# FY19 financial results

## Resilient and positioned for growth

**13 August 2019**

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# Overview

## Resilient and positioned for growth

**FY19 outcomes**

**Operating environment**

Richard Howes – Managing Director and Chief Executive Officer

**Financial results**

Andrew Tobin – Chief Financial Officer

**Outlook**

Richard Howes – Managing Director and Chief Executive Officer

# Highlights

## Resilient and positioned for growth

**FY19 outcomes**

Earnings growth impacted by lower investment earnings and performance fees

Strong progress on strategy for growth

**Responding to the operating environment**

Initiatives to drive resilience and growth

Robust business

**Outlook**

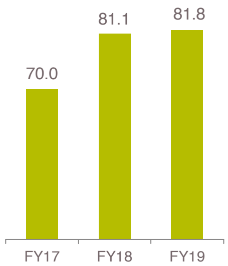
Responding to challenges and capturing opportunities

Resilient and positioned for growth

# FY19 outcomes

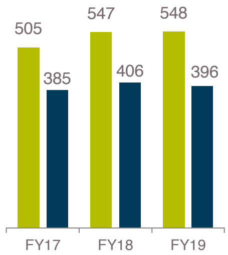
## Earnings growth impacted by lower investment earnings & performance fees

**Group Assets Under Management ($bn)**




**Group AUM**
**+1% to $81.8bn**
Life investment assets +5%
Funds Management FUM +1%

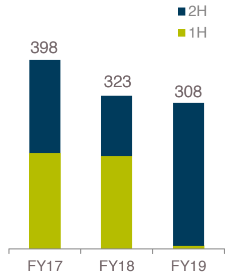
**Normalised NPBT**
**Normalised NPAT[1] ($m)**




**Normalised NPBT**
**up $1m to $548m**
Earnings growth impacted by lower equity distributions and lower performance fees

**Normalised NPAT**
**down $10m to $396m**
Higher normalised effective tax rate

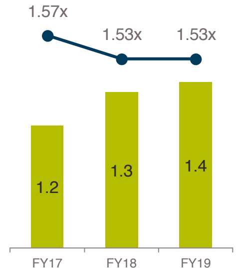
**Statutory NPAT[1] ($m)**




**Statutory NPAT**
**down $15m to $308m**
Includes investment experience

1H19 investment experience -$193m[2]
2H19 investment experience +$105m[2]
FY19 investment experience -$88m[2]

**CLC[3] excess capital ($bn)**
**PCA ratio (times)**




**CLC excess regulatory capital**
**up $0.1bn to $1.4bn**
Higher retained earnings and lower capital intensity

**PCA ratio stable at 1.53x**
Toward top end of guidance range (1.3x to 1.6x)

**FY19** – 30 June 2019

1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2019 Annual Report – Operating and Financial Review Section 8.
2. Investment experience post-tax.
3. Challenger Life Company Limited (CLC).



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# FY19 outcomes

## Strong progress on strategy for growth

95% of advisers[1] rate Challenger a leader in retirement income

5 new Fidante & CIP products – new boutiques, investment strategies and ETFs

Launched annuities on three platforms supporting independent advisers

Highly engaged team – 84% sustainable engagement score with strong risk culture[2]

Expanded MS&AD strategic relationship – including US dollar annuity reinsurance

Scalable platform with record low cost to income ratio of 32.6%

**FY19** – 30 June 2019

1. Adviser – Marketing Pulse Adviser Study April 2011 to December 2018. Peers include major Australian wealth managers.
2. Willis Towers Watson – March 2019. Sustainable engagement score of 84% and risk culture score of 85%.

# Responding to operating environment

## Initiatives to drive resilience and growth

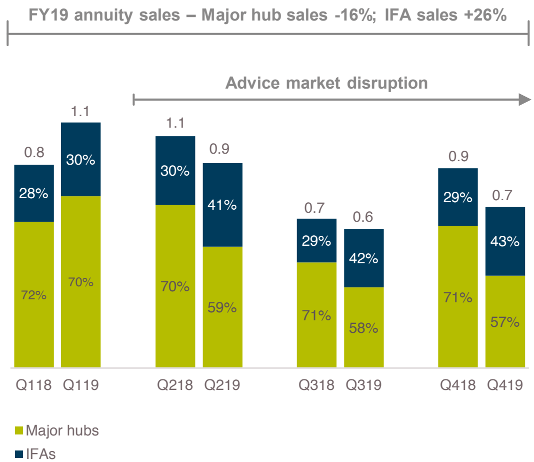
### Advice market disruption

- Significant adviser churn
  - 9% reduction in adviser numbers since December 2018 (major hubs down 16%)[1]
- Lowest industry retail sales in 15 years (March 2019 quarter)
- Fundamental need for financial advice remains

### Responding to adviser disruption

- Supporting advisers as they move across licensees
- Leveraging new platform relationships providing IFA access
- Investing up to ~$15m in new customer and adviser initiatives

**Challenger domestic annuity sales ($bn)**






1. Bell Potter analysis and ASIC register of financial advisers (31 July 2019). Major hubs represent AMP and the wealth management operations of the major Australian banks.



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# Robust business

## Resilient business outcomes

### Life

- Domestic sales marginally down (4%) despite advice market disruption
- Generating strong relative returns on both back book and new annuity business

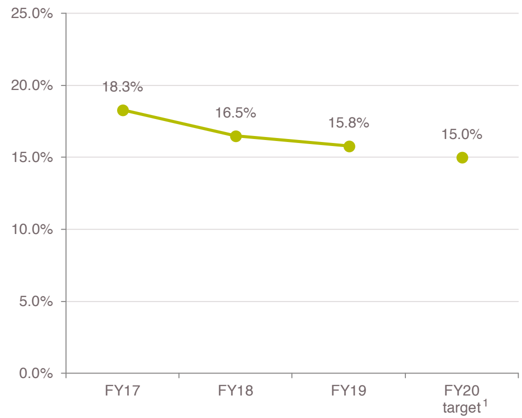
### Funds Management

- EBIT growth excluding performance fees +23%
- $1.5bn of net inflows excluding single profit-for-member fund redemption[2]

### Challenger Group

- Strongly capitalised with $1.5bn of excess regulatory capital and Group cash
- Generating strong ROE

**Normalised ROE (pre-tax)**




**FY19** – 30 June 2019

1. FY20 normalised ROE (pre-tax) target of RBA cash rate (1.00% as at 13 August 2019) plus a margin of 14%.
2. FY19 Funds Management net flows of -$2.4bn includes a redemption by a single profit-for-member client of $3.9bn, predominately due to the fund internalising investment management.



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# Financial results

**Andrew Tobin**
Chief Financial Officer

**FY19** – 30 June 2019

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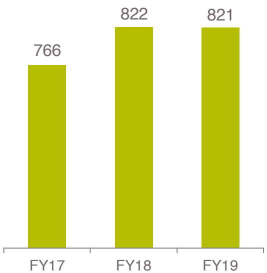
# Group result

## Earnings growth impacted by lower investment earnings & performance fees

**Net income ($m)**

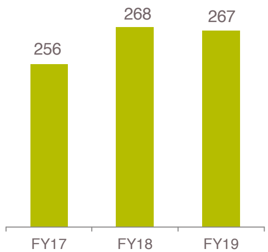



**Net income down $1m**

Life COE stable – higher average investment assets offset by lower margin

FM income down $1m – higher average FUM offset by lower performance fees

**Expenses ($m)**

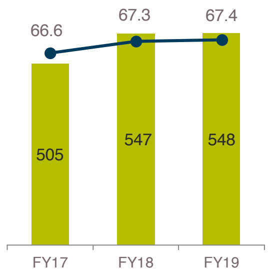



**Expenses down $1m**

Strong expense management

Record low cost to income ratio of 32.6%

**Group normalised NPBT EBIT margin[1] (%)**




**Group normalised NPBT up $1m**

**EBIT margin[1] up 10 bps**

**FY19** – 30 June 2019

1. EBIT margin represents normalised EBIT divided by net income.

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# Group result

## Earnings growth impacted by lower investment earnings & performance fees

**Normalised NPBT $548m – up $1m**

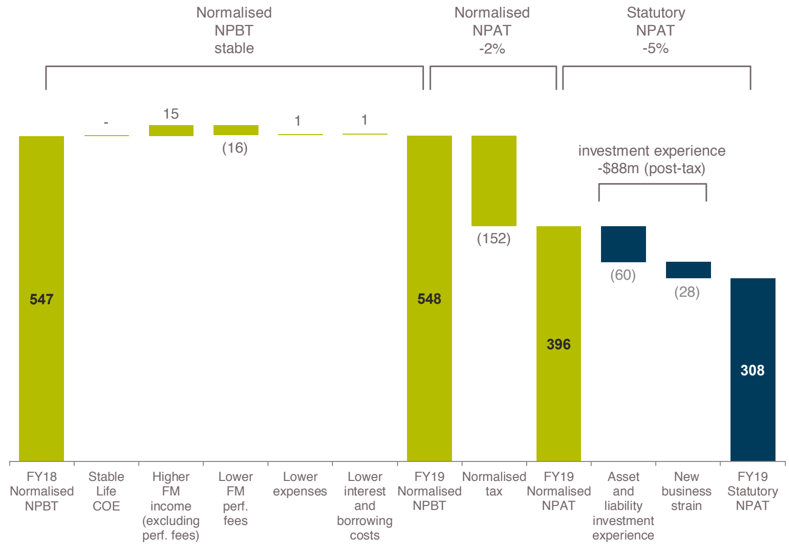
- Life COE – book growth offset by lower equity distributions
- FM income – higher Fidante Partners & CIP income offset by lower Fidante Partners performance fees (down $16m)
- Expenses – down $1m

