of $1,548m of Australian Government Bonds and $2,901m of Australian Semi-Government Bonds, that are held via repurchase agreements. 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
30 June 2019 ($m)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	$m
Liquids										
Externally rated	361	-	-	-	-	361	-	-	-	361
Internally rated	-	-	-	-	-	-	-	-	-	-
Asset-Backed Securities										
Externally rated	-	1,579	769	795	408	3,551	263	94	357	3,908
Internally rated	-	160	14	124	320	618	467	300	767	1,385
Corporate Credit										
Externally rated	-	37	384	1,644	2,375	4,440	781	500	1,281	5,721
Internally rated	-	-	7	15	254	276	514	295	809	1,085
Total	361	1,776	1,174	2,578	3,357	9,246	2,025	1,189	3,214	12,460
Externally rated	100%	91%	98%	95%	83%	90%	52%	50%	51%	80%
Internally rated	0%	9%	2%	5%	17%	10%	48%	50%	49%	20%

	Investment grade						Non-investment grade			Total
30 June 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	-	41%	20%	20%	10%	91%	7%	2%	9%	100%
Internally rated	-	12%	1%	9%	23%	45%	33%	22%	55%	100%
Corporate Credit										
Externally rated	-	-	7%	29%	42%	78%	13%	9%	22%	100%
Internally rated	-	-	1%	1%	23%	25%	48%	27%	75%	100%
Total	3%	14%	9%	21%	27%	74%	16%	10%	26%	100%

Table 4: Fixed income portfolio by industry sector

	Investment grade						Non-investment grade			Total
30 June 2019 ($m)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	$m
Industrials and consumers	-	464	276	530	1,320	2,590	1,307	834	2,141	4,731
Residential property	-	1,197	508	566	281	2,552	102	123	225	2,777
Banks, financials & insurance	270	27	208	418	519	1,442	234	24	258	1,700
Government	91	-	-	-	-	91	-	-	0	91
Commercial property	-	86	38	523	473	1,120	135	80	215	1,335
Infrastructure and utilities	-	2	135	541	764	1,442	216	128	344	1,786
Other	-	-	9	-	-	9	31	-	31	40
Total	361	1,776	1,174	2,578	3,357	9,246	2,025	1,189	3,214	12,460

	Investment grade						Non-investment grade			Total
30 June 2019 (%)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	%
Industrials and consumers	-	10%	6%	11%	28%	55%	28%	17%	45%	100%
Residential property	-	43%	18%	20%	11%	92%	4%	4%	8%	100%
Banks, financials & insurance	16%	2%	12%	25%	30%	85%	14%	1%	15%	100%
Government	100%	-	-	-	-	100%	-	-	-	100%
Commercial property	-	6%	3%	39%	36%	84%	10%	6%	16%	100%
Infrastructure and utilities	-	-	8%	30%	43%	81%	12%	7%	19%	100%
Other	-	-	22%	-	-	22%	78%	-	78%	100%
Total	3%	14%	9%	21%	27%	74%	16%	10%	26%	100%

Table 5: Fixed income portfolio by geography and credit rating

	Investment grade						Non-investment grade			Total
30 June 2019 ($m)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	$m
Australia	290	1,377	800	1,478	1,885	5,830	1,022	696	1,718	7,548
United States	39	31	53	558	755	1,436	775	407	1,182	2,618
United Kingdom	-	50	79	252	328	709	20	40	60	769
Europe	3	54	79	123	277	536	67	3	70	606
Rest of World	29	86	85	61	46	307	62	-	62	369
New Zealand	-	178	78	106	66	428	79	43	122	550
Total	361	1,776	1,174	2,578	3,357	9,246	2,025	1,189	3214	12,460

	Investment grade						Non-investment grade			Total
30 June 2019 (%)	Liquids	AAA	AA	A	BBB	Total	BB	B or lower	Total	%
Australia	4%	18%	11%	20%	24%	77%	14%	9%	23%	100%
United States	1%	1%	2%	21%	30%	55%	29%	16%	45%	100%
United Kingdom	-	7%	10%	33%	42%	92%	3%	5%	8%	100%
Europe	-	32%	14%	19%	13%	78%	14%	8%	22%	100%
Rest of the World	-	9%	13%	20%	46%	88%	12%	-	12%	100%
New Zealand	8%	23%	23%	17%	12%	83%	17%	-	17%	100%
Total	3%	14%	9%	21%	27%	74%	16%	10%	26%	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 $3.4bn (net of debt) at 30 June 2019 and decreased by $0.5bn in FY19. Property represented 18% of Life's investment portfolio at 30 June 2019.

Life's property portfolio is focused on domestic properties that provide long-term income streams. Australian properties accounted for 90% of the portfolio, and Australian office 55%.

