

# 1H22 Financial results

**Business momentum driving  
strong earnings growth**

17 February 2022

# Overview

Providing customers with financial security for a better retirement



## Business performance

Nick Hamilton – Managing Director and Chief Executive Officer

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## Financial results

Rachel Grimes AM – Chief Financial Officer

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## Strategy and financial outlook

Nick Hamilton – Managing Director and Chief Executive Officer

# Highlights

## Business momentum driving strong earnings growth



### Strong earnings growth

Converting AUM growth into earnings growth  
On-track to achieve full-year guidance and targets



### Improving shareholder returns

ROE increase and in-line with target  
Dividend increase from earnings growth



### Significant business momentum

Successful diversification strategy driving Life and Funds Management growth  
Bank acquisition to extend customer reach and further diversify offering



### Executing strategy to drive growth

Focused and experienced team  
Priorities to drive sustainable growth

# Business performance

**Nick Hamilton**  
Managing Director & Chief Executive Officer



# 1H22 performance

**Strong earnings growth and on-track to achieve full-year guidance**  
**Significant business momentum**

Life sales <b>\$4.9bn +44%</b>	<b>Record Life and annuity sales</b> driven by successful diversification strategy
FM net flows <b>\$0.9bn</b>	<b>Momentum</b> in domestic and offshore <b>net flows</b>
Group AUM <b>\$115bn +20%</b>	<b>Strong AUM growth across both</b> Life and Funds Management
Normalised NPBT <b>\$238m +21%</b>	Earnings benefiting from <b>AUM growth</b> with <b>stable margins</b>
Statutory NPAT <b>\$282m +27%</b>	<b>~70% above Normalised NPAT</b> (\$166m) with significant investment gains
Dividend <b>11.5cps +21%</b>	<b>Growing dividend</b> and in-line with payout policy



1H22 – 31 December 2021

# Life performance

**No.1 retirement income business**  
**Record sales and strong book growth**

**Record Life sales \$4.9bn +44%**

**Record annuity sales \$2.5bn +15%**

Benefiting from successful diversification strategy

**Life book growth +\$1.4bn (+8.4% liability growth)**

**Annuity book growth +\$0.6bn (+4.4% liability growth)**

## Focus on institutional relationships

Term annuities +146% – similar economics to retail annuities

Index Plus +95% – new clients and reinvestments

## New innovative retirement income solution

Launched market-linked lifetime annuity

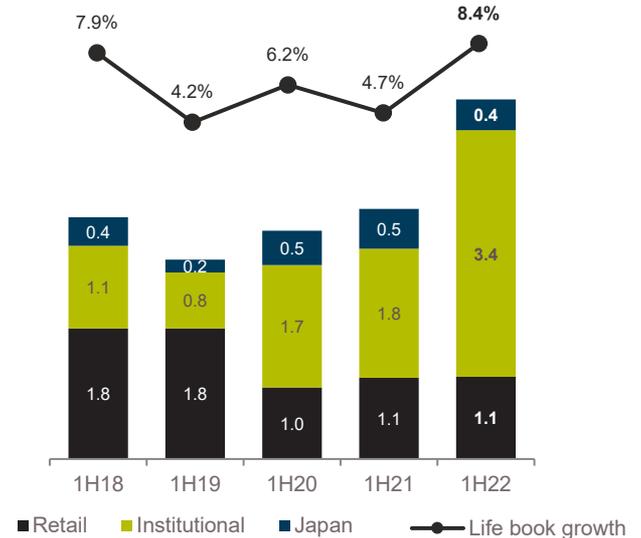
## Retirement Income Covenant

Legislated and commencing July 2022

Life sales (\$bn) and book growth (%)

1H22 sales \$4.9bn +44%

1H22 book growth +8.4%



# Funds Management performance

Leading active manager platform

Distribution and product initiatives driving growth

## Market leading domestic distribution

Zenith 'Distributor of the Year'<sup>1</sup>

#1 Australian active manager for retail flows<sup>2</sup>

#1 domestic fixed income; #1 Australian active equities

## Expanding offshore

Ardea UK office established

Significant UK and US client wins

Singapore team recruited and regulatory approvals in progress

## Expanding product range



New Emerging Markets equity boutique



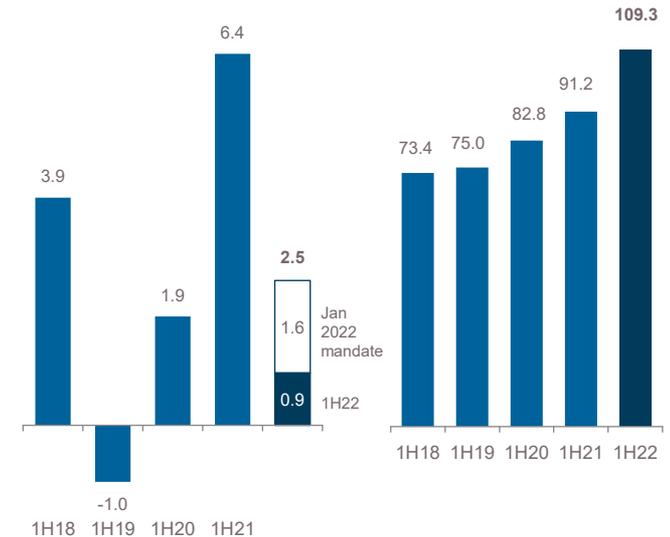
New Global Sustainable Equity Fund



Credit Income Fund highly rated with superior performance

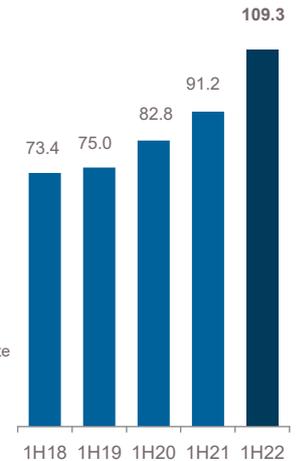
### Net flows (\$bn)

1H22 \$0.9bn



### FUM (\$bn)

1H22 \$109bn +20%



1H22 – 31 December 2021

1. Zenith Investment Partners 'Distributor of the year' 2021 and 2020.

2. Plan for Life assets under management and funds flow data for the year to 30 September 2021.

# Bank integration

**Extending customer reach and diversifying product offering**  
**Initial sales support strategy to attract pre-retiree customers**

## Regulatory approval received

Acquisition completed 30 July 2021

## Integration well progressed

Executive team and Board appointed  
Bank infrastructure established  
Treasury function established and operating

## Developing distribution channels

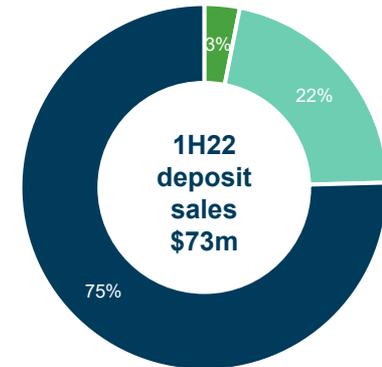
TDs available via comparator sites<sup>1</sup>  
Preparing for retail broker channel launch

## Initiatives to support sales

Rebranding to Challenger in 2H22  
Awaiting approvals to expand lending activities



Majority of deposit sales to customers >50 years of age



- <30 years of age
- 30-50 years of age
- >50 years of age

1H22 – 31 December 2021

1. From September 2021 MyLife MyFinance branded term deposits available on Mozo and Canstar comparator sites.

# Financial results

**Rachel Grimes AM**  
Chief Financial Officer



# Group snapshot

## Strong earnings performance

## On-track to achieved full year guidance and targets

	1H22	Change
Net income	\$387m	+19%
Expenses	(\$147m)	+16%
<b>EBIT</b>	<b>\$240m</b>	<b>+21%</b>
Interest & borrowing	(\$2m)	-17%
<b>Normalised NPBT</b>	<b>\$238m</b>	<b>+21%</b>
Normalised tax	(\$72m)	+21%
<b>Normalised NPAT<sup>1</sup></b>	<b>\$166m</b>	<b>+21%</b>
Investment experience	\$109m	+25%
Significant items	\$7m	n/a
<b>Statutory NPAT<sup>1</sup></b>	<b>\$282m</b>	<b>+27%</b>
Group AUM	\$115bn	+20%
Normalised EPS	24.5cps	+20%
Normalised ROE	12.1%	+60bps
Dividend	11.5cps	+21%

**Normalised NPBT**  
**\$238m +21%**

**Life** \$233m +21%  
**FM** \$45m +28%  
**Bank** (\$3m)  
**Corporate** (\$35m) -20%

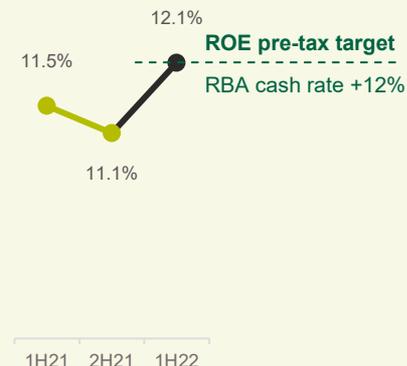


**FY22 guidance**  
\$430m – \$480m

**1H22 \$238m**  
52% of mid-point  
of FY22 guidance  
range

**Normalised ROE**  
**12.1% +60bps**

**In-line with ROE target<sup>2</sup>**



1H22 – 31 December 2021

1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2022 Interim Financial Report – Operating and Financial Review Section 8.  
2. Normalised ROE (pre tax) target RBA cash rate (1H22: 0.10 per cent) plus a margin of 12 per cent.

# EBIT up 21%

## Earnings growth driven by AUM growth with stable margins

**Income \$387m**

+19% on 1H21  
+8% on 2H21

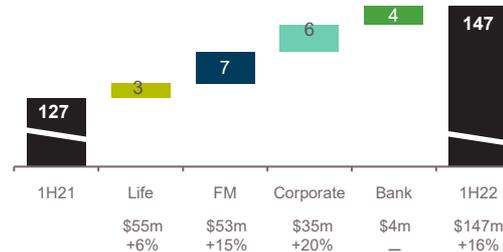
**Average AUM** +17%  
**Life COE<sup>1</sup> \$287m** +18%

**Average FUM** +26%  
**FM net income \$98m** +21%

**Bank deposit book** \$153m  
**Bank net income** \$1m

**Expenses \$147m**

+16% on 1H21 (+13% ex. Bank)  
-5% on 2H21 (-8% ex. Bank)



**Personnel \$101m +17%**

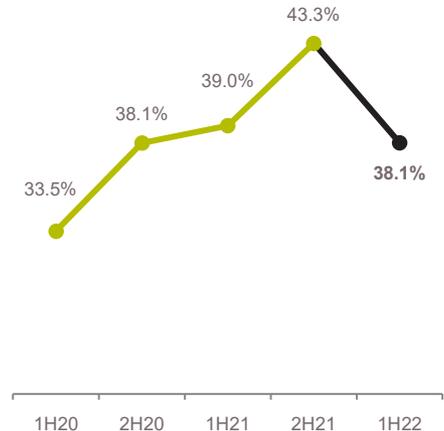
- Increase in FTEs to support growth
- COVID-19 lower annual leave taken

**Other \$46m +0%**

- Stable despite growth initiatives

**EBIT \$240m**

+21% on 1H21  
Cost ratio 38.1% -90 bps



1H22 – 31 December 2021

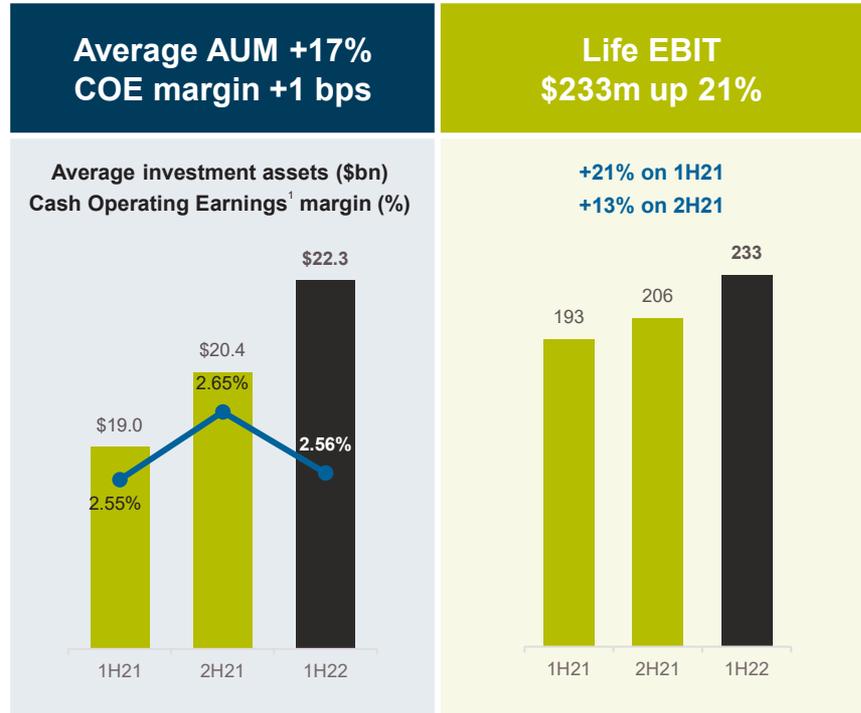
1. Normalised Cash Operating Earnings (COE).

# Life performance

## Record sales

## Earnings growth from higher AUM and stable margin

- ✓ Life sales \$4.9bn +44%  
Annuity sales \$2.5bn +15%
- ✓ Life book growth +8.4%  
Annuity book growth +4.4%
- ✓ Cash Operating Earnings<sup>1</sup> \$287m +18%  
Cash Operating Earnings margin<sup>1</sup> 2.56% +1 bps
- ✓ EBIT \$233m +21%
- ✓ Investment portfolio performing  
Positive investment experience of \$156m<sup>2</sup>
- ✓ Strongly capitalised with PCA ratio of 1.69x  
Around top end of target range<sup>3</sup>



1H22 – 31 December 2021

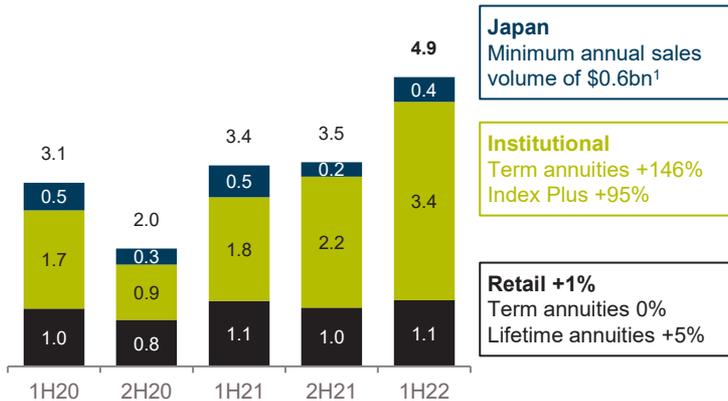
1. Life Normalised Cash Operating Earnings (COE) represents investment yield and other income less interest and distribution expenses.  
2. Investment experience \$156m pre-tax.  
3. Prescribed Capital Ratio (PCA) relative to target range of 1.3 times to 1.7 times with target to operate around 1.60 times.