**Normalised NPAT $396m (-2%)**

- Effective tax rate up 2%

**Statutory NPAT $308m**

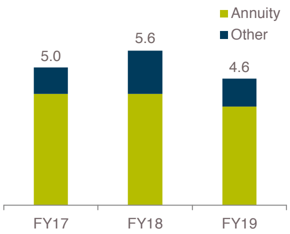
- -$88m of investment experience



# Life result

## Earnings steady with book growth offset by lower margin

### Total Life sales ($bn)



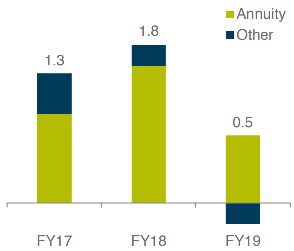

**Life sales down 18% to $4.6bn**

Annuity sales $3.5bn – down $0.5bn

- Domestic sales down $0.1bn
- MS Primary (Japan) down $0.3bn

Other Life sales $1.0bn – down $0.5bn

### Life book growth ($bn)




**Life book growth $0.5bn**

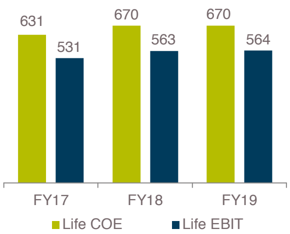
3.4% growth in total liabilities

**Annuity book growth $0.7bn**

5.8% growth in annuity liabilities

Growth lower due to adviser and industry disruption and lower MS Primary sales

### Life COE[1] and Life EBIT ($m)



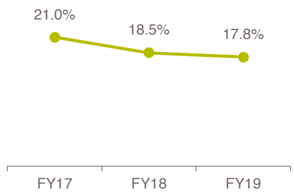

**Life COE stable at $670m**

**Life EBIT up $1m to $564m**

Higher average investment assets offset by lower margin

Margin impacted by asset allocation and lower equity distributions

### Life normalised ROE[2] (pre-tax)




**Life normalised ROE down 70 bps**

Reflects higher capital levels



1. Life Cash Operating Earnings (COE).
2. Life normalised Return on Equity (ROE) pre-tax.

# Life sales

## Lower institutional and MS Primary sales with resilient domestic sales

**Life sales $4.6bn (-18%)**

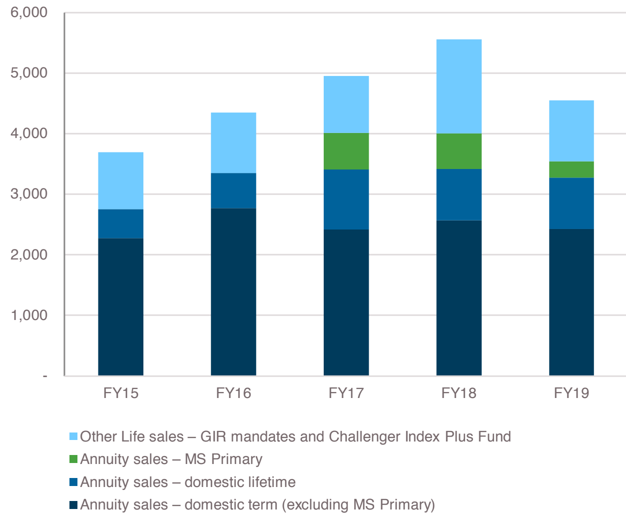
**Annuity sales $3.5bn (-11%)**

- Domestic sales $3.3bn (-4%) impacted by adviser and industry disruption
  - term annuities (-6%)
  - lifetime annuities (0%) – stronger Q4 Regular Liquid Lifetime sales
- MS Primary (-54%)
  - 8% of annuity sales (down from 15%)
  - impacted by higher relative US interest rates
  - US dollar reinsurance commenced July 2019

**Other Life sales $1.0bn (-35%)**

- Lower reinvestment of maturities

**Life sales ($m)**



# Life net book growth

## Lower institutional and MS Primary sales with resilient domestic sales

### Life net book growth $0.5bn

- 3.4% growth in total liabilities[1]

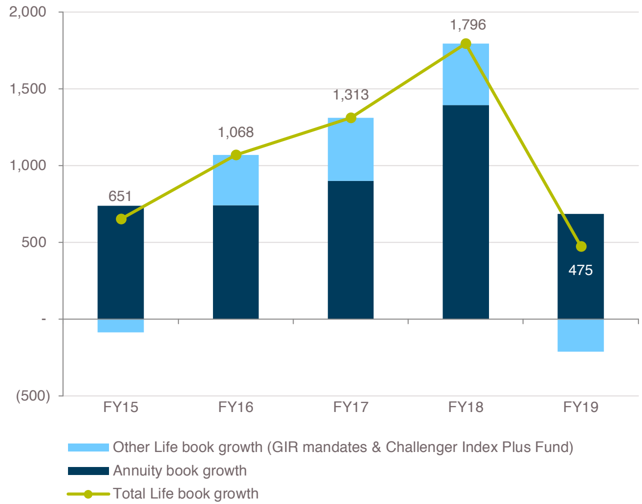
### Annuity net book growth $0.7bn

- 5.8% growth in annuity liabilities[2]
- Lower due to adviser and industry disruption
- MS Primary sales impacted by US interest rates

### Other book growth -$0.2bn

- ~8% reduction in GIR and Index Plus Fund liabilities

**Life book growth ($m)**




**FY19** – 30 June 2019

1. Calculated as FY19 Life net flows (i.e. sales less capital repayments) of $475m divided by FY18 Life annuity book, GIR and Challenger Index Plus liabilities ($13,863m).
2. Calculated as FY19 Life annuity flows (i.e. annuity sales less capital repayments) of $686m divided by FY18 Life annuity book, liability ($11,728m).



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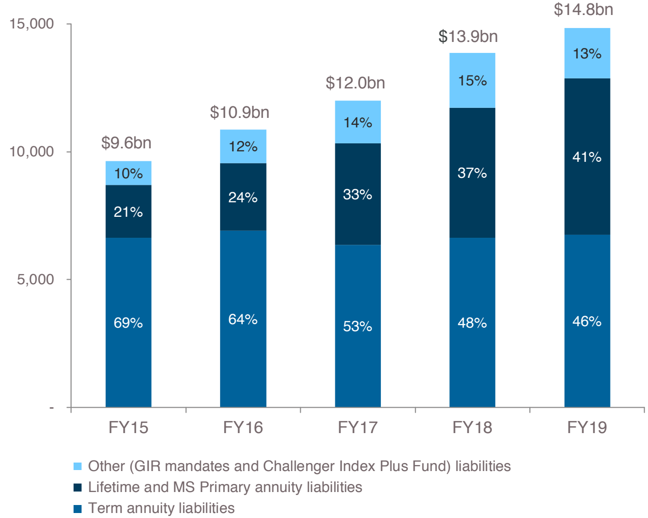
# Life book

## Continuing shift to long-term annuities

### Book shifting to long-term annuities

- Term annuities decreased by 2%
- Long-term annuities[1] increased by 4%
  - doubled over last four years
  - represent approximately half total annuity book
  - future growth supported by commencement of MS Primary US dollar reinsurance and new lifetime income means test rules
- Other liabilities[2] reduced by 2%

**Life annuity and other liabilities ($m)**






1. Long-term annuities represent Lifetime and MS Primary annuities.
2. Other liabilities represent GIR mandates and Challenger Index Plus Fund liabilities.