Property includes a net $326m exposure to Japanese property (10% 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 FY19, independent valuations were obtained for all direct properties.

The weighted average cap rate on Life's Australian direct portfolio was 5.84% at 30 June 2019, down 30 bps for the year.

Rental income is diversified across sectors and tenants, with 51% (by FY19 gross rental income) of tenants classified investment grade (i.e. rated BBB or higher).

The property portfolio generates long-term cash flows in order to match long-term liabilities, with a weighted average lease expiry of 7 years and 58% of leasing area having contracted leases expiring in FY24 and beyond. The portfolio had an occupancy rate of 94% at 30 June 2019.

Approximately 65% 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 30% of FY19 gross rental income[1].

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

Challenger disposed of a number of properties in FY19, with the sales proceeds released reinvested in other investments, including fixed income.

During FY19, 10 direct properties were sold for approximately $1bn, with one property to settle in 1H20. In addition, Life disposed of its Real Estate Investment Trust (REIT) holdings in August 2018.

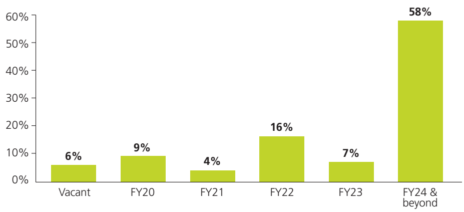
As a result of the property sales, the property allocation reduced from 21% at 30 June 2018 to 18% at 30 June 2019 and is expected to remain around similar levels in FY20.

Full details of Life's property portfolio are listed on pages 37 to 39.

Property portfolio summary

% of total portfolio	FY19	FY18
Australian office	55%	52%
Australian retail	26%	25%
Australian industrial	5%	4%
Other	4%	10%
Australian total	**90%**	**91%**
Japanese retail	10%	8%
Other (including offshore)	0%	1%
Total	**100%**	**100%**

Portfolio lease expiry overview[2]



[1] Represents total gross passing income attributable to the direct property portfolio.

[2] Direct property portfolio and jointly held assets only, and excludes Australian REITs and development assets.

Direct property portfolio overview[1]

30 June 2019		Office	Retail	Industrial	Total
Total rent (%)[2]		48%	46%	6%	100%
WALE[3] (years)		7.0	6.6	4.2	6.7
Tenant credit ratings					
	AAA	27%	0%	0%	27%
	AA	4%	2%	0%	6%
	A	0%	2%	0%	2%
	BBB	4%	10%	2%	16%
	BB	6%	17%	3%	26%
	B or below	1%	2%	1%	4%
	Not rated	2%	11%	0%	13%
	Vacant	4%	2%	0%	6%
	Total	**48%**	**46%**	**6%**	**100%**
% of total gross net	Investment grade	35%	14%	2%	51%
	Non-investment grade	9%	30%	4%	43%
	Vacant	4%	2%	0%	6%

[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

30 June 2019			Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate FY19 (%)[3]	Last external valuation date
Australia							
	Office						
		14 Childers Street, ACT	01 Dec 17	97.3	92.5	6.50	30 Jun 19
		35 Clarence Street, NSW	15 Jan 15	147.1	220.0	5.13	30 Jun 19
		215 Adelaide Street, QLD	31 Jul 15	249.7	245.5	6.00	30 Jun 19
		565 Bourke Street, VIC	28 Jan 15	102.1	142.0	5.00	30 Jun 19
		82 Northbourne Avenue, ACT	01 Jun 17	60.9	55.4	6.00	31 Dec 18
		ABS Building, ACT	01 Jan 00	149.0	219.2	5.75	31 Dec 18
		County Court, VIC	30 Jun 00	217.6	323.9	-	31 Dec 18
		DIBP (formerly DIAC) Building, ACT	01 Dec 01	108.4	156.7	5.50	31 Dec 18
		Discovery House, ACT	28 Apr 98	97.4	148.5	5.63	30 Jun 19
		Executive Building, TAS	30 Mar 01	34.5	45.3	7.00	31 Dec 18
		839 Collins Street, VIC	22 Dec 16	212.0	232.5	4.88	30 Jun 19
	Retail						
		Bunbury Forum, WA	03 Oct 13	155.1	90.0	6.75	30 Jun 19
		Channel Court, TAS	21 Aug 15	83.4	80.0	7.00	30 Jun 19
		Gateway, NT	01 Jul 15	121.1	118.5	5.85	31 Dec 18
		Golden Grove, SA	31 Jul 14	156.1	171.4	5.75	31 Dec 18
		Karratha, WA	28 Jun 13	55.0	49.0	7.25	30 Jun 19
		Kings Langley, NSW	29 Jul 01	16.2	23.9	6.25	30 Jun 19
		Lennox, NSW	27 Jul 13	28.6	31.5	6.50	30 Jun 19
		Next Hotel, QLD	25 Mar 15	143.7	145.3	6.11	30 Jun 19
	Industrial						
		21 O'Sullivan Circuit, NT	27 Jan 16	47.7	36.7	8.00	31 Dec 18
		31 O'Sullivan Circuit, NT	27 Jan 16	29.2	26.5	8.25	31 Dec 18
		Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	92.3	122.0	5.50	30 Jun 19
	Other						
		TRE Data Centre, ACT	14 Apr 10	13.9	10.5	-	30 Jun 19
Total Australia				**2,418.3**	**2,786.8**		