# Life sales and book growth

## Record sales driving liability and asset growth

### Record Life and annuity sales (\$bn)

1H22 \$4.9bn +44%



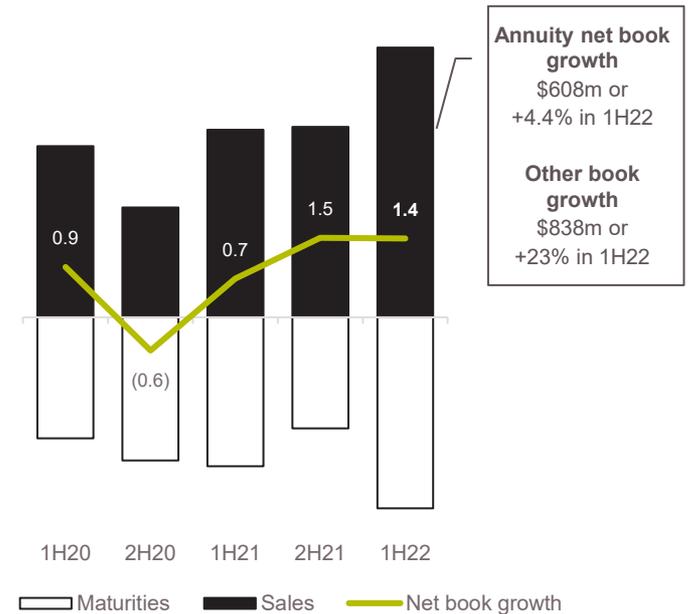
■ Retail \$1.1bn (+1%) – stable throughout COVID-19 lockdowns

■ Institutional \$3.4bn (+91%) – new clients and reinvestments

■ Japan \$0.4bn (-22%) – 70% of minimum annual sales volume

### Life book growth (\$bn)

1H22 +\$1.4bn net flows or +8.4% book growth



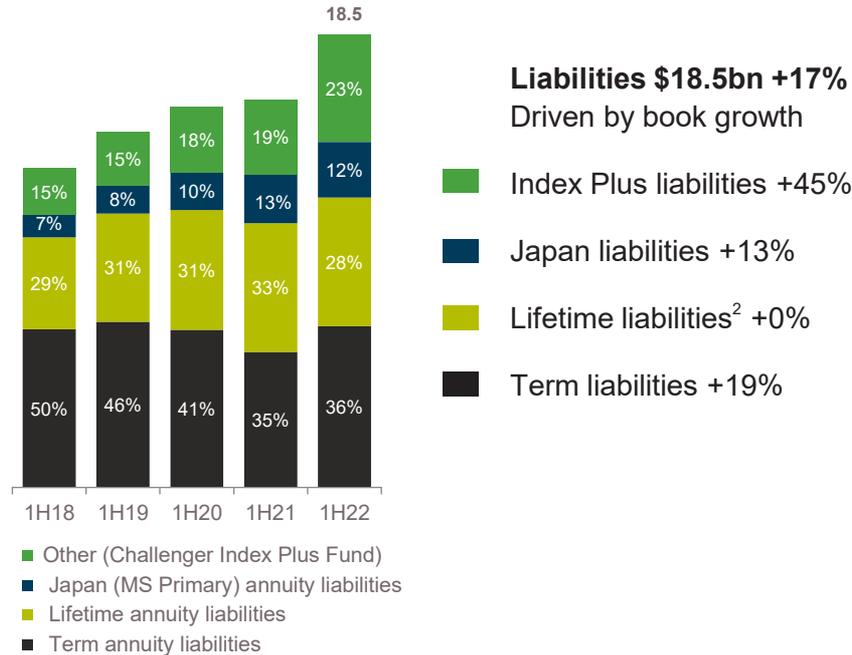
1H22 – 31 December 2021

1. Under the reinsurance arrangement, MS Primary provides Challenger an amount of reinsurance, across both Australian and US dollar denominated annuities, of at least ¥50b (currently ~A\$600m based on 30 June 2021 exchange rate) 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.

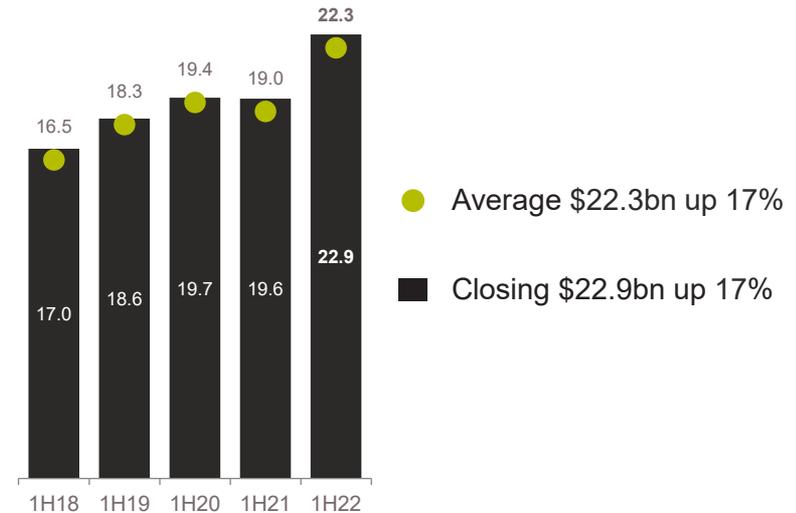
# Life investment assets

## Record sales driving book and asset growth

Life annuity and other liabilities (\$bn)<sup>1</sup>



Life investment assets (\$bn)



1H22 – 31 December 2021

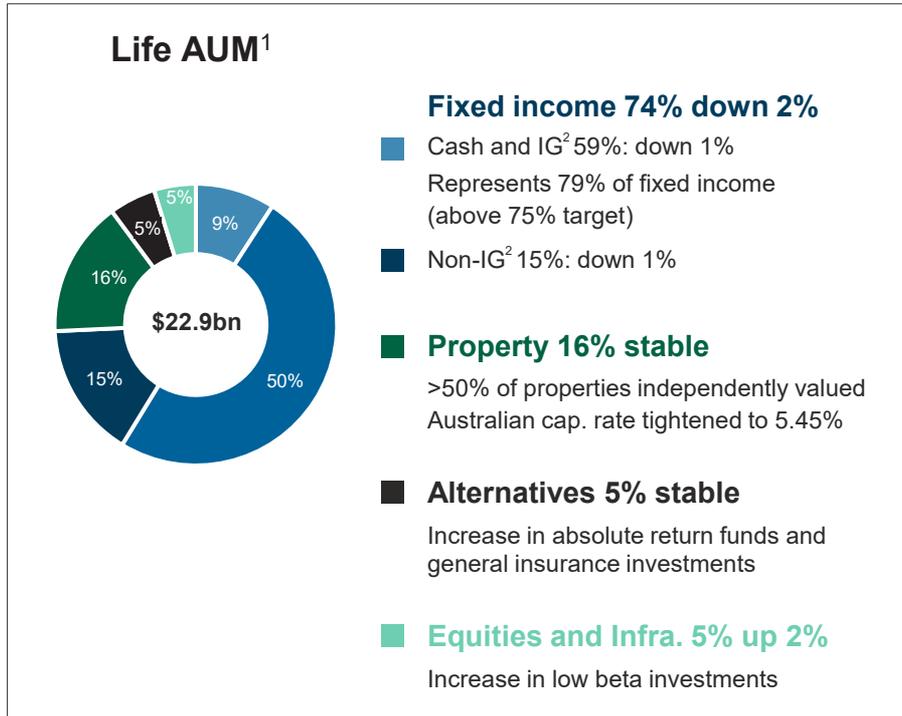
1. Discounted Life annuity liabilities and Challenger Index Plus Fund liabilities.

2. Lifetime annuities liabilities includes CarePlus, a product that pays income for life and is specifically designed for the aged care market.

# Life investment assets

## Maintaining stable asset allocation

## Positive investment experience



**Investment Experience (pre-tax)**

<b>Fixed income</b>	<b>\$23m</b>	Relatively stable spreads Credit default 2bps <sup>3</sup> lower than default assumption (-35 bps p.a)
<b>Property</b>	<b>\$80m</b>	Actual gain <sup>4</sup> : Office +2.1%; Retail +4.2%; Industrial +12.4% Above growth assumption (+2% p.a)
<b>Equities &amp; Infrastructure</b>	<b>\$3m</b>	In-line with growth assumption (+4% p.a)
<b>Alternatives</b>	<b>\$2m</b>	In-line with growth assumption (0% p.a)
<b>Policy liability</b>	<b>\$48m</b>	Illiquidity premium (+\$58m) New business strain (-\$36m) Policy liabilities (+\$26m)
<b>Total</b>	<b>\$156m</b>	

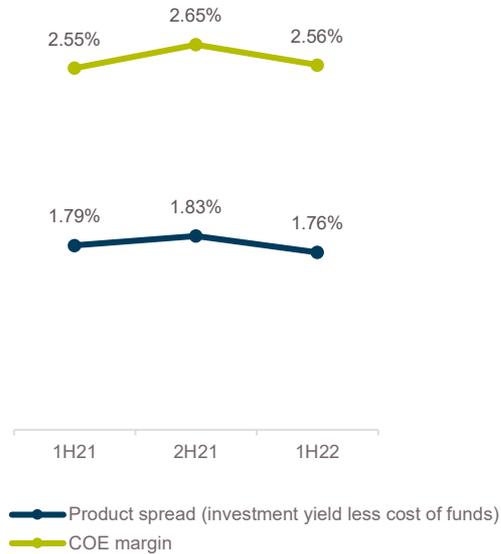
1H22 – 31 December 2021

1. All comparisons are 1H22 versus 2H21.  
 2. Investment Grade (IG) represents BBB or higher.  
 3. Credit default experience of \$2m (2bps annualised) recognised in 1H22 investment experience.  
 4. 1H22 valuation movement for Australian direct property portfolio.

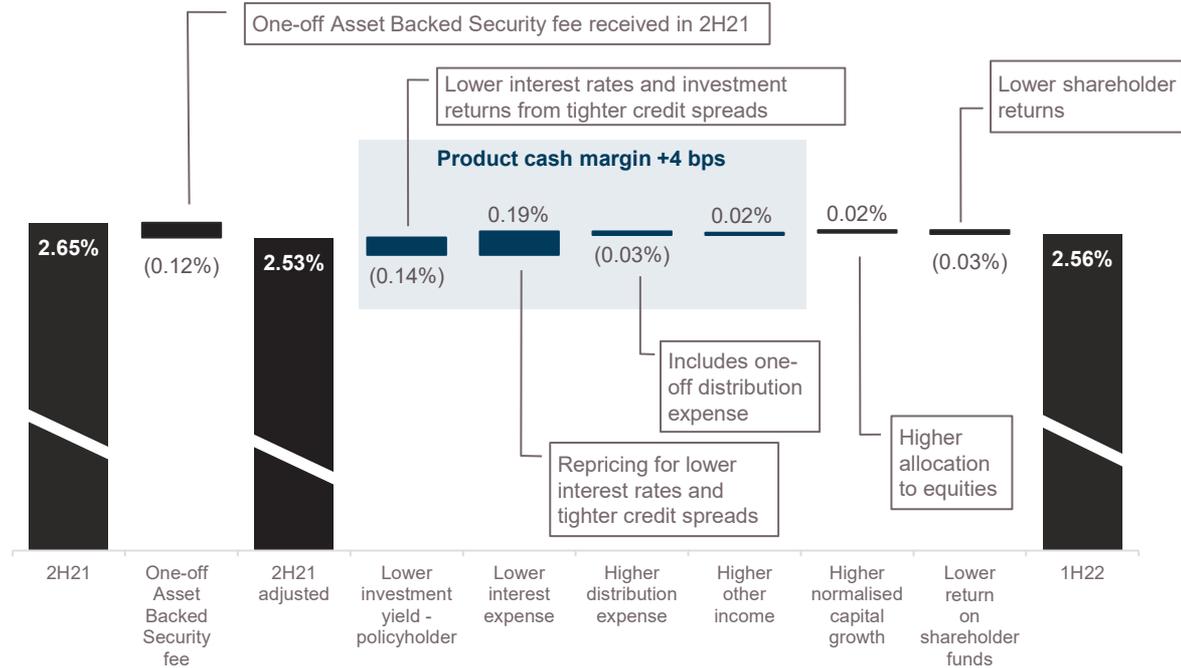
# Life COE margin

## Disciplined approach

COE<sup>1</sup> margin and product spread<sup>2</sup>



1H22 COE<sup>1</sup> margin compared to 2H21



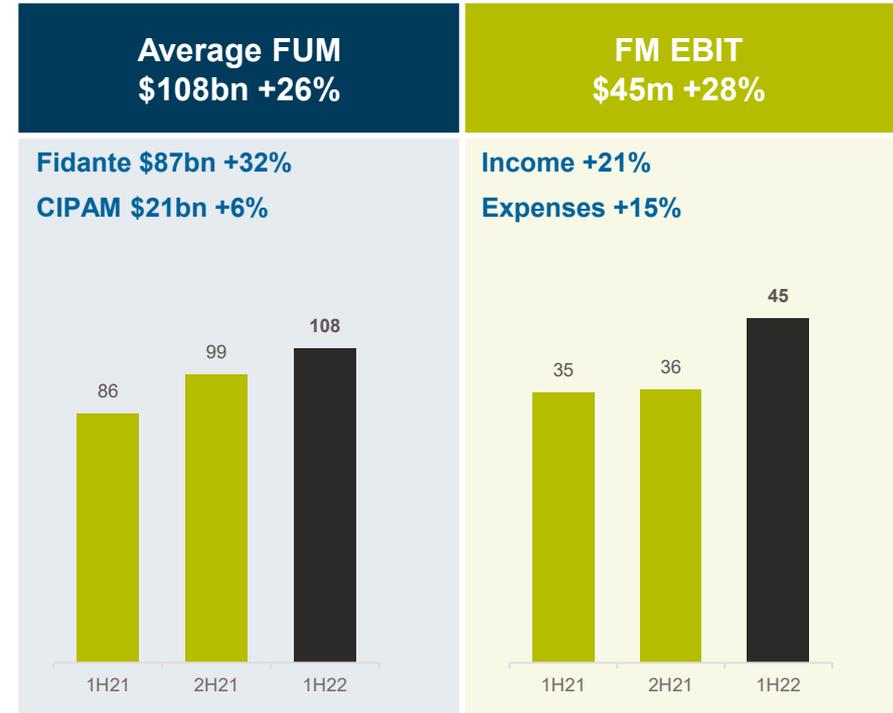
1H22 – 31 December 2021

1. Life Normalised Cash Operating Earnings (COE).  
 2. Product spread represents investment yield (policyholder) less interest expense.