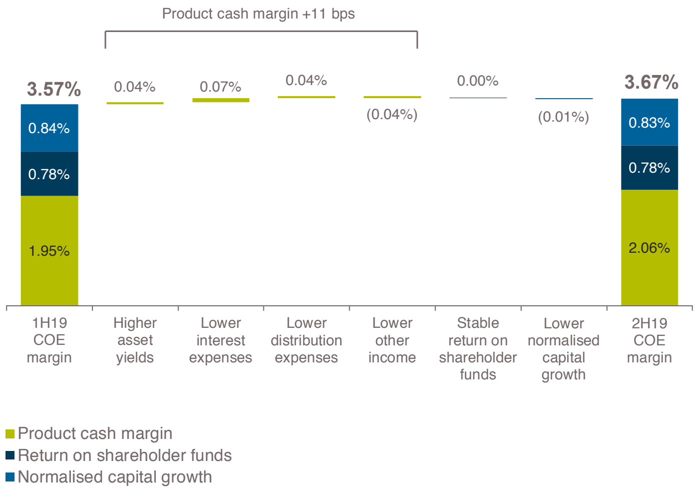
# Life margins

## Higher asset yields and lower annuity pricing

### 2H19 Life COE margin +10 bps

- Product cash margin +11 bps
  - higher asset yields +4 bps
    - higher 2H19 equity distributions
    - lower fixed income yields
  - lower interest and distribution expenses +11 bps
  - lower other income -4 bps
    - timing of Life Risk revenue recognition
- Return on shareholder funds stable
  - higher capital offset by lower interest rates
- Normalised capital growth -1 bps
  - lower property allocation

**Life COE margin – 1H19 to 2H19**



# Life investment portfolio

## Asset allocation reducing capital intensity

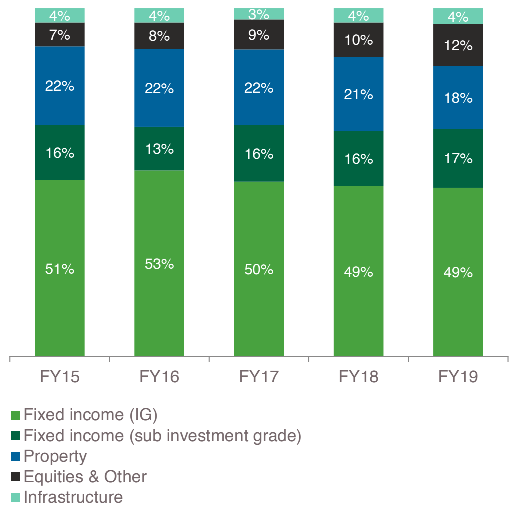
**Fixed income** – increased by 1%
- Investment grade ~74%
  - AAA, AA and A increased; liquids reduced

**Property** – decreased by 3%
- Sale process of lower ROE properties completed
- Sold ~$1bn of property[1]

**Equities & Other** – increased by 2%
- Low beta represents ~45% of equity portfolio

**Infrastructure** – stable at 4%
- Increase in listed following sale of UK logistics asset

**Life investment portfolio**




**FY19** – 30 June 2019

1. One property settled in July 2019 which reduced the property allocation by a further 1%.

# Life Investment Experience

## Asset experience (-$76m[1]); Liability experience (-$27m[1])

| | | |
|---|---|---|
| ASSET | **Fixed income** +$51m | • Valuation gain +$41m; normalised growth +$42m; credit default experience -$32m (-27 bps)<br>• Credit spreads contracted by ~30 bps in FY19<br>• 5 year credit default experience -18 bps |
| | **Property** -$28m | • Valuation gain +$44m; normalised growth -$72m<br>• Gain on property sales and office revaluations offset by retail |
| | **Equities & other** -$186m | • Valuation loss -$91m; normalised growth -$95m<br>• Benchmark returns less than normalised assumption; portfolio tracking and timing differences<br>• Equites & other normalised growth assumption reduced to 3.5% in FY20[2] |
| | **Infrastructure** +$87m | • Valuation gain +$117m; normalised growth -$30m<br>• Strong listed infrastructure gains and gain on sale of unlisted UK logistics asset |
| | **LIABILITY** -$27m | • New business strain (valuing liabilities at risk-free rate) -$33m<br>• Longevity reinsurance recapture[3] offset by other assumption & valuation changes (+$6m) |



1. All investment experience numbers quoted pre-tax.
2. Equities & other normalised growth assumption in FY19 was 4.5%.
3. During FY19 Challenger recaptured one of Life's longevity risk reinsurance arrangements with a global reinsurer.

# CLC regulatory capital

## Strongly capitalised and toward top end of guidance range

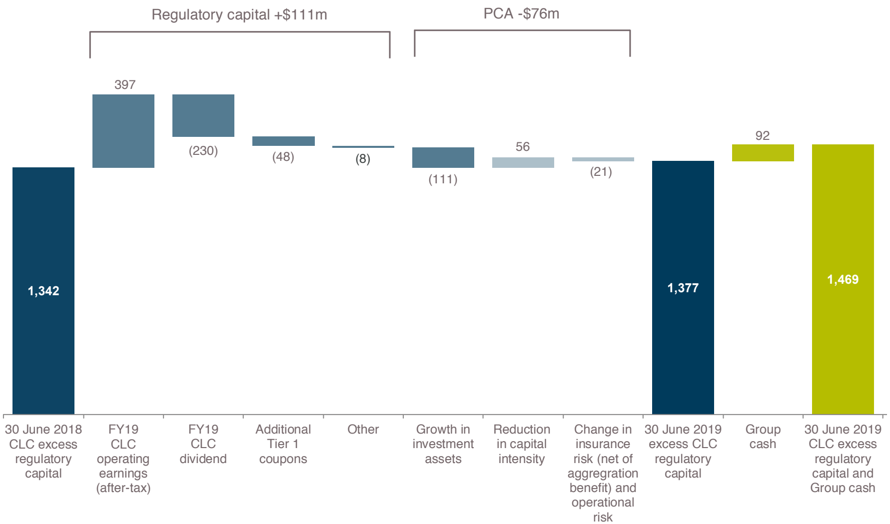
**Excess regulatory capital $1.4bn (up $0.1bn)**

**Regulatory capital $4.0bn**
- Higher retained earnings

**PCA $2.6bn**
- Book growth at lower capital intensity[1]

**CLC PCA ratio**
- PCA ratio[2] 1.53x – target range 1.3x to 1.6x
- CET1[3] ratio 1.06x

**Movement in CLC's excess regulatory capital ($m)**



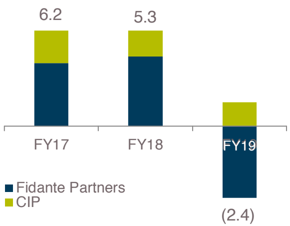



1. Capital intensity represents CLC's Prescribed Capital Amount divided by Life investment assets. FY19 capital intensity was 13.8% down from 14.1% in FY18.
2. Challenger Life Company Limited (CLC) total regulatory capital base divided by Prescribed Capital Amount (PCA).
3. Challenger Life Company Limited (CLC) Common Equity Tier 1 divided by Prescribed Capital Amount (PCA).

# Funds Management result

## Strong underlying earnings offset by lower performance fees

### Net flows ($bn)



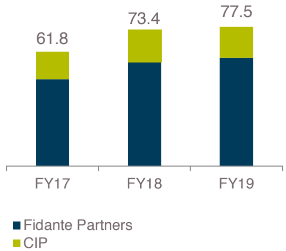

**Net flows -$2.4bn**

Fidante Partners -$3.6bn

Includes a profit-for-member fund internalising FUM

CIP[1] +$1.2bn – Life fixed income flows partially offset by property sales

### Average FUM ($bn)

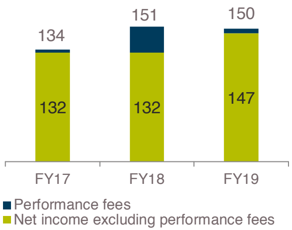



**Funds Management +6%**

Fidante Partners +5%

CIP[1] +8%

### Net income ($m)

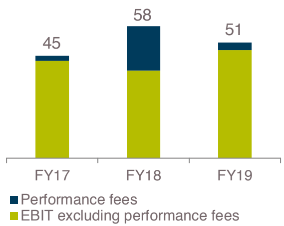



**Net income down $1m**

Strong underlying income growth offset by lower performance fees (down $16m)

Net income excluding performance fees up 11%

### EBIT ($m)




**EBIT down $7m (-12%)**

Strong underlying net income growth offset by lower performance fees

EBIT excluding performance fees up 23%

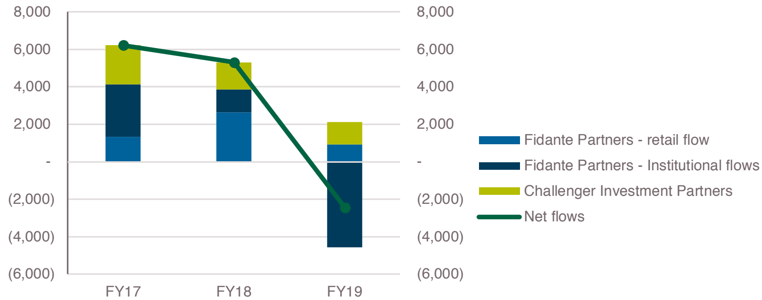


1. Challenger Investment Partners.

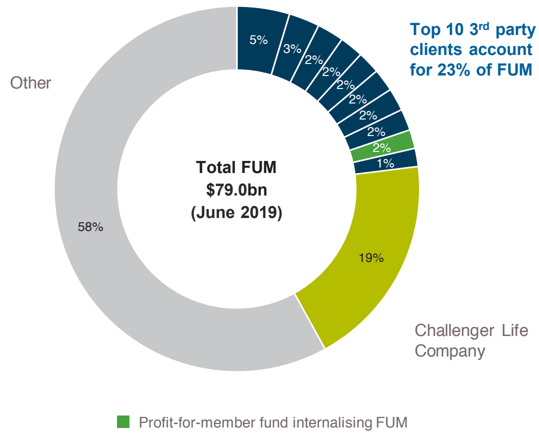
# Funds Management FUM

## Net flows impacted by profit-for-member fund internalising FUM
## Diversified client base across retail and institutional clients