[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

30 June 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	37.8	5.40	30 Jun 19
		Carino Chitosedai	31 Jan 10	118.4	138.9	4.50	31 Dec 18
		Carino Tokiwadai	31 Jan 10	77.0	85.3	4.60	30 Jun 19
		DeoDeo Kure	31 Jan 10	32.2	34.4	5.50	30 Jun 19
		Fitta Natalie Hatsukaichi	28 Aug 15	11.4	14.7	5.90	31 Dec 18
		Izumiya Hakubaicho	31 Jan 10	68.8	79.8	4.80	31 Dec 18
		Kansai Super Saigo	31 Jan 10	13.1	14.4	5.50	31 Dec 18
		Kojima Nishiarai	31 Jan 10	12.2	16.1	4.40	30 Jun 19
		Life Asakusa	31 Jan 10	27.8	38.0	4.30	30 Jun 19
		Life Higashi Nakano	31 Jan 10	32.9	40.9	4.40	30 Jun 19
		Life Nagata	31 Jan 10	25.2	30.0	4.20	30 Jun 19
		MaxValu Tarumi	28 Aug 15	16.9	20.0	5.70	31 Dec 18
		Seiyu Miyagino	31 Jan 10	9.8	11.8	5.20	30 Jun 19
		TR Mall Ryugasaki	30 Mar 18	86.7	98.4	5.70	31 Dec 18
		Valor Takinomizu	31 Jan 10	26.9	25.5	5.80	31 Dec 18
		Valor Toda	31 Jan 10	42.5	45.9	5.20	30 Jun 19
		Yaoko Sakato Chiyoda	31 Jan 10	19.6	21.4	4.80	31 Dec 18
Total Japan				651.9	753.3		
Europe							
	Retail						
		Aulnay sous Bois, Avenue de Savigny, France	31 Dec 08	20.3	10.7	6.53	30 Jun 19
Total Europe				20.3	10.7		
Total overseas				672.2	764.0		
Development							
		North Rocks, NSW	18 Sep 15	180.2	173.7	6.50	30 Jun 19
		Waterford County, NSW	6 Dec 06	5.4	4.7	-	-
Total development				185.6	178.4		
Total direct portfolio investments				3,276.1	3,729.2		

[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 $2.3bn increased by $0.5bn (29%) during FY19. Equity and other investments represented 12% of Life's total investment assets at 30 June 2019, up from 10% at 30 June 2018.

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

The beta portfolio ($0.1bn) 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 $1.1bn increased by $0.6bn in FY19. Low beta investments include an equity collar strategy ($0.8bn), equity option strategies, 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 than the expected return.

Life's absolute return portfolio ($0.9bn) 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 ($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

30 June 2019 ($m)	Domestic	Offshore	Total
Equity beta	63	78	141
Low beta	121	930	1,051
Absolute return funds	232	623	855
Alternatives	-	268	268
Total	**416**	**1,899**	**2,315**

Infrastructure portfolio overview

Life's infrastructure portfolio of $0.9bn (net of debt) increased by $136m (19%) in FY19 and represented 4% of Life's total investment assets at 30 June 2019.

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 30% of the infrastructure portfolio is unlisted, down from 50% reflecting the sale of an unlisted asset with proceeds redeployed into listed infrastructure.

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

Infrastructure portfolio by sector

30 June 2019	$m	%
Utilities	75	9%
Patronage	22	3%
Airport	60	7%
Power generation	6	1%
Renewable	133	16%
Core infrastructure	558	64%
Total	**854**	**100%**

Infrastructure portfolio by geography

30 June 2019	$m	%
North America	310	35%
Australia	235	28%
United Kingdom	31	4%
Asia	82	10%
Europe	181	21%
South America	15	2%
Total	**854**	**100%**

Challenger Life Company Limited (CLC) debt facilities

$m	FY19	1H19	FY18	1H18	FY17	1H17
Repurchase agreements	4,448.5	4,397.4	3,816.0	3,387.9	3,287.5	3,482.9
Controlled property debt	466.6	476.9	560.5	491.9	534.5	535.8
Subordinated debt	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	345.0
Infrastructure debt	192.0	194.7	197.2	199.2	201.1	202.9
Other finance	13.2	13.9	15.0	16.0	17.0	17.8
Total CLC debt facilities	**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 CLC investment vehicles, including direct properties and infrastructure investments.