# Funds Management performance

## Flows and investment performance underpinning growth

- ✓ Average FUM \$108bn +26%
- ✓ Net income \$98m +21%
- ✓ FUM-based margin stable at 17bps
- ✗ Income margin 18bps -1bps  
Expenses +15% – investing for growth
- ✓ EBIT \$45m +28%
- ✓ ROE 34% – up 600 bps
- ✓ Superior investment performance<sup>1</sup>



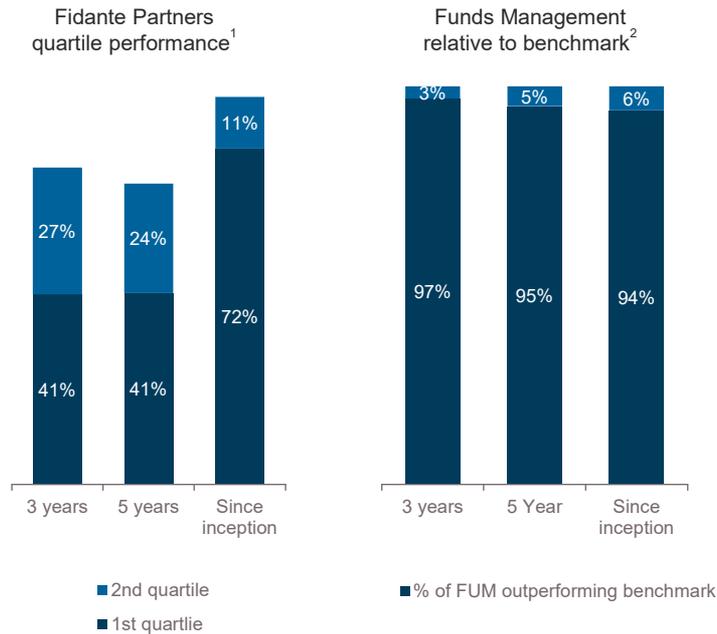
1H22 – 31 December 2021

1. 97% of FUM outperforming benchmark over 3-year period.

# Funds Management

## Superior investment performance supporting net flows

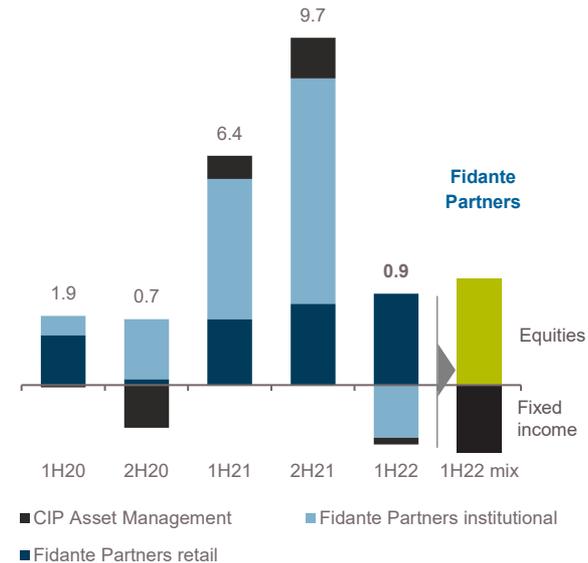
### Funds Management investment performance



### Net flows \$0.9bn

Fidante Partners retail flows +\$2.6bn

Fidante Partners institutional flows -\$1.5bn



1H22 – 31 December 2021

1. Mercer as at December 2021.

2. As at 31 December 2021. Percentage of Fidante Partners Australian boutiques meeting or exceeding the performance benchmark, with performance weighted by FUM.

# Funds Management

## FUM-based margin stable

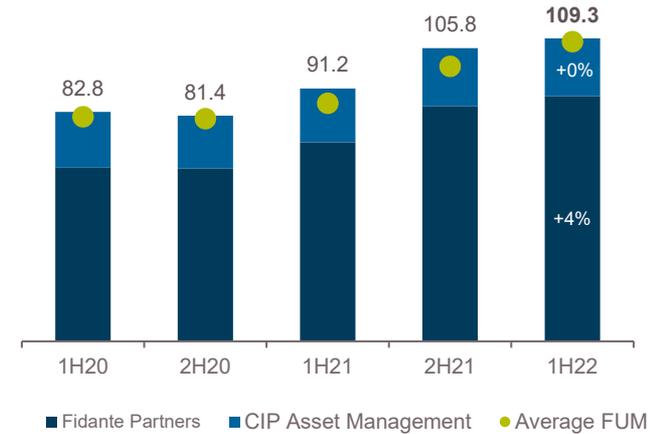
Funds Management income margin (bps)



**Total income margin -1bps** from lower performance and transaction fees (down \$3m)

**FUM-based margin stable** with higher margin retail and equities offset by change in product mix

Funds Under Management (\$bn)



**FUM growth +3% in 1H22**

Equities +15%

Fixed income -4%

Alternatives +2%

1H22 – 31 December 2021

# Bank

## Extending customer reach and diversifying product offering

Profit and loss	1H22	
Net interest income	\$1m	Based on five months since completion
Expenses	(\$4m)	Investing to support future growth
<b>EBIT (ex. significant items)</b>	<b>(\$3m)</b>	Break-even expected to take longer than initially expected
Impairments	–	High quality lending book resulting in immaterial impairments (LVR ~50%)
Integration costs (pre-tax) <sup>1</sup>	\$3m	\$4m to date (2H21 \$1m; 1H22 \$3m) On-track for initial guidance of \$5m – \$8m (includes rebranding)
KPIs and balance sheet		
Net Interest Margin <sup>2</sup>	0.99%	Expected to improve with treasury activity and establishment of lending activities
Deposit book	\$153m	Net flows of +\$18m – moderating sales until lending activity ramped up
Lending and financing assets	\$230m	~60% cash and equivalents with lending activity to be established

1H22 – 31 December 2021

1. Integration costs post-tax and reported as a significant items, with \$1m incurred in 2H21 and \$3m incurred in 1H22.

2. Net Interest Margin (NIM) calculated as annualised net interest income divided by 1H22 average interest earning assets.

# Capital management

Strongly capitalised

Dividend up 21% to 11.5cps (fully franked)

## Strongly capitalised

Challenger Group capital position

1.75x

Group minimum regulatory requirement ratio (times)<sup>1</sup>

## Additional financial flexibility

S&P credit rating

Challenger Life 'A'

stable outlook

Challenger Limited 'BBB'

stable outlook

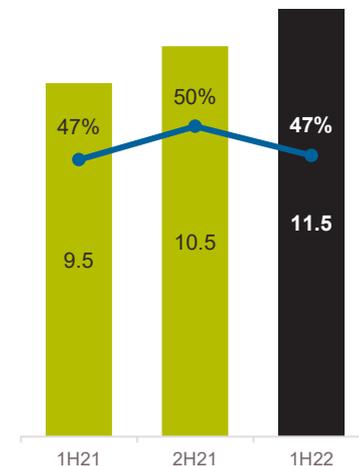
Group debt

Nil

\$400m undrawn facility

## Dividend (cps) Dividend payout ratio (%)

Dividend payout ratio 47%<sup>2</sup>  
(target 45% to 50%)



1H22 – 31 December 2021

1. Group Minimum Regulatory Requirement (MRR) represents total regulatory capital base divided by Challenger Group regulatory capital requirement.

2. Normalised dividend payout ratio represents dividend per share divided by normalised earnings per share (basic).

# Sensitivity to markets and economic factors

Well positioned

## Life

### Interest rates

Policyholder funds – hedged  
Shareholder funds – unhedged

### Inflation

Policyholder funds – hedged

### Strongly capitalised

Life PCA ratio ~1.7 times  
(31 January 2022)<sup>1</sup>

## Funds Management

### Diversified model

### Broad range of managers

### Diversified asset mix<sup>2</sup>

Fixed income 51%  
Equities 38%  
Alternatives 11%

## Challenger Group

### ROE target

RBA cash rate + 12% margin

### Pathway to higher ROE

- ▶ Rising interest rates
- ▶ Credit spread normalisation
- ▶ Lower annuity pricing<sup>3</sup>
- ▶ Funds Management growth
- ▶ Scaling recently acquired Bank

1H22 – 31 December 2021

1. Life PCA of ~1.7 times at 31 January 2022. PCA ratio includes -\$85m (unaudited and pre-tax) of investment experience for the month of January 2022, which was offset by normalised cash operating earnings and a reduction in capital intensity.

2. As at 31 January 2022.

3. Lower annuity pricing relative to swap rate.

# Strategy and financial outlook

**Nick Hamilton**  
Managing Director & Chief Executive Officer



# Challenger

Purpose supported by three complementary businesses

**Purpose** to provide customers with financial security for a better retirement

**Life**

challenger 



No. 1 Australian retirement business<sup>1</sup>

**Funds Management**



FIDANTE  
PARTNERS



cipam



One of Australia's largest managers<sup>2</sup>

**Bank**

my  
life  
my finance

Strategy to develop retirement bank

1H22 – 31 December 2021

1. Plan for Life – September 2021 – based on annuities under administration.

2. Rainmaker Roundup, September 2021.

# Market Leading Team

Focused on delivering for customers, employees, and shareholders



**Nick Hamilton**  
Managing Director and  
Chief Executive Officer

Years at Challenger: 6



**Chris Plater**  
Deputy Chief Executive Officer

Years at Challenger: 18



**Angela Murphy**  
Chief Executive Life

Years at Challenger: 9



**Michael Clarke**  
Acting Chief Executive  
Funds Management

Years at Challenger: 8



**Mark Ellis**  
Chief Executive Bank

Joined Challenger: 2021



**Rachel Grimes AM**  
Chief Finance Officer

Joined Challenger: 2021



**Stuart Kingham**  
Chief Commercial Officer

Years at Challenger: 10



**Louise Roche**  
Chief Human Resources Officer

Joined Challenger: 2020



**Tony Bofinger**  
Chief Risk Officer

Years at Challenger: 17

1H22 – 31 December 2021

# Priorities

Maintain momentum and deliver positive outcomes for stakeholders



**One Challenger** to meet more needs of retirees



Maintain **business momentum**



Continue to **drive product innovation** across business



**Rebrand** and develop **retirement bank**



Strategic opportunities with **Apollo**, including **joint venture**

# FY22 guidance and targets

On-track to meet full-year guidance and targets

		1H22 PROGRESS
GUIDANCE	<p><b>Normalised net profit before tax guidance range of \$430m to \$480m<sup>1</sup></b></p>  <p><b>Mid-point of range (\$455m)</b> (+15% increase on FY21)</p> <p>Mid-point of guidance range generates:</p> <ul style="list-style-type: none"> <li>• Group ROE in-line with target</li> <li>• Life COE margin (~2.5%)</li> </ul>	<p><b>\$238m</b></p> <p>Represents 52% of mid-point of guidance range</p>
TARGETS	<p><b>Normalised pre-tax Return on Equity (ROE)</b> – RBA cash rate plus margin of 12%</p> <p><b>Dividend payout ratio</b> – 45% to 50% normalised dividend payout ratio<sup>2,3</sup></p> <p><b>CLC<sup>4</sup> excess regulatory capital</b> – Strongly capitalised and operate around 1.60 times PCA<sup>5</sup></p>	<p><b>12.1% (in-line with target)</b></p> <p><b>47% payout ratio</b></p> <p><b>1.69x PCA</b></p>

1H22 – 31 December 2021

1. The COVID-19 situation and its impact on investment markets creates an inherently uncertain environment. This could, among other things, impact the investment returns and therefore impact guidance.

2. Normalised dividend payout ratio represents dividend per share divided by normalised earnings per share (basic).

3. Dividend subject to market conditions and capital management priorities.

4. Challenger Life Company Limited (CLC).

5. CLC maintains a target level of capital representing APRA's Prescribed Capital Amount (PCA) plus a target surplus and does not target a fixed PCA ratio. The target PCA ratio range is currently 1.30 times to 1.70 times with a preferred operating level of 1.60 times.

# Highlights

## Business momentum driving strong earnings growth



### Strong earnings growth

Converting AUM growth into earnings growth  
On-track to achieve full-year guidance and targets



### Improving shareholder returns

ROE increase and in-line with target  
Dividend increase from earnings growth



### Significant business momentum

Successful diversification strategy driving Life and Funds Management growth  
Bank acquisition to extend customer reach and further diversify offering



### Executing strategy to drive growth

Focused and experienced team  
Priorities to drive sustainable growth

# Appendix

**Additional background  
information**

# Appendix

## Providing our customers with financial security for a better retirement

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# Corporate strategy

Our **purpose** is to provide our customers with financial security for a better retirement

## Vision statements



**Customers**

By 2030 we will provide 1 in 5 Australian retirees with improved financial outcomes as consumers of Challenger products, and be the partner of choice for institutions and advisers.



**Community**

Champion financial security for retirement, providing financial help and education, advocating for constructive public policies and leading by example with responsible business practices.



**Employees**

Bring together a diverse group of top talent, inspired by our purpose, with strong culture and capabilities to deliver shared success.



**Shareholders**

Build resilient long-term shareholder value, leveraging the capabilities of the group to achieve compelling returns above our cost of capital.