**Funds Management net flows ($bn)**




**Top client exposures**




### FY19 net flows -$2.4bn

- Fidante institutional -$4.5bn – includes $3.9bn redemption by single profit-for-member fund
- Fidante retail +$0.9bn
- CIP +$1.2bn

**FY19** – 30 June 2019

# Dividend

## Stable dividend reflects confidence in future growth & strong capital position

**FY19 dividend 35.5 cps**

- Unchanged on FY18
- 100% franked

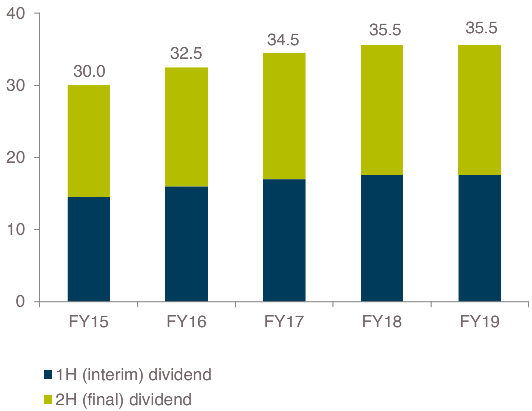
**FY19 dividend payout ratio 54.2%[1]**

- Above guidance range[2] reflecting
  - confidence in future growth
  - strength of capital position

**FY20 dividend**

- Expect to maintain at 35.5 cps[3] fully franked

**Dividend (cps)**






1. Normalised dividend payout ratio based on normalised EPS.
2. Challenger targets a divided payout ratio in the range of 45% to 50% of normalised profit after tax.
3. Subject to market conditions and capital allocation priorities.



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# Outlook

**Richard Howes**
Managing Director and
Chief Executive Officer

**FY19** – 30 June 2019

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# Priorities to drive long-term growth

## Responding to challenges and capturing opportunities


### Industry trends

**Long-term structural tailwinds**

- World class accumulation super system
- Ageing demographics
- Retirement phase developing

**Near-term headwinds**

- Increased market volatility
- Financial advice market disruption
- Profit-for-member funds internalising FUM

### Priorities challenger

- Improve adviser experience
- Engage, educate and deepen customer connections
- Strengthen relationships with profit-for-member funds
- Leverage MS&AD strategic relationship
- Build on FM product and distribution offering
- Continue leading operating and people practices
- Maintain financial discipline and strong capital position

# Outlook

## Resilient and positioned for growth

**FY20 financial outlook**

- Normalised NPBT[1] range of between $500m and $550m, including:
  - lower equities normalised growth assumption (-$23m impact)
  - DPM[2] growth initiatives – investing up to $15m
  - low interest rates reducing return on shareholder capital
  - assuming low domestic annuity book growth with ongoing adviser disruption
  - minimum MS Primary sales of ~A$660m[3]
  - expense growth <5% (excluding DPM growth initiatives)
- Normalised cost to income ratio above 30% to 34% target due to DPM growth initiatives
- Return on equity target[4] – RBA cash rate plus a 14% margin (currently 15%[5])
- Dividend to be maintained at 35.5 cps[6] with payout ratio[7] to be above 45% to 50% range
- Remain strongly capitalised



1. Normalised Net Profit Before Tax (NPBT).
2. Distribution, Product and Marketing (DPM).
3. At least ¥50 billion (~A$660 million) reinsurance per year for a minimum of five years. A$ amount based on 30 June 2019 exchange rate.
4. Normalised pre-tax return on equity target.
5. Based on a RBA cash rate of 1.00% as at 13 August 2019.
6. Subject to market conditions and capital allocation priorities.
7. Normalised dividend payout ratio based on normalised EPS.

# Highlights

## Resilient and positioned for growth

**FY19 outcomes**

Earnings growth impacted by lower investment earnings and performance fees

Strong progress on strategy for growth

**Responding to the operating environment**

Initiatives to drive resilience and growth

Robust business

**Outlook**

Responding to challenges and capturing opportunities

Resilient and positioned for growth

# Appendix

## Additional background information

FY19 – 30 June 2019

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# Appendix

## A clear plan for sustainable long-term growth

# Vision and strategy

## A clear plan for sustainable long-term growth

### 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 |
|---|---|---|---|

# Business overview

## Two core businesses benefiting from superannuation system growth

**Challenger Limited (ASX:CGF)**

### Life

**#1 market share in annuities[1]**

Leading provider of annuities and guaranteed retirement income solutions in Australia. Products offer certainty of guaranteed cash flows with protection against market, inflation and longevity risks.

Partnering with the leading provider of foreign currency annuities in Japan.

### Funds Management

**One of Australia's largest active fund managers[2]**

**Fidante Partners**
Co-owned, separately branded, active fixed income, equity and alternative investment managers, including Fidante Partners Europe.

**Challenger Investment Partners**
Originates and manages assets for Life and 3rd party institutions.

**Distribution, Product and Marketing (DPM)**

**Central functions**
e.g. Operations, Finance, IT, Risk Management, HR, Treasury, Legal and Strategy



1. Annuity market share – Strategic Insights – based on annuities in force at 31 March 2019.
2. Consolidated FUM for Australian Fund Managers – Rainmaker Roundup March 2019.

# Our people

## Highly engaged team with strong risk and compliance culture

### Employee engagement[1]

**84%**
Sustainable engagement

| Category | Total favourable score | Australian National norm | Global Financial Services norm | Global High Performance norm |
|---|---|---|---|---|
| Sustainable engagement | 84% | ✓ | ✓ | − |
| Diversity and flexibility | 94% | ✓ | ✓ | ✓ |
| Risk culture | 85% | ✓ | ✓ | ✓ |

✓ Exceeds
− No material difference

### Strong risk and compliance culture

- Risk management entrenched in corporate culture
- Significant investment in risk infrastructure



1. Willis Towers Watson – March 2019.

# Australian superannuation system

## Attractive market with long-term structural drivers

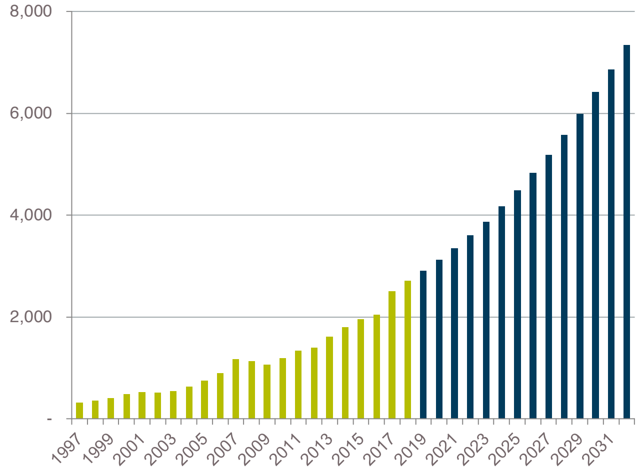
### Market growth supported by

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

### Resulting in

- 10% CAGR growth over last 10 years[1]
- 4th largest global pension market[1]
- Assets expected to double in next 10 years[2]

**Australian superannuation growth[3] ($bn)**






1. Willis Towers Watson Global Pension Study 2018.
2. Rice Warner 2017 superannuation projections.
3. 1997 to 2018: APRA data. 2019 – 2032: Based on Rice Warner 2017 superannuation projections applied to 2018 APRA superannuation assets.

# Australian superannuation system

## Attractive market with long-term structural drivers

### Pre-retirement (super savings) phase

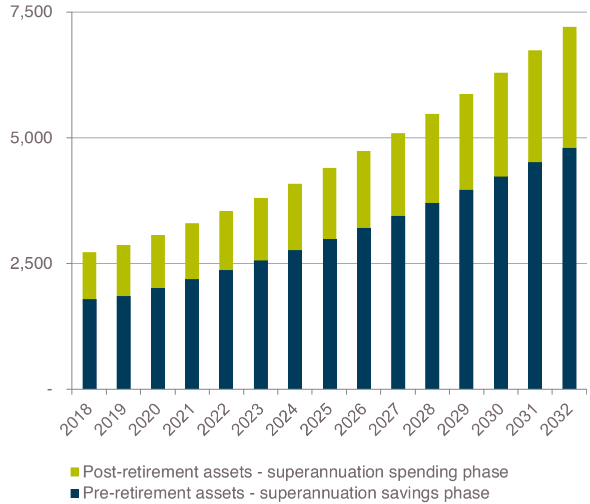
- Funds Management target market
- Supported by mandated and increasing contributions

### Post-retirement (super 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 ~$67bn[1] per year

**Projected superannuation assets[2] ($bn)**






1. Australian Taxation Office.
2. Based on Rice Warner 2017 superannuation projections applied to 2018 APRA superannuation assets.