Life debt facilities increased by $532m during FY19, due to an increase in repurchase agreements used to hedge interest rate movements (up $632m), partially offset by a decrease in controlled property debt (down $94m).

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 on its asset portfolio, annuity policy liabilities, Guaranteed Index Return mandates, and the Challenger Index Plus Fund.

The Commonwealth and state Governments continued to increase supply and extend the duration of their bond curves during the period. As a result, bonds provided a better relative value hedge than swaps, particularly for longer dated liabilities.

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, 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 four years, Challenger Limited 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). If Challenger exercises its option to redeem or resell, 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.

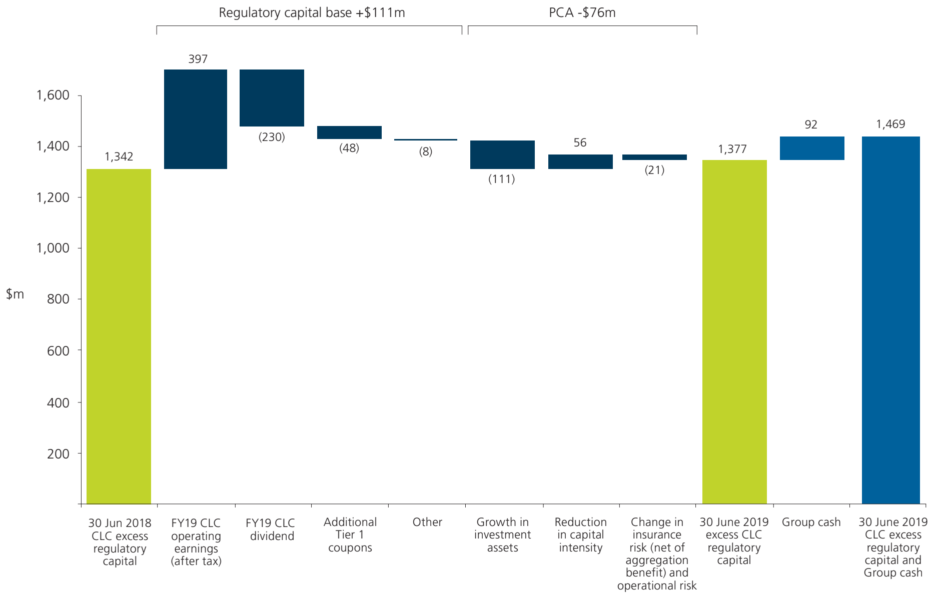
However, Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 2 on the occurrence of some of the events referred to above, including on the 'Optional Exchange Date' 22 May 2023 (subject to certain conditions being met). If Challenger exercises its option to redeem 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	FY19	1H19	FY18	1H18	FY17	1H17
CLC regulatory capital						
Common Equity Tier 1 (CET1) regulatory capital	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	345.0
Tier 2 regulatory capital – subordinated debt[1]	405.3	402.2	405.4	406.8	395.4	386.7
CLC total regulatory capital base	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	2,539.5	2,355.2	2,484.7	2,502.4	2,067.1	1,933.3
Insurance risk charge	135.3	83.3	70.0	164.9	157.5	152.7
Operational risk charge	51.8	47.5	46.4	42.8	38.7	34.9
Aggregation benefit	(104.0)	(64.8)	(54.8)	(125.7)	(119.2)	(115.5)
CLC PCA	2,622.6	2,421.2	2,546.3	2,584.4	2,144.1	2,005.4
CLC excess over PCA	1,377.1	1,303.6	1,341.9	1,265.8	1,225.3	772.3
PCA ratio (times)	1.53	1.54	1.53	1.49	1.57	1.39
Tier 1 ratio (times)	1.37	1.37	1.37	1.33	1.39	1.19
CET1 ratio (times)	1.06	1.04	1.05	1.02	1.01	1.02
Capital intensity ratio (%)[2]	13.8%	13.0%	14.1%	15.2%	13.7%	13.7%

[1] FY19 Tier 2 regulatory capital–subordinated debt ($405.3m) differs to the Group balance sheet ($403.9m) due to accrued interest and amortised costs ($1.4m).
[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 in order 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 30 June 2019 (FY19) was $1.4bn and increased by $0.1bn for the year.

CLC's regulatory capital base at 30 June 2019 was $4.0bn and increased by $0.1bn in FY19. The increase in the regulatory capital base reflects higher retained earnings.