## Strategic priorities

**Broaden customer access across multiple channels**

**Expand the range of financial products and services for a better retirement**

**Leverage the combined capabilities of the group**

**Strengthen resilience and sustainability of Challenger**

## I ACT values



**Act with integrity**



**Aim high**



**Collaborate**



**Think customer**

# Challenger overview

Providing customers with financial security for a better retirement

## Challenger Limited (ASX:CGF)<sup>1</sup>

### Life



Australia's leading provider of annuities and clear retirement leader

Guaranteed<sup>2</sup> retirement income products  
Japanese reinsurance partner  
Longevity risk transfer business  
APRA<sup>3</sup> regulated

### Funds Management



Australia's 3rd largest<sup>4</sup> and one of the fastest growing active managers<sup>5</sup>  
#1 Australian fixed income manager<sup>5</sup>

**Fidante Partners**  
Boutique investment manager platform  
**CIP Asset Management**  
Originates and manages assets for Life and third-party clients

### Bank



Bank to drive medium term growth

Digital savings and loans bank  
ADI<sup>6</sup> to allow access to term deposit market  
Access pre-retirees  
Accelerate access to direct customers

### Centralised functions

Distribution, product and marketing teams dedicated to raising capital and supporting client needs

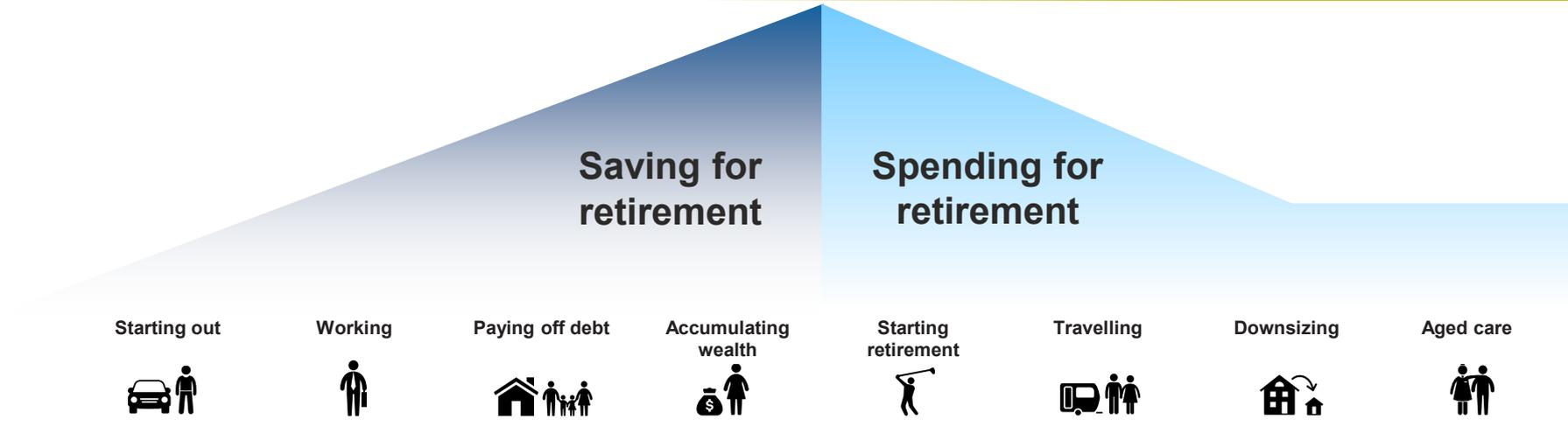
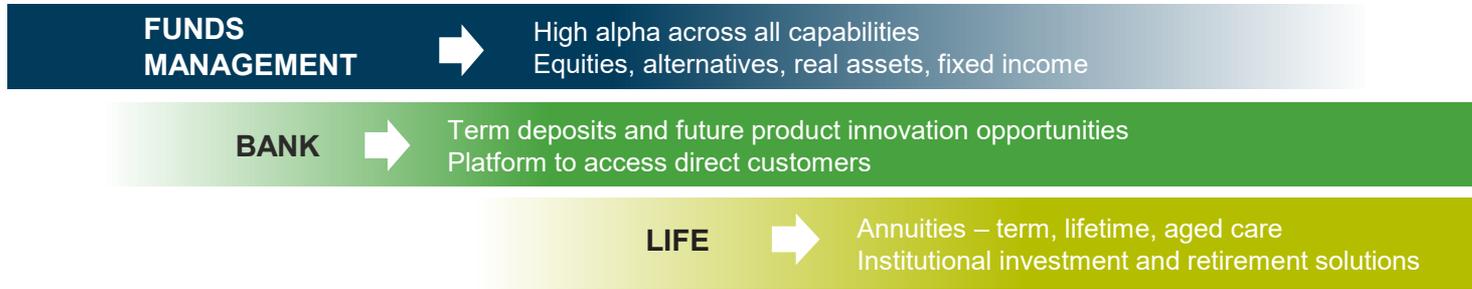
1H22 – 31 December 2021

1. Australian Securities Exchange (ASX) and trades under code CGF.  
2. The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of its relevant statutory fund.  
3. Australian Prudential Regulation Authority (APRA).

4. Calculated from Rainmaker Roundup, September 2021 data.  
5. Based on Rainmaker Roundup, September 2021 and September 2016 - 5-year CAGR for active managers.  
6. Authorised Deposit taking Institution (ADI).

# Provide customers with financial security for a better retirement

## Complementary businesses meeting the needs of retirees



1H22 – 31 December 2021

# Australian superannuation system

## Attractive market with long-term structural drivers

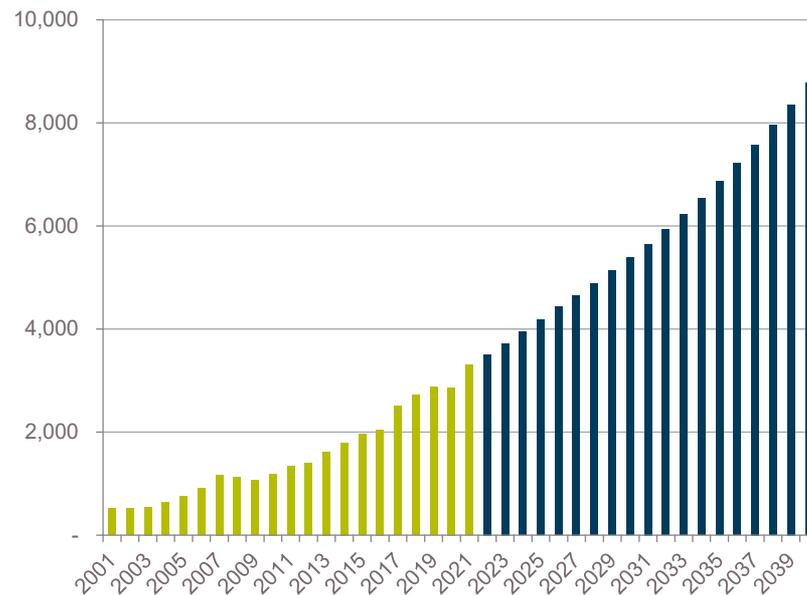
### Market growth supported by

- Mandatory and increasing contributions
- Earnings and contributions compounding
- Population growth and ageing demographics

### Resulting in

- 11% CAGR growth over last 20 years<sup>1</sup>
- 5<sup>th</sup> largest global pension market<sup>1</sup>
- Assets expected to increase from \$3.4 trillion<sup>2</sup> to \$9.2 trillion over next 20 years<sup>3</sup>

Australian superannuation growth<sup>2,3</sup> (\$bn)



1H22 – 31 December 2021

1. Willis Towers Watson Global Pension Assets Study 2021.

2. APRA Quarterly Superannuation Performance as at September 2021

3. Deloitte Dynamics of the Australian Superannuation System: The Next 20 Years to 2041.

# Australian superannuation system

## Attractive market with long-term structural drivers

### Pre-retirement (superannuation savings) phase

- Funds Management target market
- Supported by mandated and increasing contributions

### Post-retirement (superannuation spending) phase

- Life target market and supported by
  - ageing demographics
  - rising superannuation savings
  - Government and industry enhancing retirement phase

Annual transfer from pre- to post-retirement phase ~\$70bn<sup>1</sup> per year

Projected superannuation assets<sup>2</sup> (\$bn)



1. Australian Taxation Office.

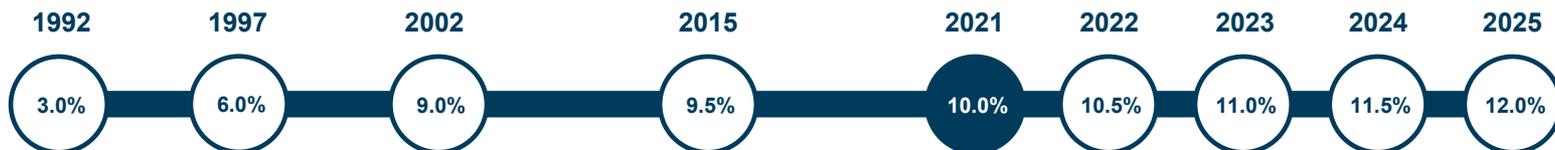
2. Deloitte Dynamics of the Australian Superannuation System: the Next 20 Years to 2041.

# Australian superannuation system

## Attractive market with long-term structural drivers

**Mandatory and increasing contributions** – increasing from 10% to 12.0%<sup>1</sup>

Superannuation Guarantee contribution rate<sup>1</sup>



## Demographics

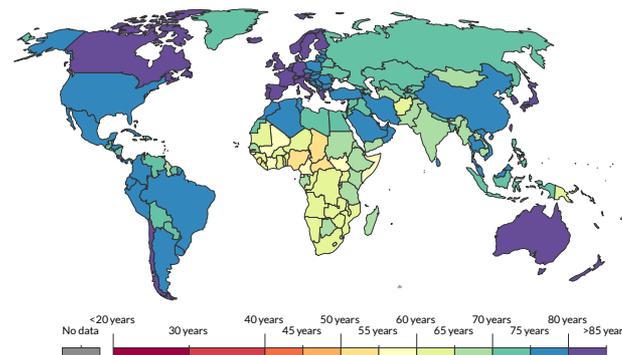
- Ageing population
- Medical and mortality improvements increasing longevity

Number of Australians over 65 increasing<sup>3</sup>

**+29% over next 10 years**

**+50% over next 20 years**

Australians have one of world's longest life expectancies<sup>2</sup>



1H22 – 31 December 2021

1. Percentage of gross wages required to be contributed to superannuation. Contribution rate increased to 10% on 1 July 2021 and increases by 0.5% per annum until reaching 12% in 2025.

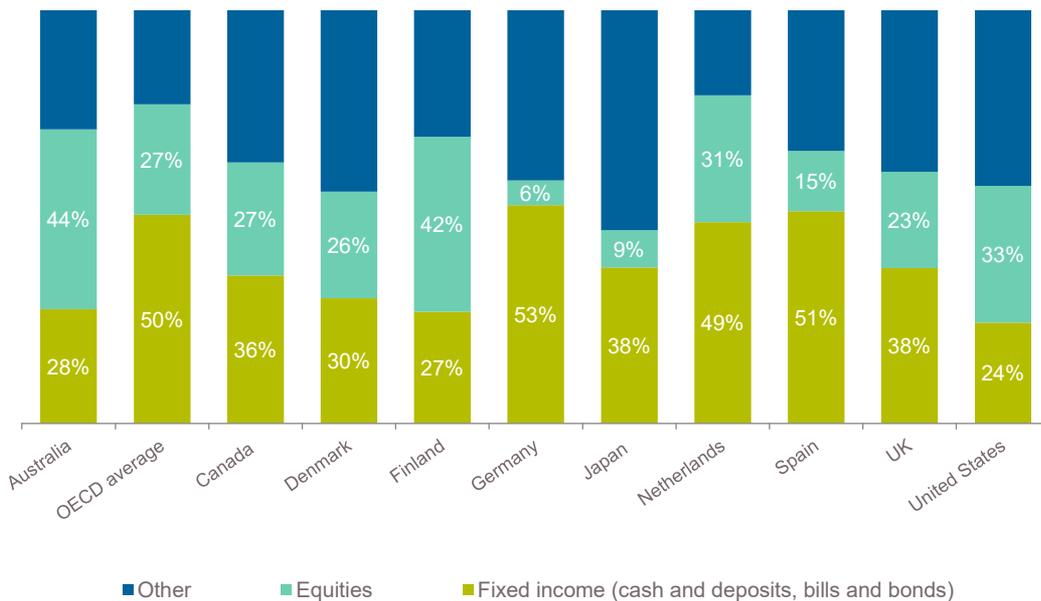
2. World Health Organisation.