# Australian superannuation system

## Attractive market with long-term structural drivers

### Mandatory and increasing contributions

- Increasing from 9.5% to 12.0%[1]

**Superannuation Guarantee contribution rate**[1]

| 1992 | 1997 | 2002 | 2015 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| 3.0% | 6.0% | 9.0% | 9.5% | 10.0% | 10.5% | 11.0% | 11.5% | 12.0% |

### Demographics

- Ageing population
- Australians have one of world's longest life expectancies[2]
- Medical and mortality improvements increasing longevity

**Number of Australians over 65 increasing**[3]

**+32% over next 10 years**

**+56% over next 20 years**

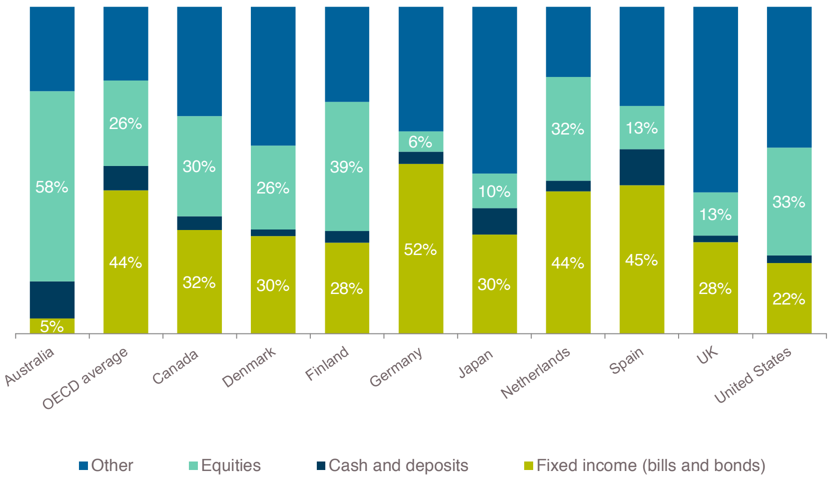


1. Percentage of gross wages required to be contributed to superannuation. Contribution rate increases to 10% on 1 July 2021 and increases by 0.5% per annum until reaching 12% on 1 July 2025.
2. World Health Organisation.
3. Australian Bureau of Statistics population projections (Cat No. 3222.0 Series 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**[1]




### Fixed income allocation

- Australia 5%
- OECD average 44%

### Equities allocation

- Australia 58%
- OECD average 26%



1. OECD Pension Markets in Focus – 2018.

# Australian superannuation system

## World class accumulation system with significant retirement savings
## Not delivering retirees financial comfort

### World class accumulation system

- Contribution rate increasing to 12%[1]
- 4th largest global pension market[2]
- Assets to double over next 10 years[3]

### Significant retirement savings

- 1 in 4 super dollars supporting retirement[4]
- Average household wealth at retirement $680k[5]
- ~$67bn transferring to retirement each year[6]

### Not delivering retirees financial comfort

National Seniors Australia survey (April 2019)[7]

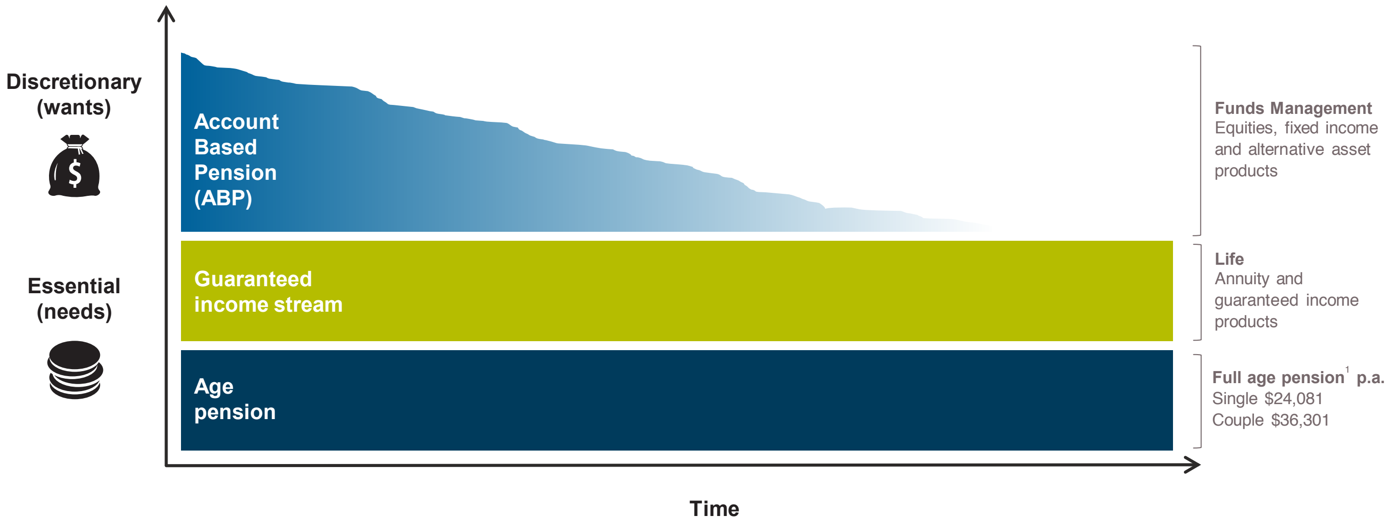
- Financial comfort not defined by a $ figure
- 53% worry about outliving their savings
- Risk appetite conflicts with risk taking

**FY19** – 30 June 2019

1. Increases 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 2018.
3. Rice Warner superannuation projections.
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/feeling-financially-comfortablequestion

# Retirement phase of superannuation

## Combining products provides better outcomes for retirees




**FY19** – 30 June 2019

1. Australian Government Department of Human Services and current as at 30 June 2019.

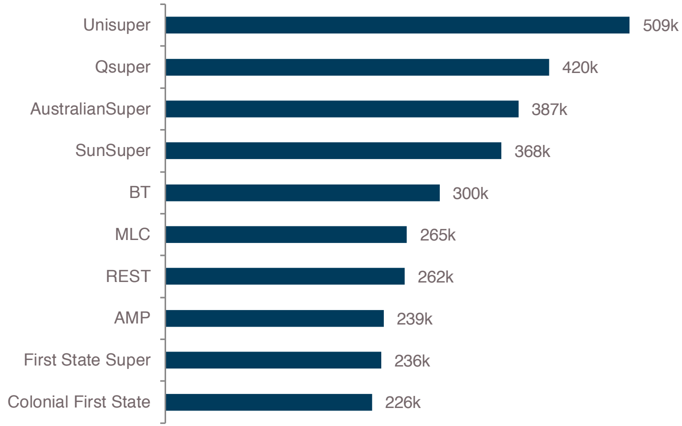
Retirement phase overview

# Retirement phase of superannuation

## Australians now have meaningful balances in retirement

- Superannuation guarantee system not fully mature – established 27 years ago
- Operating for only half the working life of today's retirees
- One in four superannuation dollars now supporting retirement[1]
- Super system starting to make a significant contribution to the lives of Australian retirees

**10 largest super funds – average retiree member balance[2]**




**FY19** – 30 June 2019

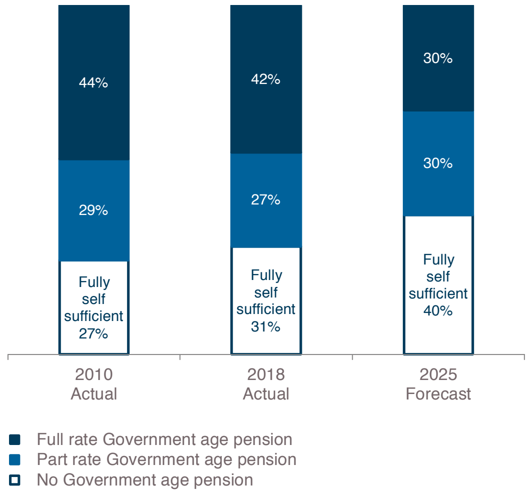
1. Based on APRA and ATO data.
2. APRA's Annual Superannuation Bulletin June 2018 edition and Annual Fund-level Superannuation Statistics report June 2018.

# Retirement phase of superannuation

## Superannuation starting to reduce reliance on age pension

- Average household wealth at retirement $680k[1] (excluding family home)
- Age pension subject to assets and income tests
- 2.5m Australians receiving some age pension support
- Portion of retirees on full age pension expected to reduce from 42% to 30% over next 6 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[2]**






1. Australian Bureau of Statistics.
2. Source – 2010 and 2018 Actual: Australian Government Department of Social Services and Department of Veteran Affairs; 2025 Forecast: The Association of Superannuation Funds of Australia (ASFA) projection.