CLC's PCA at 30 June 2019 was $2.6bn and increased by $76m in FY19, reflecting:

- growth in investment assets (+$111m);
- increase in insurance risk charge (net of aggregation benefit) and changes in operational risk (+$21m); partially offset by
- lower capital intensity (-$56m).

The insurance risk charge net of aggregation benefit increased by $16m as a result of the recapture of one of Life's longevity risk reinsurance arrangements with a global reinsurer.

CLC's capital intensity, as measured by the ratio of PCA to investment assets, decreased from 14.1% at 30 June 2018 to 13.8% at 30 June 2019.

The reduction in capital intensity is due to changes in the composition of Life's investment portfolio, including a lower allocation to higher capital intense property and implementation of a lower beta equities portfolio, which reduces the capital intensity.

CLC's capital ratios at 30 June 2019 were as follows:

- PCA ratio 1.53 times – unchanged since 30 June 2018;
- Total Tier 1 ratio 1.37 – unchanged since 30 June 2018; and
- Common Equity Tier 1 (CET1) ratio 1.06 times – up 0.01 times from 30 June 2018.

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 (1.37 times) and CET1 capital ratio (1.06 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 30 June 2019 was $92m and increased by $7m during FY19.

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

APRA's Level 3 (conglomerate) capital proposals

In March 2010, APRA released a discussion paper proposing to extend its prudential supervision framework to conglomerate groups containing one or more APRA-regulated entities, with such supervision being termed 'Level 3' supervision.

Under the proposed framework, the Challenger Group would be a Level 3 group, containing its APRA regulated life company, Challenger Life Company Limited, together with its non-APRA regulated Funds Management business.

In March 2016, APRA announced that it would defer the implementation of conglomerate capital requirements until a number of other domestic and international policy initiatives were further progressed. There has been no further update from APRA in relation to this position.

Profit and equity sensitivities

$m	Change in variable	Profit/(loss) after tax FY19	Change in equity FY19	Profit/(loss) after tax FY18	Change in equity FY18
Credit risk					
Fixed income assets (change in credit spreads)[1]	+50bps	(133.6)	(133.6)	(113.8)	(113.8)
	-50bps	133.6	133.6	113.8	113.8
Policy liabilities (illiquidity premium change in credit spreads)	+50bps	59.7	59.7	52.4	52.4
	-50bps	(59.7)	(59.7)	(52.4)	(52.4)
Property risk					
Direct property	+1%	24.9	24.9	26.5	26.5
	-1%	(24.9)	(24.9)	(26.5)	(26.5)
Australian listed property securities	+10%	-	-	15.6	15.6
	-10%	-	-	(15.6)	(15.6)
Other property securities	+10%	9.0	9.0	9.9	9.9
	-10%	(9.0)	(9.0)	(9.9)	(9.9)
Total		33.9	33.9	52.0	52.0
		(33.9)	(33.9)	(52.0)	(52.0)
Infrastructure risk					
Infrastructure investments	+10%	59.7	59.7	50.2	50.2
	-10%	(59.7)	(59.7)	(50.2)	(50.2)
Equity risk					
Equity investments	+10%	162.1	162.1	125.9	125.9
	-10%	(162.1)	(162.1)	(125.9)	(125.9)
Life Insurance risk					
Mortality, morbidity and longevity[2]					
Life insurance contract liabilities	+50%	(20.3)	(20.3)	(11.8)	(11.8)
	-50%	20.3	20.3	11.8	11.8
Interest rate risk					
Change in interest rates	+100bps	0.5	0.5	2.0	2.0
	-100bps	(0.5)	(0.5)	(2.0)	(2.0)
Foreign exchange risk					
British pound	+10%	0.1	0.1	(0.4)	(0.4)
	-10%	(0.1)	(0.1)	0.4	0.4
US dollar	+10%	-	-	0.7	0.7
	-10%	-	-	(0.7)	(0.7)
Euro	+10%	0.7	0.7	(0.1)	(0.1)
	-10%	(0.7)	(0.7)	0.1	0.1
Japanese yen	+10%	-	(0.4)	0.2	0.8
	-10%	-	0.4	(0.2)	(0.8)
Other	+10%	-	-	0.2	0.2
	-10%	-	-	(0.2)	(0.2)

[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 30 June 2019. If using these sensitivities as forward-looking, an allowance for changes post-30 June 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 subject to 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 met from contracted investment cash flows together with assets held in Challenger's liquidity pool. 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 30 June 2019, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of $134m (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 30 June 2019, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of $60m (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, 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 property portfolio at 30 June 2019 would result in a $34m (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 30 June 2019 would have resulted in a $60m (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 movement impacts the valuation of equity investments by 10%. 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% and 3.8% per annum, depending on different age cohorts. 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.