3. Australian Bureau of Statistics population projections (Cat No. 3222.0 Series B middle projections).

# Australian superannuation system

## High allocation to equities and low allocation to fixed income

Australia has low fixed income and high equity allocations<sup>1</sup>



### Fixed income allocation

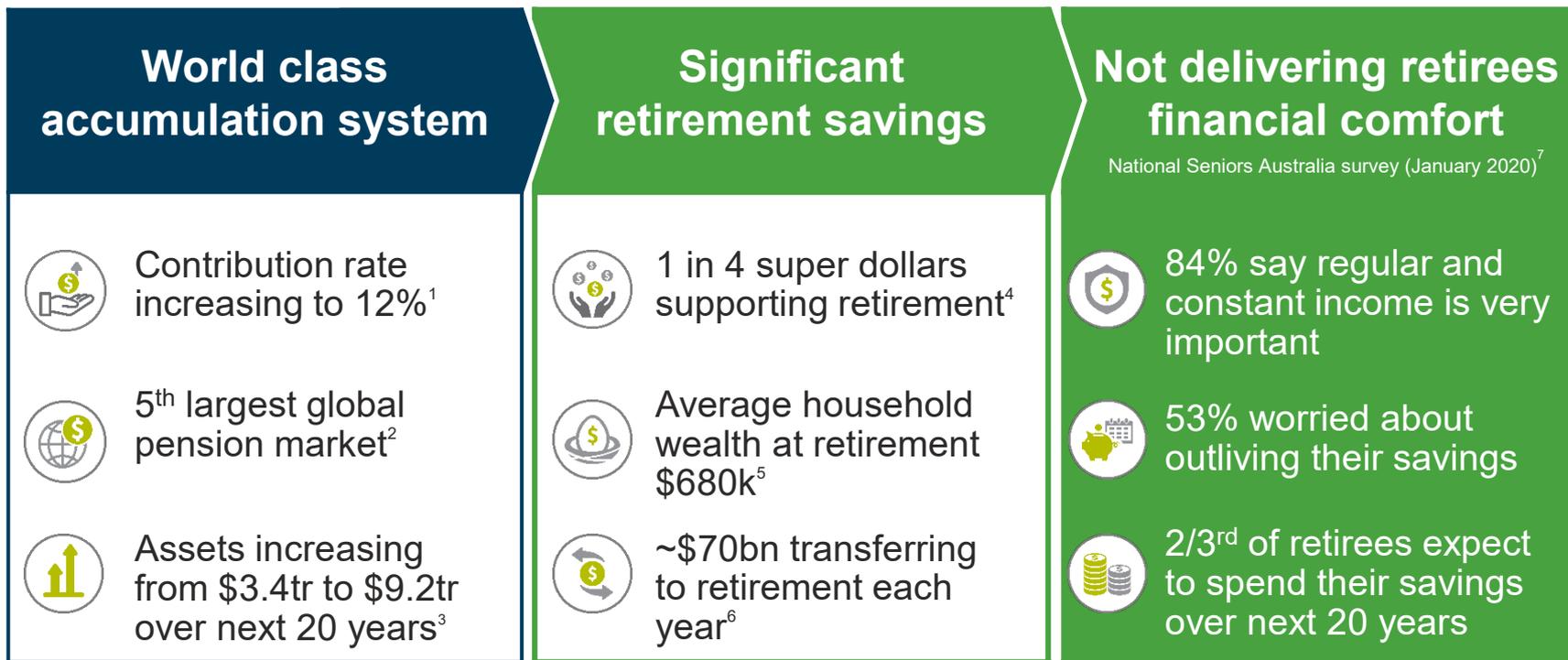
- Australia 28%
- OECD average 45%

### Equities allocation

- Australia 44%
- OECD average 24%

# Australian superannuation system

World class accumulation system with significant retirement savings



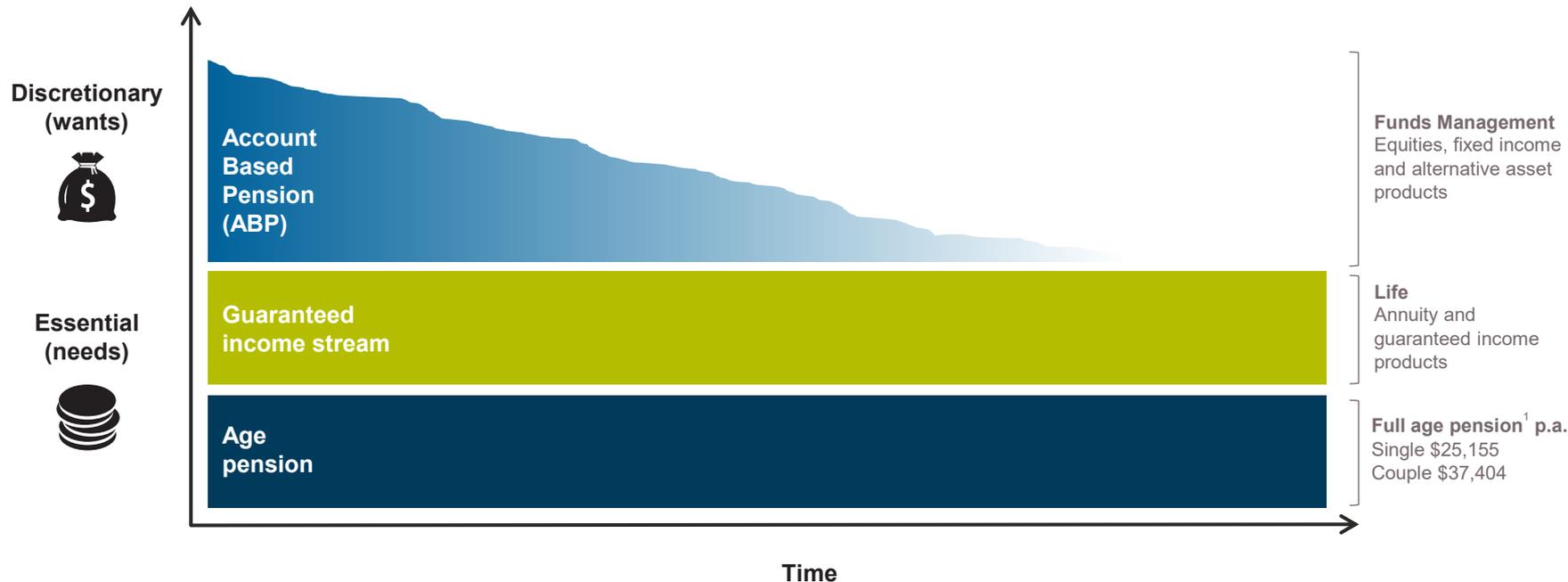
1H22 – 31 December 2021

1. Increased to 10% on 1 July 2021 and increases by 0.5% p.a. until reaching 12% on 1 July 2025.  
 2. Willis Towers Watson Global Pension Study 2021.  
 3. Deloitte Dynamics of the Australian Superannuation System: The Next 20 Years to 2041.  
 4. Based on APRA and ATO data.

5. Australian Bureau of Statistics. Includes superannuation and non-superannuation assets and excludes the family home.  
 6. Australian Taxation Office.  
 7. <https://nationalseniors.com.au/research/retirement/retirement-income-worry-who-worries-and-why>

# Retirement phase of superannuation

Combining products provides better outcomes for retirees



1H22 – 31 December 2021

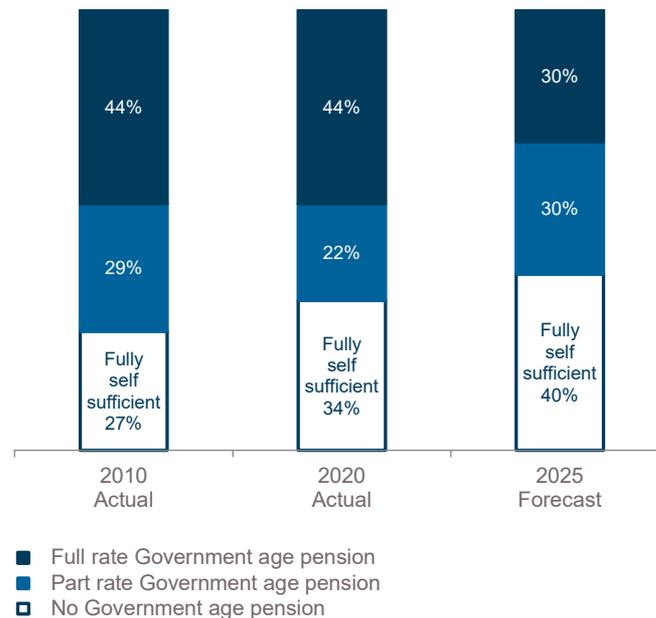
1. Australian Government Department of Human Services and current as at 1 December 2021.

# Retirement phase of superannuation

## Superannuation starting to reduce reliance on age pension

- Average household wealth at retirement \$680,000<sup>1</sup> (excluding family home)
- Age pension subject to assets and income tests
- 2.6m Australians receiving some age pension support
- Portion of retirees on full age pension expected to reduce from 42% to 30% over next 5 years, however
  - number of retirees receiving support increasing
  - Government age pension cost increasing
- Super system increasingly supplementing or substituting age pension

Portion of retirees reliant on age pension<sup>2</sup>



1H22 – 31 December 2021

1. Australian Bureau of Statistics. Includes superannuation and non-superannuation assets.

2. Source – 2010 and 2020 Actual: Australian Government Department of Social Services and Department of Veteran Affairs; 2025 Forecast: The Association of Superannuation Funds of Australia (ASFA) projection.

# Overview of age pension system

## Social safety net for those unable to support themselves

- Qualification age 66.5 (increasing to 67<sup>1</sup>)
- Age pension based on lower outcome under assets and income tests
- Many retirees move from assets to income test through retirement
- Different age pension outcomes when products held in combination (e.g. Lifetime Annuity with an ABP<sup>3</sup>)

Maximum age pension rates <sup>2</sup>			Per fortnight	Per annum	
			Single	\$967.50	\$25,155
			Couple	\$1,458.60	\$37,924
Assets test <sup>4</sup>		Income test			
Asset limits before pension starts to reduce			Income limits before pension starts to reduce (p.a.)		
	Homeowner	Non-homeowner			
Single	\$270,500	\$487,000	Single	\$4,680	
Couple	\$405,000	\$621,500	Couple	\$8,320	
Taper rate – age pension reduces by \$78 (p.a.) per \$1,000 of assets above these thresholds			Taper rate – age pension reduces by \$500 (p.a.) per \$1,000 of income above these thresholds		
Asset limit where pension reduces to nil			Income limit where pension reduces to nil (p.a.)		
	Homeowner	Non-homeowner			
Single	\$593,000	\$809,500	Single	\$54,990	
Couple	\$891,500	\$1,108,000	Couple	\$84,167	

1H22 – 31 December 2021

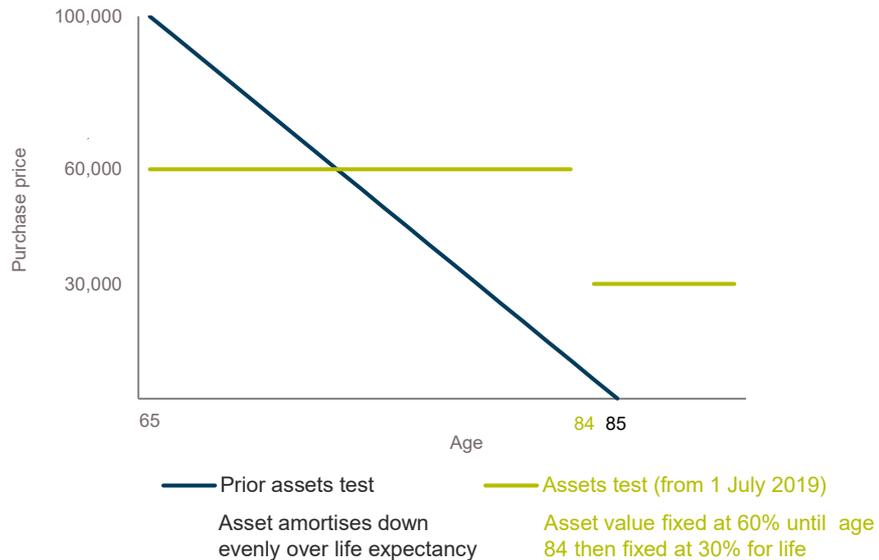
1. Age Pension eligibility age increasing to age 67 on 1 July 2023.  
 2. Centrelink rates and thresholds current as at 20 September 2021.  
 3. Account Based Pension (ABP).  
 4. Assets test excludes the family home.

# Government enhancing post-retirement phase

## New means test rules for lifetime income products commenced 1 July 2019

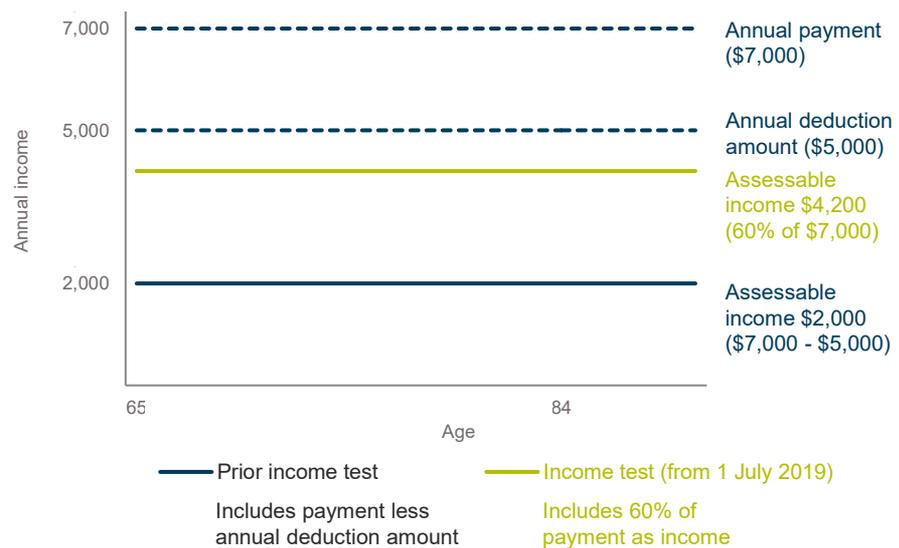
### Pension assets test

Example - \$100,000 lifetime income stream purchase price at age 65



### Pension income test

Example - \$100,000 lifetime income stream paying \$7,000 per year



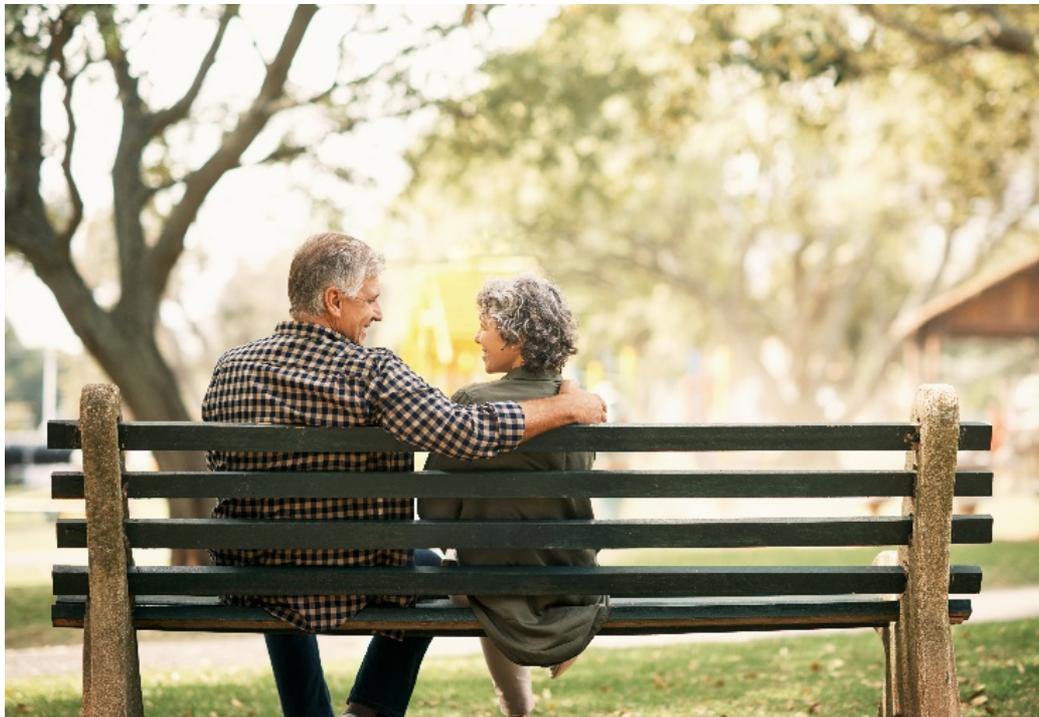
# Retirement income strategies – combined products

Enhances income and provides longevity and inflation protection

## Case study

### Jenny and John

- Homeowning couple
- \$600,000 of super (in addition to family home)
- 67 years old
- Approaching retirement
- Target income \$63,799<sup>1</sup> p.a.
- Status quo 100% ABP<sup>2</sup>
- Combined product
  - 70% ABP<sup>2</sup>; and
  - 30% Lifetime Annuity<sup>3</sup>



1H22 – 31 December 2021

1. Based on ASFA's retirement standards September quarter 2021 for a couple (comfortable).

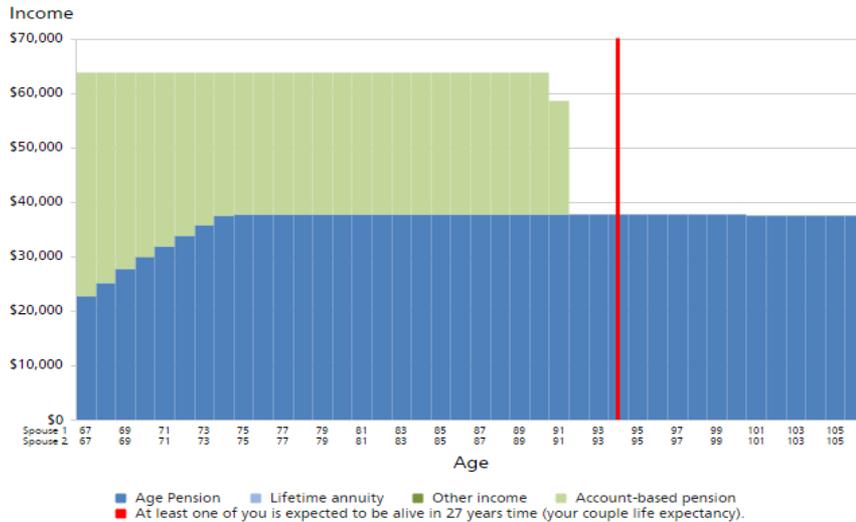
2. Account Based Pension (ABP).