Retirement phase overview

# Overview of age pension system

## Social safety net for those unable to support themselves

- Qualification age 66 (increasing to 67)
- 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[2])

### Maximum age pension rates[1]

| | Per fortnight | Per annum |
|---|---|---|
| Single | $926.2 | $24,081 |
| Couple | $1,396.2 | $36,301 |

### Assets test

Limits assets before it affects age pension[3]

| Maximum assets for full pension | | |
|---|---|---|
| | Homeowner | Non-homeowner |
| Single | $263,250 | $473,750 |
| Couple | $394,500 | $605,000 |

Taper rate – age pension reduces by $78 (p.a.) per each $1,000 of assets above lower threshold

| Maximum assets for part pension | | |
|---|---|---|
| | Homeowner | Non-homeowner |
| Single | $572,000 | $782,500 |
| Couple | $860,000 | $1,070,500 |

### Income test

Limits income before it affects age pension

| Maximum income for full pension (p.a.) | |
|---|---|
| Single | $4,524 |
| Couple | $8,008 |

Taper rate – age pension reduces by $500 (p.a.) per each $1,000 of income above lower threshold

| Maximum income for part pension (p.a.) | |
|---|---|
| Single | $52,686 |
| Couple | $80,610 |

**FY19** – 30 June 2019

1. Australian Government Department of Human Services and current as at 30 June 2019.
2. Account Based Pension (ABP).
3. Assets test excludes the family home.



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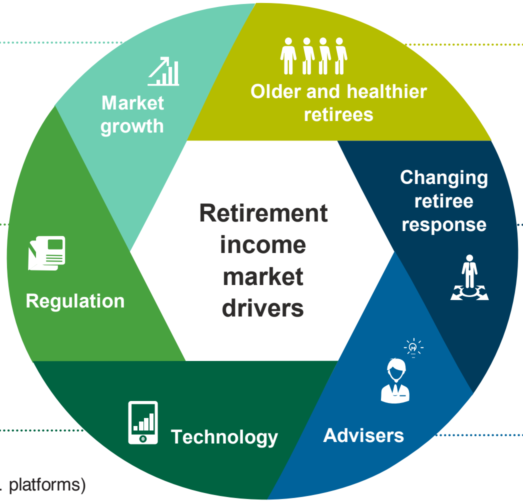
# Post-retirement phase of superannuation

## Growth market with structural drivers

- Super funds partnering with Life companies
- Industry moving ahead of regulation
- Natural market growth

- New lifetime income product rules
- New lifetime income means test rules[1]
- Retirement Income Framework, inc. CIPRs[2]

- Retirement income planning tools
- Increasing access to retirement products (e.g. platforms)
- Annuities on platforms facilitating combining products




- 700 Australians turning 65 every day
- 20-year cycle of retiring 'Baby-Boomers'
- Aust. has one of the longest life expectancies in OECD

- Recognition of market and longevity risks
- Increasing retiree super savings
- Risk averse and seeking secure income

- Helping convert savings to income
- Retirement income models emerging
- Recommending annuities to clients

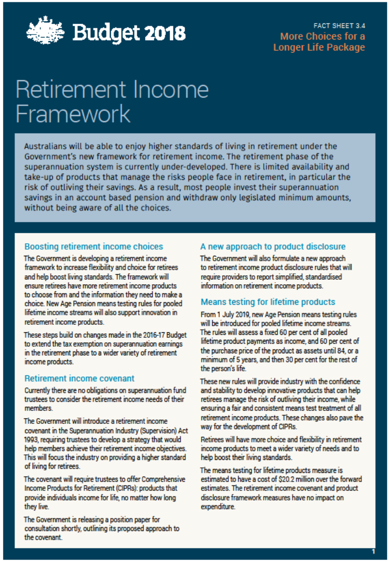
**FY19** – 30 June 2019

1. New means test rules for lifetime income products commenced on 1 July 2019.
2. Comprehensive Income Products for Retirement (CIPRs) – a feature of the Government's Retirement Income Framework. Refer to page 41 for more detail.

Retirement income regulatory reforms

# Government enhancing post-retirement phase

## Retirement Income Framework



Budget 2018

FACT SHEET 3.4

More Choices for a Longer Life Package

Retirement Income Framework

Australians will be able to enjoy higher standards of living in retirement under the Government's new framework for retirement income. The retirement phase of the superannuation system is currently under-developed. 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, most people invest their superannuation savings in an account based pension and withdraw only legislated minimum amounts, without being aware of all the choices.

Boosting retirement income choices

The Government is developing a retirement income framework to increase flexibility and choice for retirees and help boost living standards. The framework will ensure retirees have more retirement income products to choose from and the information they need to make a choice. New Age Pension means testing rules for pooled lifetime income streams will also support innovation in retirement income products.

These steps build on changes made in the 2016-17 Budget to extend the tax exemption on superannuation earnings in the retirement phase to a wider variety of retirement income products.

Retirement income covenant

Currently there are no obligations on superannuation fund trustees to consider the retirement income needs of their members.

The Government will introduce a retirement income covenant in the Superannuation Industry (Supervision) Act 1993, requiring trustees to develop a strategy that would help members achieve their retirement income objectives. This will focus the industry on providing a higher standard of living for retirees.

The covenant will require trustees to offer Comprehensive Income Products for Retirement (CIPRs): products that provide individuals income for life, no matter how long they live.

The Government is releasing a position paper for consultation shortly, outlining its proposed approach to the covenant.

A new approach to product disclosure

The Government will also formulate a new approach to retirement income product disclosure rules that will require providers to report simplified, standardised information on retirement income products.

Means testing for lifetime products

From 1 July 2019, new Age Pension means testing rules will be introduced for pooled lifetime income streams. The rules will assess a fixed 60 per cent of all pooled lifetime product payments as income, and 60 per cent of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30 per cent for the rest of the person's life.

These new rules will provide industry with the confidence and stability to develop innovative products that can help retirees manage the risk of outliving their income, while ensuring a fair and consistent means test treatment of all retirement income products. These changes also pave the way for the development of CIPRs.

Retirees will have more choice and flexibility in retirement income products to meet a wider variety of needs and to help boost their living standards.

The means testing for lifetime products measure is estimated to have a cost of $20.2 million over the forward estimates. The retirement income covenant and product disclosure framework measures have no impact on expenditure.

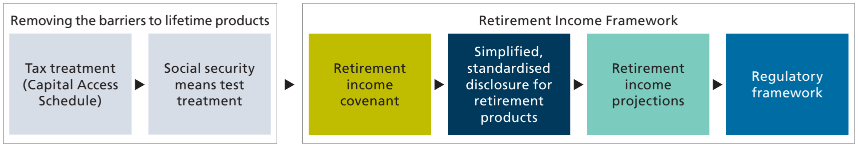
1

> ***"The retirement phase of the superannuation system is currently under-developed. 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"***

Federal Budget 8 May 2018

### Retirement Income Framework

1. Boosting retirement income choices – new retirement product rules 1 July 2017
2. New means test rules – for lifetime products from 1 July 2019[1]
3. Retirement Income Covenant – member retirement strategy by 1 July 2020
4. CIPRs[2] – all funds required to offer CIPRs by 1 July 2022




**FY19** – 30 June 2019

1. New means test rules for lifetime income products commenced on 1 July 2019.
2. Comprehensive Income Products for Retirement (CIPRs) – a feature of the Government's new Retirement Income Framework.

Retirement income regulatory reforms

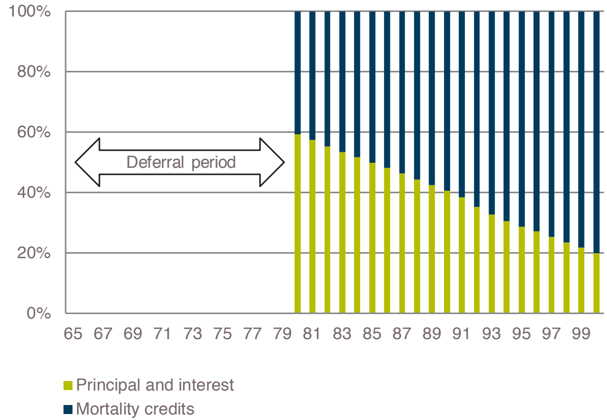
# Government enhancing post-retirement phase

## New retirement product rules introduced 1 July 2017

- Enables new lifetime products, including Deferred Lifetime Annuities (DLAs)
- DLAs are insurance-focused products providing certainty with longevity and inflation protection
- Income from DLA enhanced through pooling benefits
- New age pension means test rules support use of lifetime income streams through a simplified test – commenced 1 July 2019

**Benefits of pooling**

(illustrative DLA example with 15 year deferral period)