In FY19 Life recaptured one of its longevity risk arrangements and now retains the longevity risk in respect of this portfolio of lifetime annuities. As a result, Challenger's exposure to life insurance risk increased during FY19.

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 $20m (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 30 June 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 30 June 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 in order 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.

Funds Management financial results

$m	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Fidante Partners									
Fidante Partners income[1]	83.2	73.6	77.6	39.4	43.8	37.1	36.5	38.1	39.5
Performance fees	3.5	19.3	2.4	1.0	2.5	12.9	6.4	1.3	1.1
Net income	**86.7**	**92.9**	**80.0**	**40.4**	**46.3**	**50.0**	**42.9**	**39.4**	**40.6**
Challenger Investment Partners (CIP)									
CIP income[2]	63.2	58.3	54.0	34.3	28.9	29.2	29.1	29.3	24.7
Total net fee income	**149.9**	**151.2**	**134.0**	**74.7**	**75.2**	**79.2**	**72.0**	**68.7**	**65.3**
Personnel expenses	(64.8)	(62.3)	(62.6)	(32.9)	(31.9)	(32.4)	(29.9)	(30.7)	(31.9)
Other expenses	(34.2)	(31.0)	(26.3)	(17.0)	(17.2)	(16.0)	(15.0)	(13.6)	(12.7)
Total expenses	**(99.0)**	**(93.3)**	**(88.9)**	**(49.9)**	**(49.1)**	**(48.4)**	**(44.9)**	**(44.3)**	**(44.6)**
EBIT	**50.9**	**57.9**	**45.1**	**24.8**	**26.1**	**30.8**	**27.1**	**24.4**	**20.7**
Performance analysis									
Fidante Partners – income margin (bps)[3]	15	17	17	14	16	18	16	16	18
CIP – income margin (bps)[3]	33	33	36	36	31	32	34	38	34
Cost to income ratio	66.0%	61.7%	66.4%	66.8%	65.3%	61.1%	62.4%	64.5%	68.3%
Net assets – average[4]	216.7	197.2	181.4	221.8	212.3	201.6	194.9	185.4	176.9
ROE (pre-tax)	23.5%	29.4%	24.8%	22.6%	24.4%	30.8%	27.6%	26.5%	23.2%
Fidante Partners	58,912	59,630	50,960	58,912	56,330	59,630	56,031	50,960	46,958
Challenger Investment Partners	20,117	18,354	15,945	20,117	18,684	18,354	17,397	15,945	15,155
Closing FUM – total	**79,029**	**77,984**	**66,905**	**79,029**	**75,014**	**77,984**	**73,428**	**66,905**	**62,113**
Fidante Partners	58,556	55,825	46,791	58,173	58,621	57,559	54,120	48,791	44,815
Challenger Investment Partners	18,911	17,575	15,006	19,042	18,747	18,272	16,853	15,725	14,308
Average FUM – total[4]	**77,467**	**73,400**	**61,797**	**77,215**	**77,368**	**75,831**	**70,973**	**64,516**	**59,123**
FUM and net flows analysis									
Fidante Partners	(3,636.1)	3,872.3	4,125.8	(2,590.3)	(1,045.8)	1,375.3	2,497.0	2,384.8	1,741.0
Challenger Investment Partners	1,197.7	1,428.9	2,094.8	1,129.0	68.7	(8.4)	1,437.3	618.7	1,476.1
Net flows	(2,438.4)	5,301.2	6,220.6	(1,461.3)	(977.1)	1,366.9	3,934.3	3,003.5	3,217.1
Distributions	(794.7)	(657.7)	(504.2)	(353.0)	(441.7)	(318.6)	(339.1)	(248.2)	(256.0)
Market-linked movement	4,278.5	6,434.7	4,527.4	5,829.2	(1,550.7)	3,507.4	2,927.3	2,037.1	2,490.3
Total FUM movement	**1,045.4**	**11,078.2**	**10,243.8**	**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	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18
Funds Under Management					
Fidante Partners					
Equities	25,864	26,463	23,806	26,578	26,349
Fixed income	25,988	24,527	24,334	24,611	25,036
Alternatives	7,060	8,290	8,190	8,337	8,245
Total Fidante Partners	58,912	59,280	56,330	59,526	59,630
Challenger Investment Partners					
Fixed income	14,568	13,082	12,839	13,053	12,346
Property	5,549	5,723	5,845	5,654	6,008
Total Challenger Investment Partners	20,117	18,805	18,684	18,707	18,354
Total Funds Under Management	**79,029**	**78,085**	**75,014**	**78,233**	**77,984**
Average Fidante Partners	58,540	58,083	57,634	59,834	58,489
Average Challenger Investment Partners	19,308	18,717	18,814	18,670	18,807
Total average Funds Under Management[1]	**77,848**	**76,800**	**76,448**	**78,504**	**77,296**
Analysis of flows					
Equities	(2,345)	231	(67)	(44)	(188)
Fixed income	1,128	(238)	(167)	(447)	230
Alternatives	(1,327)	(39)	(166)	(155)	(71)
Total Fidante Partners	**(2,544)**	**(46)**	**(400)**	**(646)**	**(29)**
Challenger Investment Partners	1,120	9	(155)	224	(685)
Net flows	**(1,424)**	**(37)**	**(555)**	**(422)**	**(714)**