3. Applying means test rules for lifetime income products that took effect from 1 July 2019.

# Retirement income strategies – combined products

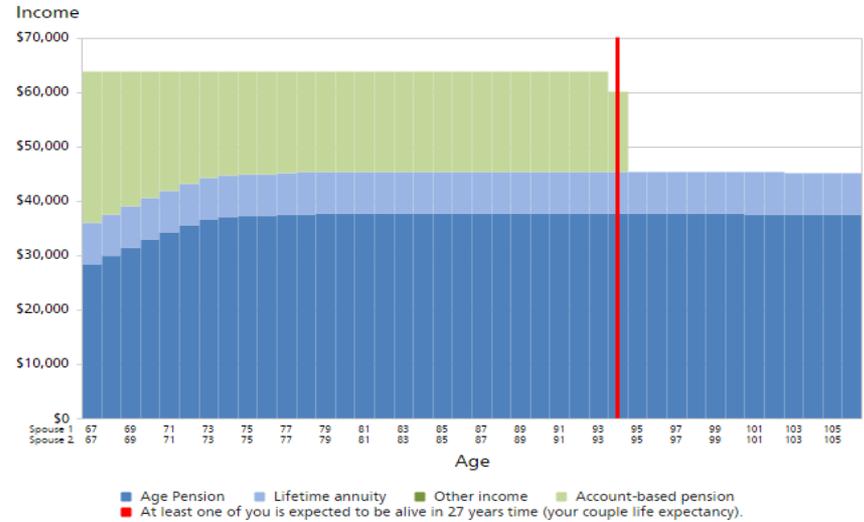
## Enhances income and provides longevity and inflation protection

### Case study – Jenny and John 100% Account Based Pension (ABP)



All values are shown in today's dollars

### Combined product (70% Account Based Pension; 30% Lifetime Annuity)



All values are shown in today's dollars

- Provides \$63,799 p.a. until age 90 then \$38k p.a. thereafter
- 50% chance one is alive at age 94
- Provides \$63,799 p.a. until age 93 then \$45k p.a. thereafter
- Income at least as good as 100% ABP – better the longer you live

1H22 – 31 December 2021

Assumptions – 1. Applying means test rules for lifetime income products that took effect from 1 July 2019; 2. 67 year old couple, homeowners, \$300,000 each in super (\$600,000 combined) drawing \$63,799 per annum; 3. Account Based Pension assumptions – Growth 5.3%, Defensive 1.60% (net of fees); 4. Lifetime Annuity – Flexible income option, CPI indexation, monthly payments. Portfolio allocation of 50% growth / 50% defensive; 5. Challenger annuity pricing as at January 2022; 6. Centrelink rates and thresholds as at 20 September 2021.

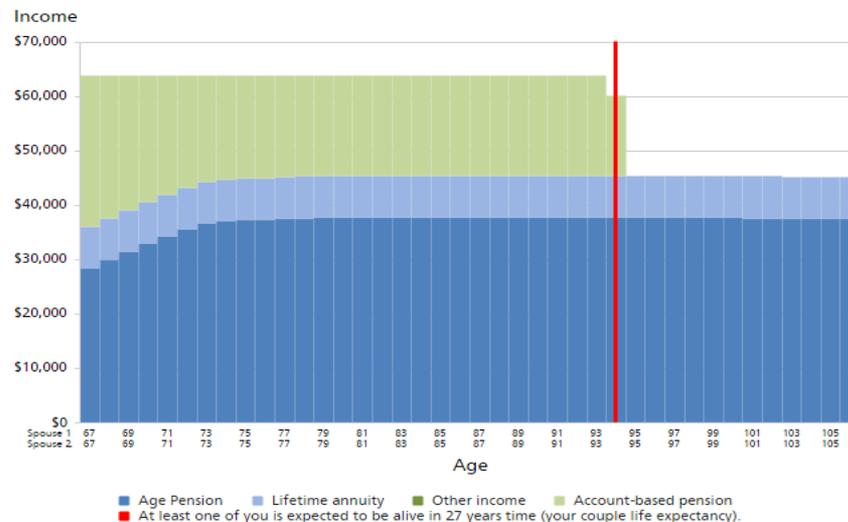
# Retirement income strategies – combined products

Enhances income and provides longevity and inflation protection

Income from combined product enhanced through

1. mortality credits
2. interaction with age pension
3. growth assets left to grow
4. likely annuity outperformance against defensive alternatives

Combined product  
(70% Account Based Pension; 30% Lifetime Annuity)



All values are shown in today's dollars

- Provides \$63,799 p.a. until age 93 then \$45k p.a. thereafter
- Income at least as good as 100% ABP – better the longer you live

# MS&AD strategic relationship

## Diversifying and increasing access to Japanese market

### Strategic relationship with MS&AD Group

- Increases access to Japanese market through MS&AD
- Opportunities for both Challenger and MS&AD
- Broadens Challenger's existing Japanese footprint

### MS&AD shareholding in Challenger

- Shareholding ~15%<sup>1</sup>
- Representative joined Challenger Board
- MS&AD remain committed to its strategic relationship and being a major Challenger shareholder<sup>2</sup>



1H22 – 31 December 2021

1. Shareholding as at 31 December 2021.

2. MS&AD reserves the right to change its intentions and to acquire, dispose and vote Challenger shares as it sees fit.

# MS Primary annuity relationship

## Diversifying and increasing access to Japanese market

### MS Primary

- MS&AD subsidiary
  - leading provider of foreign currency life products
  - extensive distribution footprint via bancassurance channel

### MS Primary annuity relationship

- Reinsurance agreements with MS Primary covering A\$ and US\$ 20 year term annuity, and A\$ lifetime annuity
- A\$ reinsurance commenced November 2016
- Expanded reinsurance to include US\$ term annuity<sup>1</sup>
  - commenced 1 July 2019
  - at least ¥50 billion (~A\$600 million) in total A\$ and US\$ sales per year for minimum of five years<sup>2</sup>
  - provides reliable and diversified sales contribution

### Mitsui Sumitomo Primary Life Insurance

MS&AD INSURANCE GROUP

#### Product overview

##### Term annuities – A\$ and US\$

- Australian and US dollar single premium product
- Whole-of-life product with annuity payment period of 3, 5, 7, 10, 15 or 20 years plus benefit payable on death
- Product provides insurance (whole-of-life) – provided by MS Primary at end of 20 year fixed annuity term
- Challenger providing fixed rate amortising annuity – MS Primary assumes residual policy value at end of 20 year period

##### Lifetime annuity

- Australian dollar single premium product
- An immediate lifetime annuity delivering fixed annuity payments for life
- A minimum guaranteed benefit of 80% or 100% of the single premium sum repayable via the annuity stream or as a death benefit upon early death

1H22 – 31 December 2021

1. Challenger Life entered into an agreement with MS Primary to commence reinsuring the US dollar version of the 20-year term product. Challenger provides a guaranteed interest rate and assumes 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. A\$ amount based on 30 June 2021 exchange rate.

# Life product overview

## Providing customers with guaranteed income

Fixed term	Long term (including lifetime)	Other
<p><b>36% of total book</b></p> <p><i>Provides regular guaranteed payments for a fixed rate, fixed term</i></p> <p>Average policy size<sup>1</sup> ~\$230,000</p> <p><b>Guaranteed Annuity</b></p> <ul style="list-style-type: none"> <li>• Guaranteed rate</li> <li>• Payment frequency options</li> <li>• Inflation protection options</li> <li>• Ability to draw capital as part of regular payment</li> <li>• Tax free income<sup>3</sup></li> </ul>	<p><b>41% of total book</b></p> <p><i>Provides income for life</i></p> <p>Average policy size<sup>1,2</sup> ~\$110,000</p> <p><b>Liquid Lifetime</b></p> <ul style="list-style-type: none"> <li>• Payment options – fixed, indexed to inflation, linked to RBA cash rate, or indexed to markets</li> <li>• Liquidity options</li> <li>• Tax free income<sup>3</sup></li> </ul> <p><b>CarePlus</b></p> <ul style="list-style-type: none"> <li>• Designed for aged care</li> <li>• Up to 100% death benefit</li> </ul> <p><b>MS Primary (refer page 47)</b></p>	<p><b>23% of total book</b></p> <p><i>Institutional product providing guaranteed fixed income returns</i></p> <p><b>Challenger Index Plus Fund</b></p> <ul style="list-style-type: none"> <li>• Institutional product providing guaranteed excess return above a chosen index</li> <li>• Index Plus is available on traditional indices and customised indices</li> </ul>

1H22 – 31 December 2021

1. Average 1H22 annuity policy size.

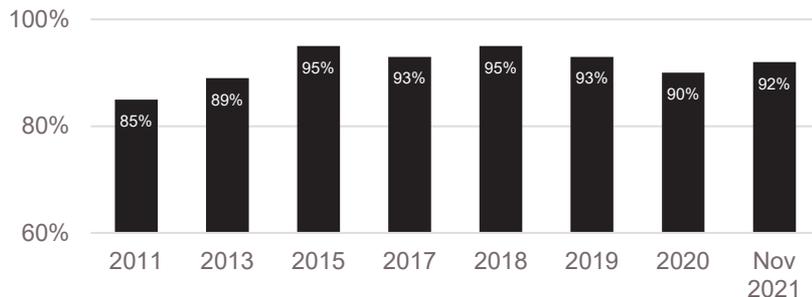
2. Average policy size for Liquid Lifetime and excludes CarePlus and MS Primary.

3. If bought with superannuation money and in retirement phase.

# Clear leader in retirement incomes

## Strong Challenger reputation for adviser support and quality of service

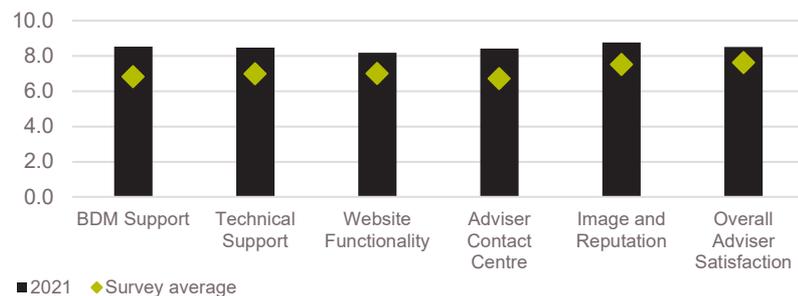
### Brand strength: Leaders in Retirement Income<sup>1</sup>



### Challenger ranked #1<sup>2</sup>

- BDM Support (10<sup>th</sup> consecutive year)
- Technical Services (6<sup>th</sup> consecutive year)
- Website Functionality (5<sup>th</sup> consecutive year)
- Adviser Contact Centre (6<sup>th</sup> consecutive year)
- Image and Reputation (6<sup>th</sup> consecutive year)

### Challenger adviser satisfaction<sup>2</sup>



1H22 – 31 December 2021

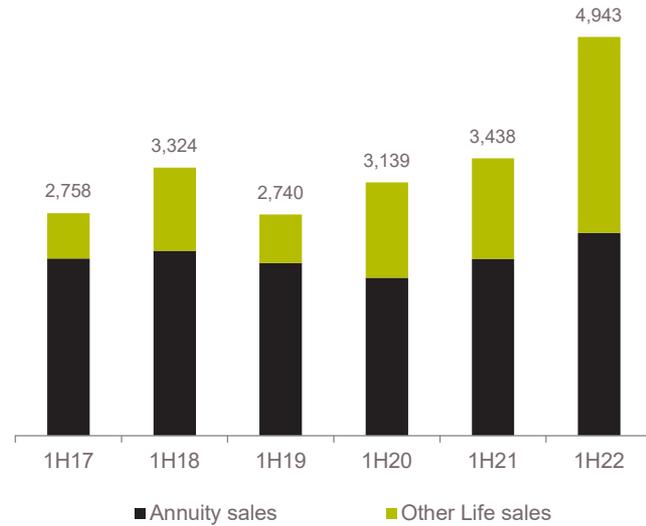
1. Marketing Pulse Adviser Study November 2021 (2011 to Nov 2021).

2. 2021 Challenger annuities service level analysis conducted by Wealth Insights and compared to the broader Australian funds management market.

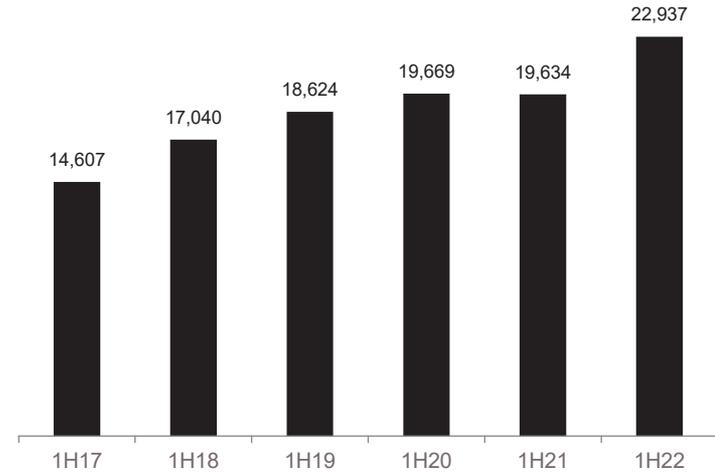
# Life

## Diversified distribution driving sales and AUM growth

**Total Life sales (\$m)**  
12% 5-year CAGR



**Life AUM (\$m)**  
9% 5-year CAGR

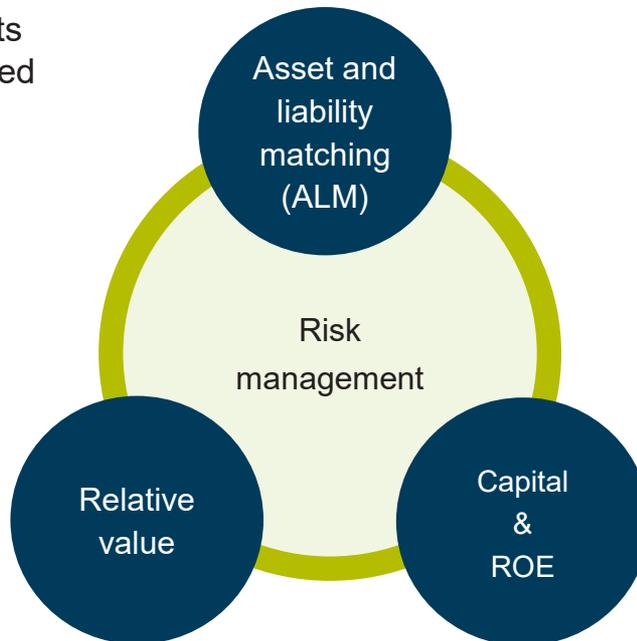


1H22 – 31 December 2021

# Asset allocation framework

## Consistently applied with strong risk management

- Fundamental principle – assets and liabilities cash flow matched
- Managed by dedicated team
- Liability maturity profile drives asset tenor



- Investment returns considered relative to base swap rates
- Illiquidity premium contributes to relative value