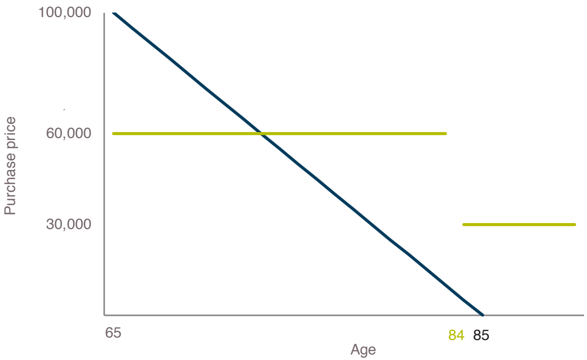


# Government enhancing post-retirement phase

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

### Assets pension test

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




Existing asset test

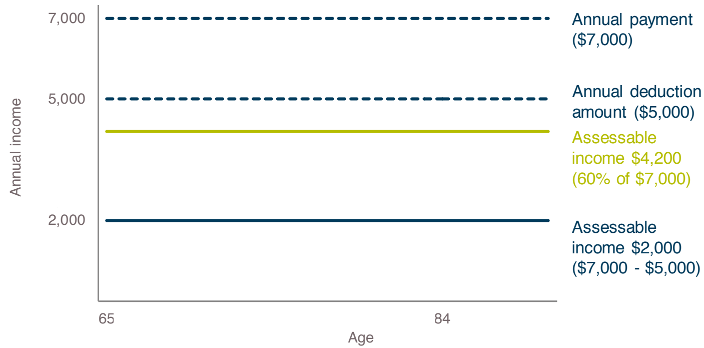
Asset amortises down evenly over life expectancy

Asset test (from 1 July 2019)

Asset value fixed at 60% until age 84 then fixed at 30% for life

### Income pension test

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




Existing income test

Includes payment less annual deduction amount

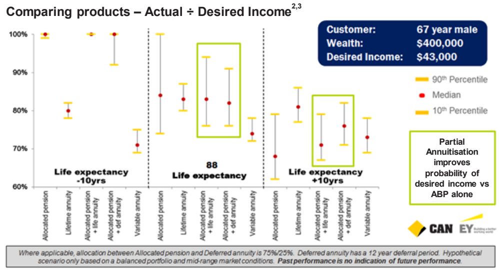
Income test (from 1 July 2019)

Includes 60% of payment as income

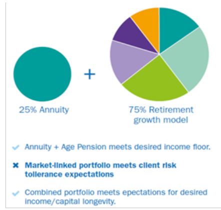
# Government enhancing post-retirement phase

## CIPR-style strategies already being implemented

- CIPR[1]-style strategies already being implemented by dealer groups and super funds
- Retirement income models emerging
  - typically recommend 25% allocation to lifetime income products
  - supported by independent analysis
- Challenger's Retirement Illustrator and tools support income layering and CIPRs[1]








*"annuities need to be one tool in the financial adviser's toolbox"*
*"we believe that an account based pension with a lifetime annuity or some sort of deferred lifetime annuity will be a good solution for Australian retirees"*



1. Comprehensive Income Products for Retirement (CIPRs) – a feature of the Governments new Retirement Income Framework. Refer to page 41 for more detail.
2. 'Optimal solution to the retirement riddle', Actuaries Summit, May 2015.
3. All information presented is general in nature, it is not considered personal advice.

# Retirement income strategies – combined products

## Enhances income and provides longevity and inflation protection

**Case study**

### Jenny and John

- Homeowning couple
- $500,000 of super (in addition to family home)
- 66 years old
- Approaching retirement
- Target income $59,000 p.a.
- Status quo 100% ABP[1]
- Combined product
  - 70% ABP[1]; and
  - 30% Lifetime Annuity[2]



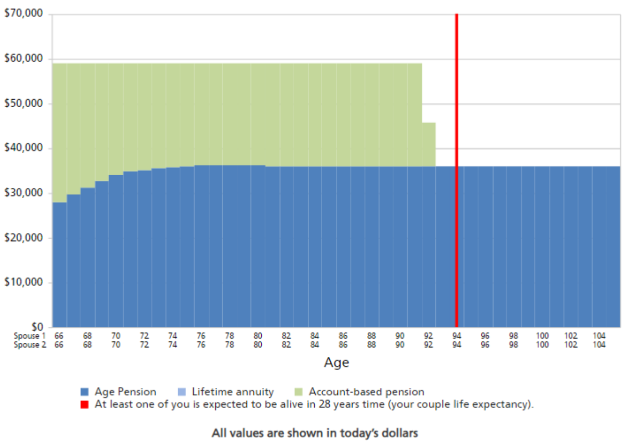
1. Account Based Pension (ABP).
2. Applying means test rules for lifetime income products that took effect from 1 July 2019.

# Retirement income strategies – combined products

## Enhances income and provides longevity and inflation protection

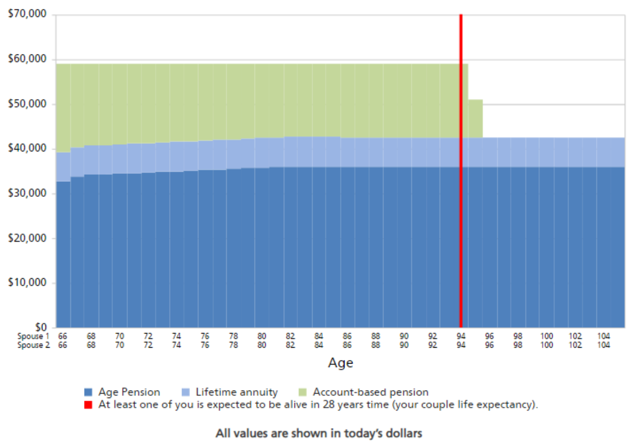
### Case study – Jenny and John

**100% Account Based Pension (ABP)**




- Provides $59k p.a. until age 91 then $36k p.a. thereafter
- 50% chance one is alive at age 94

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




- Provides $59k p.a. until age 94 then $43k p.a. thereafter
- Income at least as good as 100% ABP – better the longer you live



Assumptions – 1. Applying means test rules for lifetime income products that took effect from 1 July 2019; 2. 66 year old couple, homeowners, $250,000 each in super ($500,000 combined) drawing $59,000 per annum; 3. Account Based Pension assumptions – Growth 6.40%, Defensive 2.60% (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 August 2019.

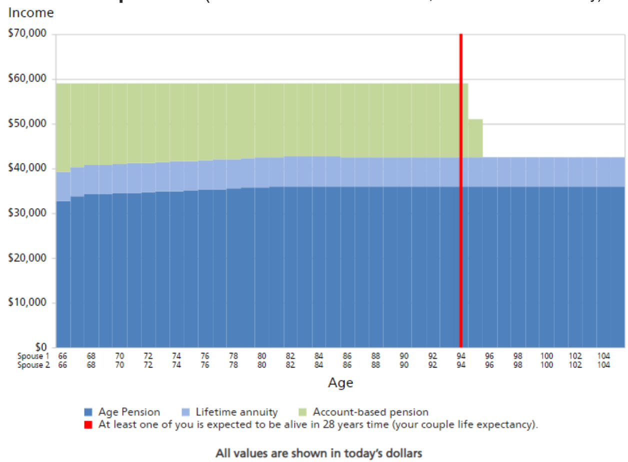
# Retirement income strategies – combined products

## 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)

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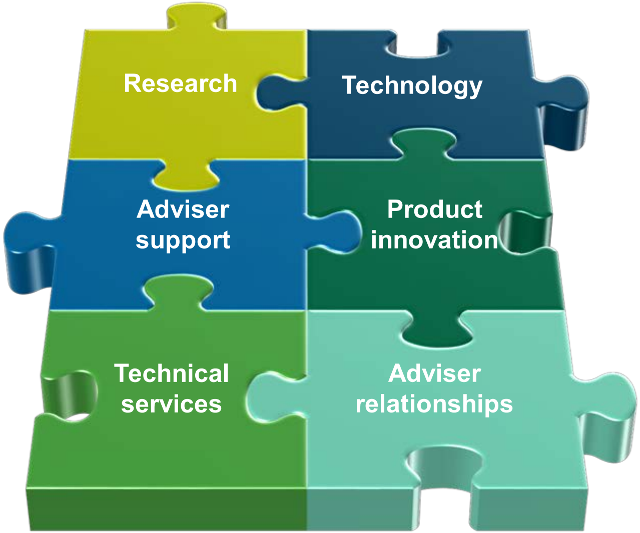
# Distribution

## Competitive advantage driving long-term growth

Influencing market practice

Retirement education and practice management

Superannuation rules support




Annuities on platform and retirement calculators improving retirement outcomes

Meeting goals and managing risks of retirement

Working with licencees and advisers to optimise retirement outcomes

# Distribution – New relationships

## Industry moving ahead of regulation and combining products

| FY16 | FY17 | FY18 / FY19 |
|---|---|---|
| Australia's largest retail platform offering Challenger annuities | ClearView Wealth Solutions platform offering Challenger annuities | Challenger annuities available on AMP platforms (launched September 2017) |
| Leading provider of services to Australian superannuation industry providing access to Challenger annuities | Suncorp branded annuities backed by Challenger | Challenger annuities available on BT platforms (launched August 2018) |
| Profit for members fund providing access to Challenger annuities | Three Link Group clients offering Challenger annuities | Challenger annuities available on HUB24 platform (launched May 2019) |
| | Mitsui Sumitomo Primary Life Insurance MS&AD INSURANCE GROUP Annuity relationship with leading Japanese annuity provider | Challenger annuities available on Netwealth platform (launched June 2019) |