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

Reconciliation of total group assets and Funds Under Management

$m	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18
Funds Under Management (FUM)	79,029	78,085	75,014	78,233	77,984
Life investment assets	19,010	18,639	18,624	18,347	18,085
Adjustments to remove double counting of cross-holdings	(16,269)	(15,311)	(15,252)	(15,308)	(14,926)
Total Assets Under Management	**81,770**	**81,413**	**78,386**	**81,272**	**81,143**

Funds Management financial results

Funds Management focuses on building savings for retirement by providing products seeking to deliver superior investment returns.

As 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 has expanded into international markets and comprises two business divisions: Fidante Partners and Challenger Investment Partners.

Fidante Partners 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.

Challenger Investment Partners (CIP) originates and manages assets for leading global and Australian institutions, including Challenger Life. CIP is a manager that 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.

The Funds Management business is growing strongly, with funds under management (FUM) increasing by approximately 68% over the last five years to $79bn.

EBIT and ROE

Funds Management EBIT was $51m and decreased by $7m (12%) on FY18. The decrease in Funds Management EBIT was due to lower performance fees and an increase in expenses, offset by strong growth in underlying FUM-based and transaction fee net income.

Excluding performance fees, Funds Management net income increased by 11% and EBIT increased by 23%.

Funds Management ROE was 23.5% in FY19 and decreased by 590 bps from 29.4% in FY18. ROE was impacted by lower EBIT and higher average net assets. Average net assets were 10% higher than FY18 due to an increase in the number of boutiques and establishment of the Japanese office.

Total net fee income

FY19 total net income was $150m and decreased by $1m (down 1%) on FY18. Underlying FUM-based net fee income was strong, offset by lower performance fees.

Expenses

FY19 Funds Management expenses were $99m and increased by $6m (6%) on FY18. Personnel expenses increased by $3m, predominantly due to an increase in headcount following the establishment of the Japanese office. Other expenses also increased by $3m due to increased marketing, technology and operating costs.

The FY19 cost to income ratio was 66.0% and increased by 430 bps from 61.7% in FY18.

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 $87m in FY19, down $6m from FY18. Fidante Partners' net income was predominantly impacted by lower performance fees (down $16m), offset by higher FUM-based income and Fidante Europe transaction fees (up $10m).

Fidante Partners' income margin (net income to average FUM) was 15 bps in FY19, down 2 bps from FY18. Fidante Partners' income margin was impacted by:

- lower performance fees (-3 bps); offset by
- higher Fidante Partners Europe transaction fees (+1 bps).

Fidante Partners income margin on FUM-based income remained stable with a positive impact from a high proportion of retail FUM, offset by the impact of a change in FUM mix. Over the year, the proportion of fixed income increased by 2% with a corresponding decrease in alternatives.

Fidante Partners' FUM and net flows

Fidante Partners' FUM at 30 June 2019 was $58.9bn and decreased by $0.7bn (1%) from FY18. The decrease in Fidante Partners' FUM for the year was due to:

- net flows of -$3.6bn; and
- positive investment markets (net of distributions) of $2.9bn as a result of favourable domestic and international equity markets.

Fidante Partners FY19 net outflows of $3.6bn were impacted by a significant one-off redemption by a profit-for-member fund client ($3.9bn), predominately driven by internalisation of asset management by the fund.

Fidante Partners' 30 June 2019 FUM is invested in the following asset classes:

- 44% in equities (FY18 44%);
- 44% in fixed income (FY18 42%); and
- 12% in alternatives (FY18 14%).

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 $6.8bn at 30 June 2019, down $1.1bn on FY18. The decrease in Fidante Partners Europe FUM was driven by asset realisations.

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

Challenger Investment Partners' net income

Challenger Investment Partners' (CIP) net income was $63m in FY19 and increased by $5m (8%) on FY18.

CIP's income margin (net income to average FUM) was 33 bps in FY19 and was unchanged from FY18.

Challenger Investment Partners' FUM and net flows

CIP's FUM at 30 June 2019 was $20.1bn and increased by $1.8bn (10%) for the year. The increase in CIP's FUM was due to:

- net flows of $1.2bn, predominantly from Life; and
- positive market movement of $0.6bn.