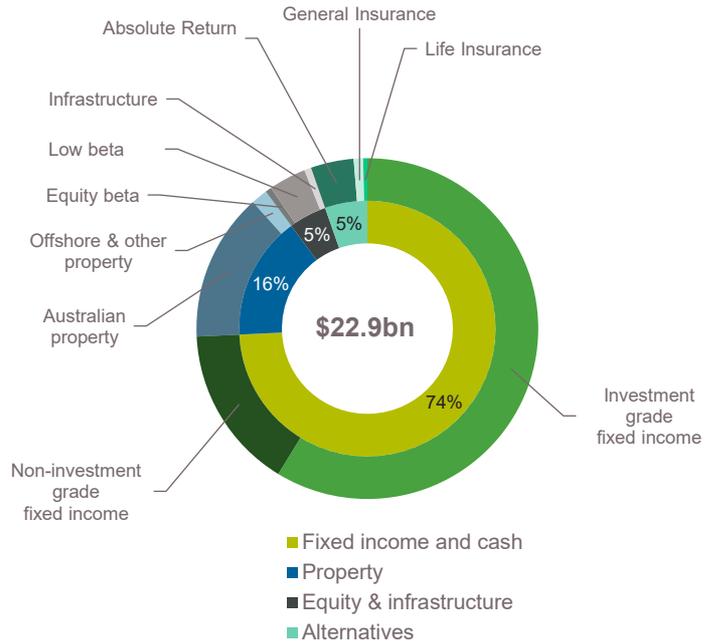
### Risk management

- Strong governance framework
- Risk management entrenched in corporate culture
- Minimise unwanted risks such as interest rate, currency and inflation risks
- Manage asset allocation to capital and ROE targets
- Investment decisions based on risk-adjusted returns

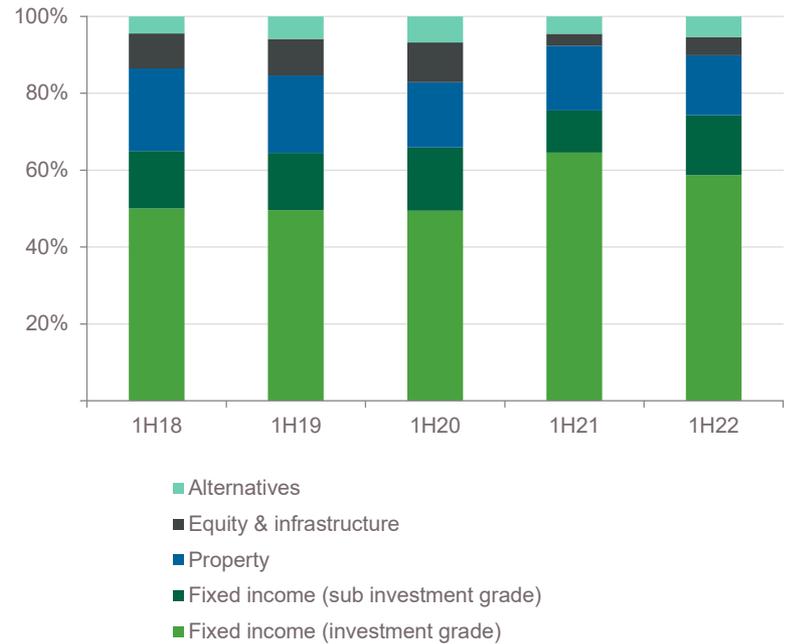
# Life investment portfolio

High quality portfolio providing reliable income

Life investment portfolio<sup>1</sup>



Life investment portfolio – asset allocation



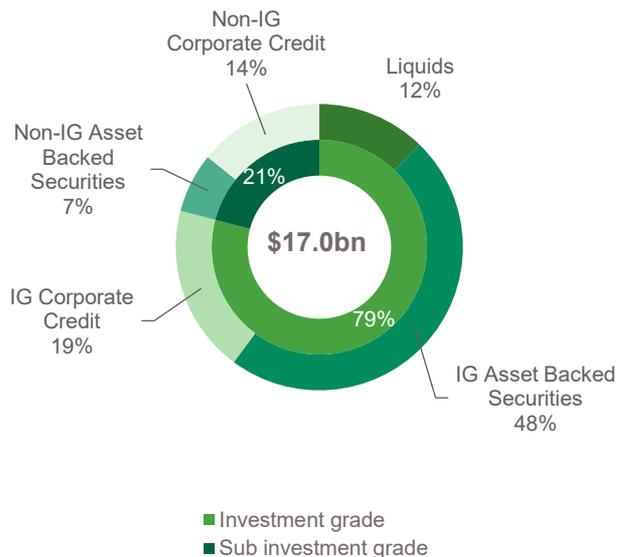
1H22 – 31 December 2021

1. As at 31 December 2021.

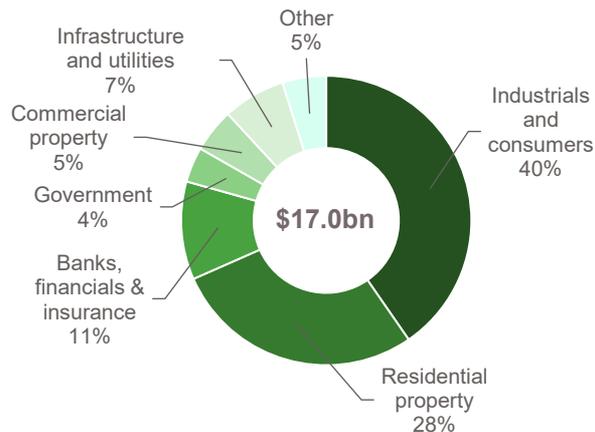
# Fixed income portfolio

Represents 74% of portfolio<sup>1</sup> with 79% investment grade

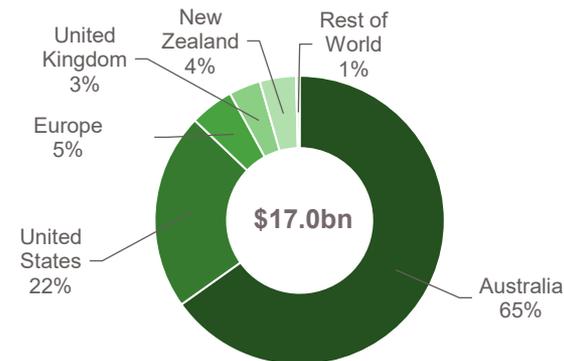
Fixed income portfolio by asset class<sup>1</sup>



Fixed income portfolio by sector<sup>1</sup>



Fixed income portfolio by geography<sup>1</sup>



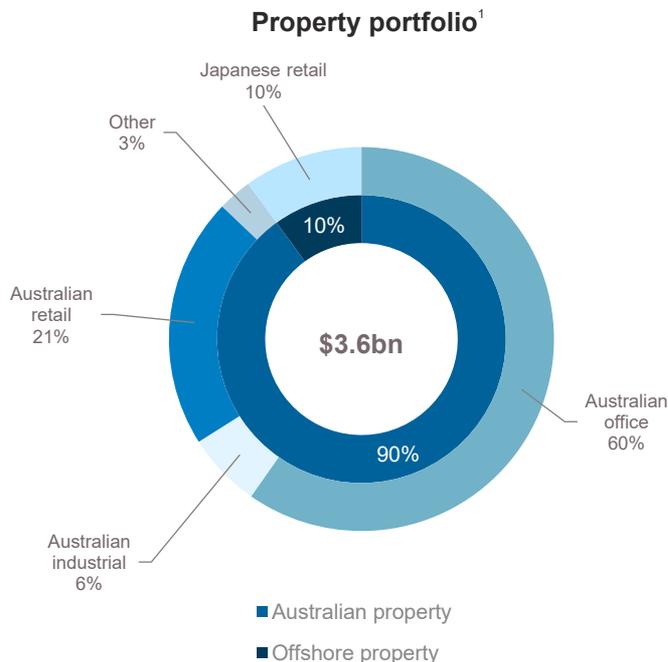
1H22 – 31 December 2021

1. As at 31 December 2021.

# Property portfolio

Represents 16% of portfolio

Defensive property portfolio with a focus on long-term income streams



## Australian office 60%; industrial 6%

- 11 office assets; 3 industrial assets
- Average cap rate 5.1% (office) & 4.9% (industrial);
- WALE<sup>2</sup> 5.1 years
- ~58% of office rent from Government

## Australian retail 21%

- 8 grocery anchored convenience based shopping centres
- Average cap rate 6.3%; WALE<sup>2</sup> 4.5 years
- ~50% of rental income from supermarkets, major banks, discount department stores and essential services

## Japan retail & retail logistics 10%

- 19 predominantly grocery anchored neighbourhood centres
- 1 retail logistics facility
- Average cap rate 4.9%; WALE<sup>2</sup> 9.0 years
- ~50% of rental income from supermarkets and pharmacies

1H22 – 31 December 2021

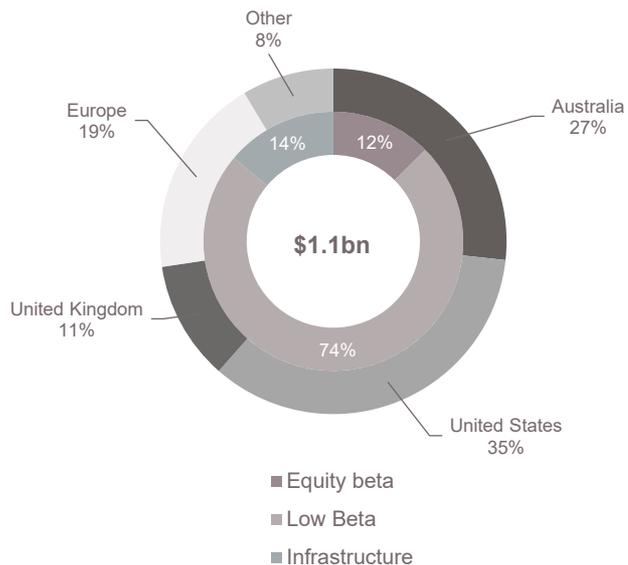
1. Property portfolio as at 31 December 2021. Cap rates on direct property and excluding County Court with its carrying value determined by references to the sale agreement rather than the capitalisation of net market income.

2. Weighted Average Lease Expiry as at 31 December 2021. Assume tenants do not terminate leases prior to expiry of specified lease terms.

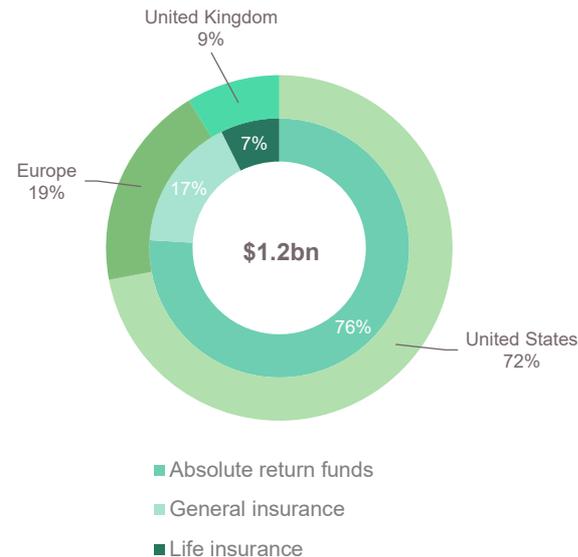
# Life investment portfolio

Equity and infrastructure 5% of portfolio; Alternatives 5% of portfolio

Equity and infrastructure portfolio<sup>1</sup>



Alternatives portfolio<sup>1</sup>



1H22 – 31 December 2021

1. As at 31 December 2021.

# Normalised profit framework

## Reflects underlying performance of Life business

### Investment Experience

Asset and policyholder liability valuation movements plus net new business strain

### Asset and policy liability experience

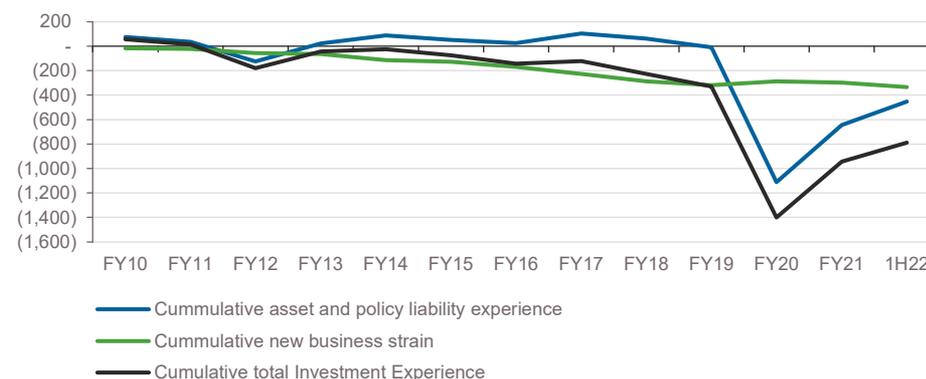
Difference between expected capital growth<sup>1</sup> for each asset class compared to actual investment returns

Includes impact of changes in macroeconomic variables<sup>2</sup> on the valuation of Life's liabilities

### New business strain

New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the discount rate (risk free rate plus an illiquidity premium<sup>3</sup>) used to fair value annuities. New business strain unwinds over the annuity contract

Cumulative Investment Experience (pre-tax) (\$m)



FY22 normalised assumptions p.a. <sup>1</sup>	FY22
Fixed income (allowance for credit default)	-35 bps
Property	2.0%
Equity and infrastructure	4.0%
Alternatives	0.0%

1H22 – 31 December 2021

1. Based on normalised assumptions. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2022 Interim Report - Operating and Financial Review section 8. Normalised growth assumptions were updated in FY21 for category changes and to ensure they reflect both the nature of the investments and long-term expected investment returns.

2. Macroeconomic variables include changes to bond yields, inflation factors, expense assumptions and other factors.

3. Annuities are fair valued using a risk-free discount rate, based on the Australian Commonwealth Government bond curve plus an illiquidity premium.

# Asset and liability matching

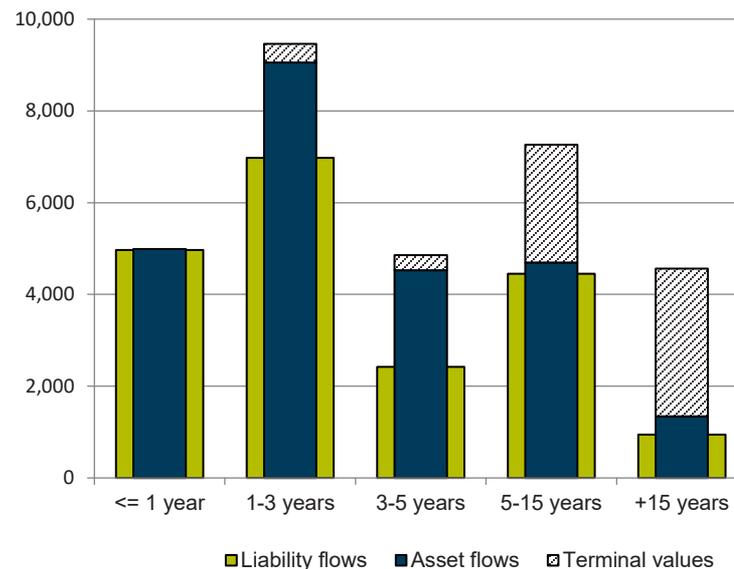
## Unwanted risks mitigated with assets and liabilities cash flow matched

- Assets deliver contracted cash flows to match liability flows
- Risk appetite seeks to minimise duration mismatch
- Asset and liability matching impacts asset allocation

### Minimise exposure to

- Foreign exchange risk
- Interest rate risk
- Inflation risk
- Liquidity risk
- Licence risk
- Operational risk

Asset and liability cash flow matching (\$m)<sup>1</sup>



# Funds Management

## Strong FUM growth track record

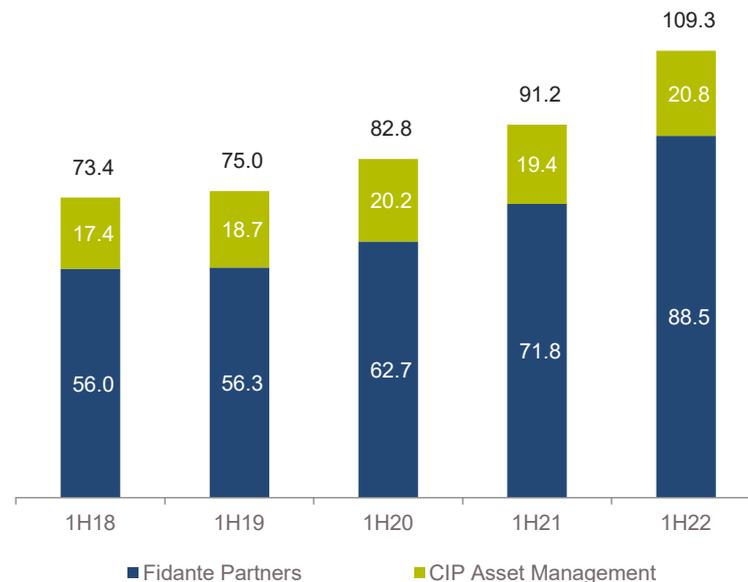
- **Fidante Partners**

- growing multi-boutique platform
- located in Australia, UK, Japan and Singapore
- asset class diversification

- **CIP Asset Management**

- proven track record in asset origination
- strong investment performance
- growing 3<sup>rd</sup> party credit and property offerings

Funds Under Management (FUM) (\$bn)  
10% CAGR



# Funds Management

## Laying foundations to support future growth



**FIDANTE**

*BUILD high active boutique managers*

*PARTNER with best-in-class capability*

Credit Income Fund

Multi-Sector Private Lending Fund

Private Lending Opportunities Fund

Greencape CAPITAL

BENTHAM ASSET MANAGEMENT

ARDEA Investment Management

alphinity

WHITEHELM CAPITAL

LENNOX CAPITAL PARTNERS

eiger capital

OX CAPITAL MANAGEMENT

Kapstream - JANUS HENDERSON

MERLON CAPITAL PARTNERS

WaveStone CAPITAL

NOVAPORT CAPITAL

Resonance Asset Management

IMPAX Asset Management

ARES AUSTRALIA MANAGEMENT

PROTERRA INVESTMENT PARTNERS

NOMURA

1H22 – 31 December 2021

1. In July 2015 Kapstream was sold and \$5.4bn of institutional FUM was derecognised. Fidante Partners continues to distribute Kapstream products to retail clients.  
 2. In February 2021 Whitehelm Capital was sold and \$5.2bn of FUM will be derecognised in 2H22. Fidante Partners earnings are not expected to be impacted by the sale.

# Funds Management – multiple brands and strategies

## Scalable and diversified ~\$109bn of FUM



1H22 – 31 December 2021

1. Funds Under Management (FUM) as at 31 December 2021.

# Fidante Partners boutique managers and partnerships

## Diversified managers and investment strategies

Boutique	Partnership commenced	Asset class
 alphinity	Aug 2010	Boutique – Australian and global equities
 ARDEA Investment Management	Nov 2008	Boutique – Australian fixed income
 IMPAX Asset Management	April 2021	Partnership – Impact investing
 ARES ARES AUSTRALIA MANAGEMENT	Oct 2019	Boutique – Global credit & alternative portfolios
 BENTHAM ASSET MANAGEMENT	Jun 2010	Boutique – Global credit portfolios
 eiger capital	Apr 2019	Boutique – Australian small cap equities
 Greencape CAPITAL	Sep 2006	Boutique – Mid and large cap Australian equities
 Kapstream - JANUS HENDERSON -	Feb 2007	Boutique – Global fixed income

Boutique	Partnership commenced	Asset class
 kinetic	Oct 2005	Boutique – Australian small cap equities
 LENNOX CAPITAL PARTNERS	Mar 2017	Boutique – Australian small cap equities
 MERLON	May 2010	Boutique – Australian equities (income focus)
 NOVA PORT	Aug 2010	Boutique – Australian small and micro cap equities
 OX CAPITAL MANAGEMENT	Jul 2021	Boutique – Emerging markets equities
 Resonance	Jul 2015	Boutique – Renewable energy and water infrastructure
 WaveStone CAPITAL	Nov 2008	Boutique – Australian equities (long only & long/short)
 WHITEHELM CAPITAL	Jul 2014	Boutique – Global core infrastructure

# Fidante Partners

## Contemporary model with strong alignment of interests

### Administration services

- Investment operations
- Client operations
- Risk and compliance
- IT infrastructure
- Finance
- Human Resources
- Company Secretarial
- Facilities



### Distribution services

- Asset consultant & research
- Strategic positioning
- Product development
- Brand & marketing
- Sales planning & execution
- Investor relationships
- Client services
- Responsible Entity (RE)

### Partnership

- Equity participation and revenue share (Fidante non-controlling interest)
- Business planning, budgeting, strategic development, succession planning

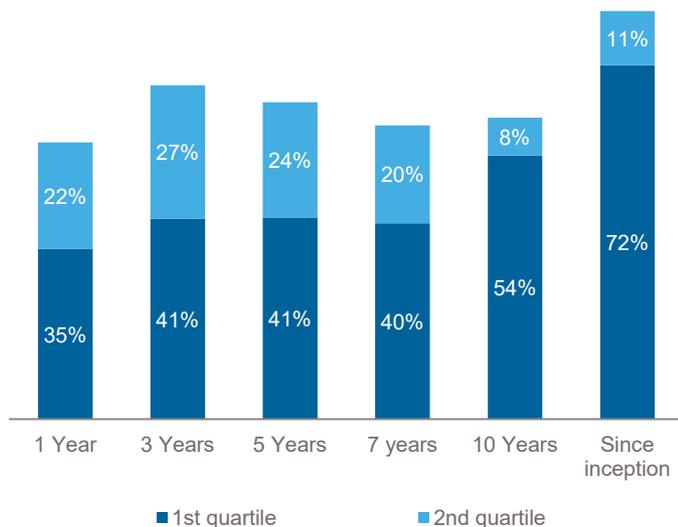
1H22 – 31 December 2021

1. As at 31 December 2021.

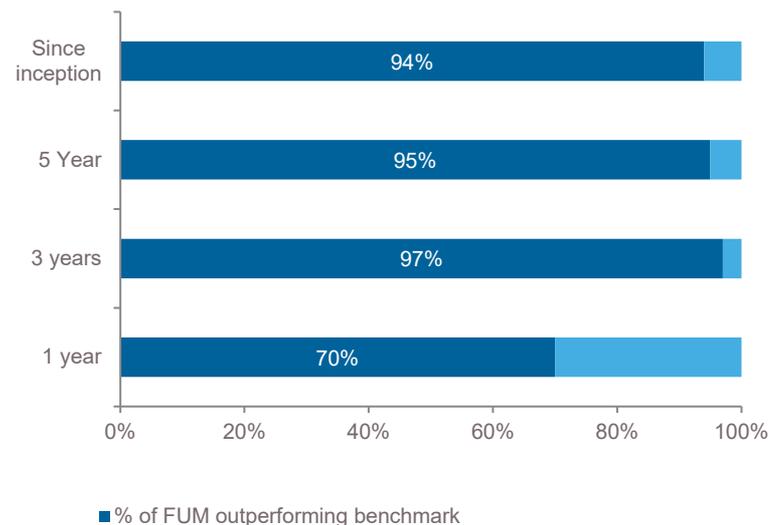
# Fidante Partners investment performance

## Strong performance underpinning FUM growth

Fidante Partners percentage of funds 1<sup>st</sup> or 2<sup>nd</sup> quartile<sup>1</sup>



Fidante Partners performance relative to benchmark<sup>2</sup>



1H22 – 31 December 2021

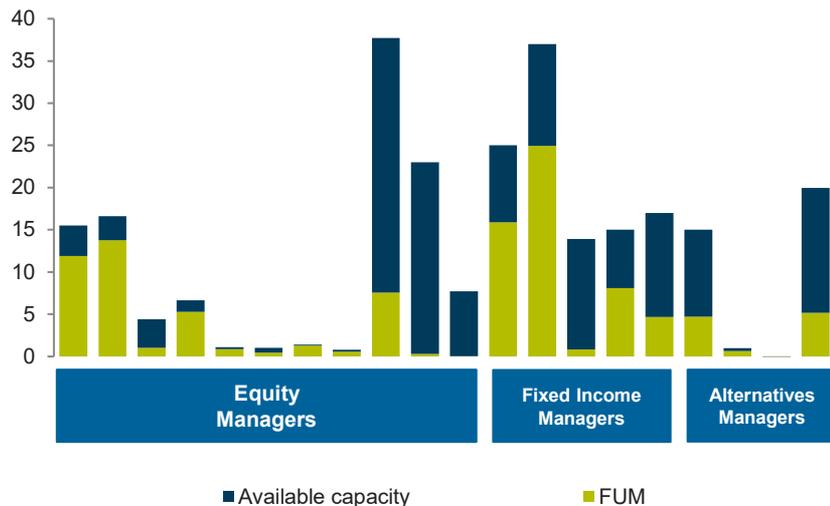
1. Source: Mercer as at 31 December 2021.

2. As at 31 December 2021. Percentage of Fidante Partners Australian boutiques meeting or exceeding the performance benchmark, with performance weighted by FUM.

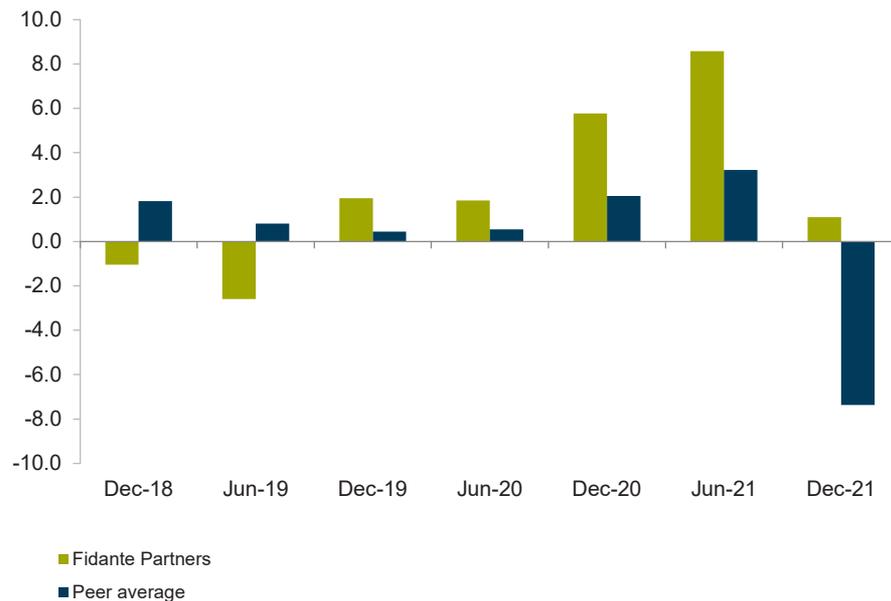
# Funds Management

## Growth supported by available capacity

Manager capacity (\$bn)



Half yearly net flows vs peers<sup>1</sup> (\$bn)



- ~\$140bn of available capacity
- Capacity provides platform for growth

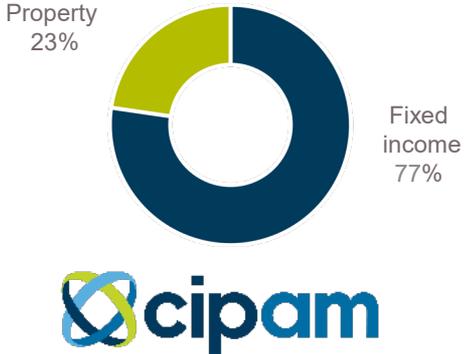
1H22 – 31 December 2021

1. Half yearly net flows for peers, including AMP Capital Investors, Magellan, Pandal, Pacific Current Group, Perpetual, Platinum and Pinnacle. December 2021 peer net flows includes only those that have reported data prior to 11 February 2022.

# CIP Asset Management

## Proven long-term investment track record and capability

- \$21 billion of FUM<sup>1</sup>
- Investment manager for Challenger Life and third party institutions
- Clients benefit from experience and market insights through breadth and scale of mandates

Trusted partner	Asset specialisation	Institutional clients
<ul style="list-style-type: none"> <li>• Local relationships</li> <li>• Asset origination capability</li> <li>• Proven track record</li> <li>• Strong execution</li> <li>• Risk management expertise</li> <li>• Excellent client service</li> <li>• Strong compliance culture</li> </ul>	 <p>Property 23%</p> <p>Fixed income 77%</p> <p><b>cipam</b></p>	<ul style="list-style-type: none"> <li>• Sovereign wealth funds</li> <li>• Government bodies</li> <li>• Australian superannuation funds</li> <li>• International funds</li> <li>• International insurance companies</li> <li>• Pension funds</li> <li>• Large family offices</li> <li>• Manage ~73% of Life's portfolio</li> </ul>

1H22 – 31 December 2021

1. As at 31 December 2021.

# Important note

The material in this presentation is general background information about Challenger Limited group's activities and is current at the date of this presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Challenger also provides statutory reporting as prescribed under the Corporations Act 2001. The 2022 Interim Report is available from Challenger's website at [www.challenger.com.au](http://www.challenger.com.au). This presentation is not audited. The statutory net profit after tax has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have reviewed the statutory net profit after tax. Normalised net profit after tax has been prepared in accordance with a normalised profit framework. The normalised profit framework has been disclosed in the Operating and Financial Review section of the Directors' Report in the Challenger Limited 2022 Interim Report. The normalised profit after tax has been subject to a review performed by Ernst & Young. Any additional financial information in this presentation which is not included in Challenger Limited 2022 Interim Report was not subject to independent review by Ernst & Young.

This document may contain certain 'forward-looking statements'. The words 'forecast', 'expect', 'guidance', 'intend', 'will' and other similar expressions are intended to identify forward-looking statements. Forecasts or indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Challenger. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Challenger disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

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Unless otherwise indicated, all numerical comparisons are to the prior corresponding period.