CIP's 30 June 2019 FUM is invested in the following asset classes:

- 72% in fixed income (FY18 67%); and
- 28% in property (FY18 33%).

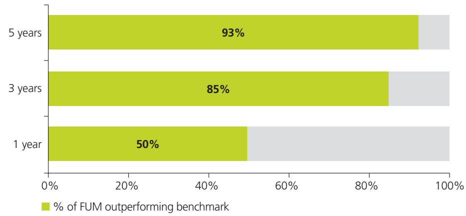
The proportion of property reduced and fixed income increased predominately as a result of Life's decision to rebalance its portfolio with approximately $1bn of direct properties sold throughout the year. This resulted in lower property managed by CIP, with the proceeds redeployed to fixed income.

Third party clients accounted for ~22% of CIP's FY19 FUM, unchanged from FY18.

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 both Fidante Partners and CIP remains strong with 93% of FUM outperforming benchmark over five years.[1]



[1] As at 30 June 2019. Percentage of Funds Management Australian boutiques and CIP funds meeting or exceeding performance benchmark over five years.

Corporate financial results

$m	FY19	FY18	FY17	2H19	1H19	2H18	1H18	2H17	1H17
Other income	**1.0**	**1.0**	**0.8**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**
Personnel expenses	(38.6)	(41.8)	(38.5)	(19.6)	(19.0)	(21.7)	(20.1)	(20.7)	(17.8)
Other expenses	(10.3)	(10.4)	(11.9)	(4.8)	(5.5)	(4.6)	(5.8)	(6.1)	(5.8)
Total expenses (excluding LTI)	**(48.9)**	**(52.2)**	**(50.4)**	**(24.4)**	**(24.5)**	**(26.3)**	**(25.9)**	**(26.8)**	**(23.6)**
Long-term incentives (LTI)	(13.0)	(16.0)	(16.4)	(5.9)	(7.1)	(8.8)	(7.2)	(8.3)	(8.1)
Total expenses	**(61.9)**	**(68.2)**	**(66.8)**	**(30.3)**	**(31.6)**	**(35.1)**	**(33.1)**	**(35.1)**	**(31.7)**
Normalised EBIT	**(60.9)**	**(67.2)**	**(66.0)**	**(29.8)**	**(31.1)**	**(34.6)**	**(32.6)**	**(34.7)**	**(31.3)**
Interest and borrowing costs	(5.3)	(6.1)	(5.3)	(2.4)	(2.9)	(3.2)	(2.9)	(3.0)	(2.3)
Normalised loss before tax	**(66.2)**	**(73.3)**	**(71.3)**	**(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 $61m in FY19, up $6m on FY18 as a result of lower expenses.

Other income

FY19 other income was unchanged on FY18 and represents interest received on Group cash balances.

Group cash at 30 June 2019 was $92m, up $7m on FY18.

Total expenses

FY19 Corporate expenses were $62m and decreased by $6m on FY18.

Corporate expenses include personnel costs of $39m, which decreased by $3m on FY18. Other expenses were $10m in FY19 and were unchanged from FY18.

Long-term incentive (LTI) costs relate to the non-cash amortisation of equity grants. LTI costs were $13m and decreased by $3m on FY18 driven by the lapse of unvested equity awards and lower Treasury share dividends.

Interest and borrowing costs

FY19 interest and borrowing costs relate to debt facility fees on the Group's banking facility. FY19 interest and borrowing costs were $5m and decreased $1m on FY18.

The Group maintains a $400m banking facility in order to provide financial flexibility. The Group banking facility was undrawn throughout FY19.

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 a 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 expenses

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 each asset class's average balance for the period (net of debt).

Normalised capital growth assumptions for FY19 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 – 4.50% (FY20 on 3.50%).

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.

Commencing from 1 July 2019 (FY20), the Equity and other normalised growth assumption reduced from 4.5% per annum to 3.5% per annum to reflect a change in the portfolio composition. Challenger's equities portfolio has in place a number of strategies to reduce the impact of investment market volatility, with 45% of the portfolio considered low beta, with an average long-term equity market beta of 0.5 (refer to page 40 for more detail).

The lower equities normalised growth assumption has the impact of reducing Life's FY20 COE by approximately -$23m.

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 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 in relation to policy liability changes 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 (CIP)	Liquid version of Guaranteed Index Return (GIR) product
CIP income	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 mandates with guaranteed fixed income returns.
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).
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 the 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)	
Q1 20 Sales and AUM	16 October 2019
2019 Annual General Meeting	31 October 2019
2020 Half-year financial results	11 February 2020
Q3 20 Sales and AUM	23 April 2020
2020 Full-year financial results	11 August 2020
2020 Annual General Meeting	29 October 2020

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