**FY19** – 30 June 2019

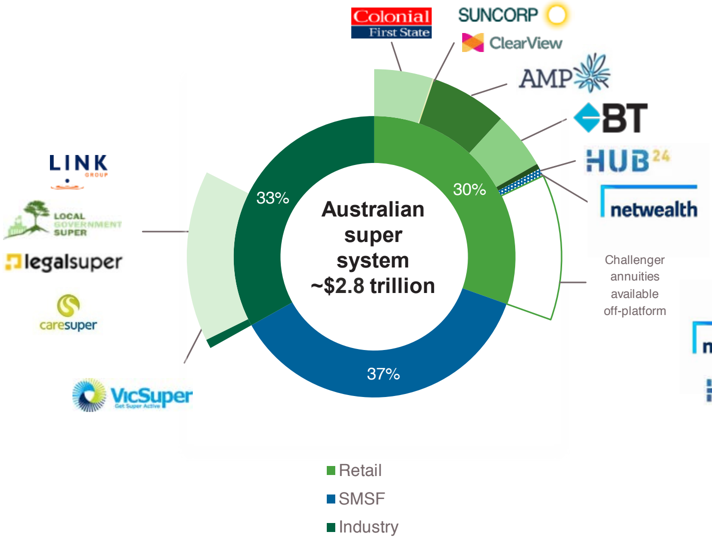
Challenger distribution

# Distribution – New relationships

## Platforms broadening access to Challenger annuities

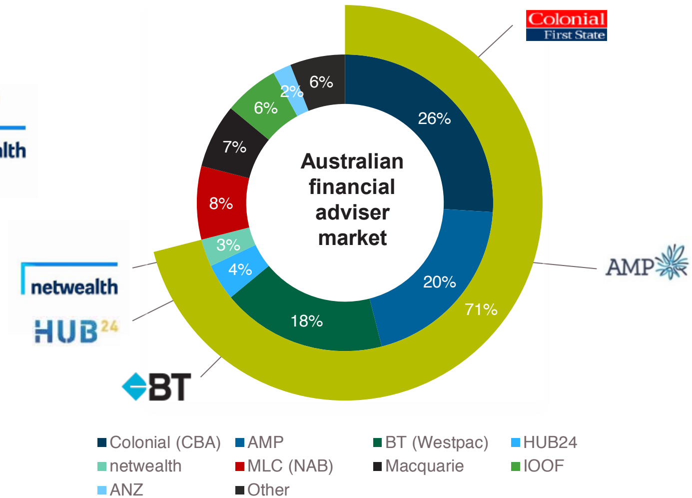
**Platform relationships**

Provides access to ~1/3rd of super industry FUM[1]




**Platform relationships**

Provides access to ~70% of financial advisers[2]




**FY19** – 30 June 2019

1. Australian super system size based on APRA annual superannuation bulletin and market share based on Strategic Insights analysis of retail managed funds.
2. Primary platform used by advisers – Wealth Insights 2018 Adviser Market Trends Report (provider footprint).



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# 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
- Challenger Tokyo office opened

### Equity placement to MS&AD

- $500m or 6.3% of issued capital (August 2017)
- Shareholding subsequently increased to ~16%[1] via market
- Representative to join Challenger Board[2] in early FY20
- MS&AD intends to be a supportive Challenger shareholder[3]

MS&AD

**MS&AD Insurance Group**

~A$26bn market cap
Total assets ~A$305bn

41,467 employees
5 business domains

(as at 31 March 2019)

**1** Japanese general insurer
#1 market share

- MS&AD Mitsui Sumitomo Insurance
- MS&AD Aioi Nissay Dowa Insurance
- MS&AD Mitsui Direct General Insurance

**2** Japanese life insurer
#9 market share
major foreign currency annuity provider

- MS&AD Mitsui Sumitomo Aioi Life Insurance
- MS&AD Mitsui Sumitomo Primary Life Insurance

**3** International operations
operations in 49 countries
#1 ASEAN general insurer

MS Amlin A Member of MS&AD INSURANCE GROUP
MSIG Box Innovation



1. Shareholding as at 30 June 2019.
2. Subject to necessary regulatory approvals, including the Australian Prudential Regulation Authority and Treasurer's approval under the Finance Sector (Shareholdings) Act.
3. Subject to market conditions, any necessary or desirable regulatory approvals and Challenger's circumstances. 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
- Australian dollar reinsurance commenced November 2016
- Expanded reinsurance to include US dollar term annuity[1]
  - commenced 1 July 2019
  - at least ¥50 billion (~A$660 million) in total A$ and US$ sales per year for minimum of five years[2]
  - provides reliable and diversified sales contribution

Mitsui Sumitomo Primary Life Insurance
MS&AD INSURANCE GROUP

**Product overview**

**20 year 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 20 year 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



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. A$ amount based on 30 June 2019 exchange rate.

# Life product overview

## Providing customers with guaranteed income

| Fixed term | Long term (including lifetime) | Other |
|---|---|---|
| **46% of total book** | **41% of total book** | **13% of total book** |
| *Provides regular guaranteed payments for a fixed rate, fixed term* | *Provides guaranteed regular payments for life* | *Institutional product providing guaranteed fixed income returns* |
| Average policy size[1] ~$200,000 | Average policy size[1] ~$150,000 | |
| Guaranteed Annuity<br>• Guaranteed rate<br>• Payment frequency options<br>• Inflation protection options<br>• Ability to draw capital as part of regular payment<br>• Tax free income[2] | Liquid Lifetime<br>• Inflation protection options<br>• Liquidity options<br>• Tax free income[2]<br>CarePlus<br>• Designed for aged care<br>• Up to 100% death benefit<br>MS Primary (refer page 52) | Guaranteed Index Return (GIR)<br>• Institutional mandates targeting large Australian superannuation funds<br>Challenger Index Plus Fund<br>• Liquid version of GIR backed by high grade liquid fixed income |

**FY19** – 30 June 2019

1. Average FY19 annuity policy size.
2. If bought with superannuation money and in retirement phase.



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Challenger brand and adviser ratings

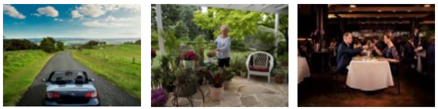
# Brand strength

## Strong customer and adviser brand

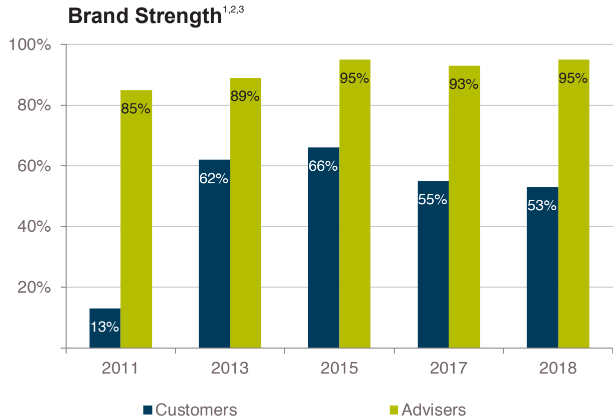
**2011**
**‘Real Stories’**

**2013**
**‘On Paper’**

**2016**
**‘Lifestyle Expectancy’**



**2019**
**‘Look forward with confidence’**


‘Total brand awareness’

‘Leaders in retirement income’

**FY19** – 30 June 2019

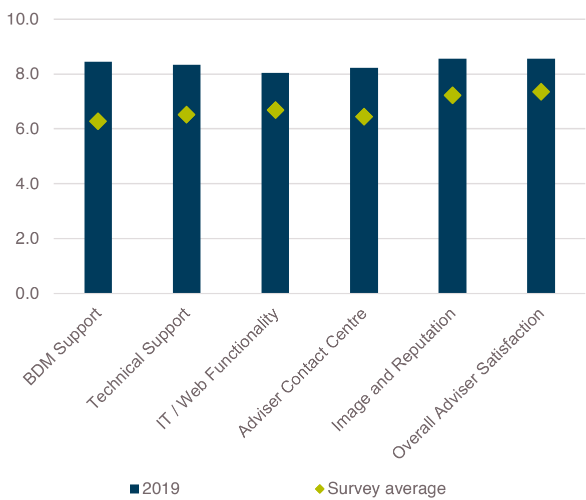
1. Customer – Newspoll Consumer study (2011) – different question & methodology used prior to 2013.
2. Customer – Hall & Partners Open Mind Consumer Study (2013 to 2018) – people aged 55 to 64 years old.
3. Adviser – Marketing Pulse Adviser Study December 2018.

Challenger brand and adviser ratings

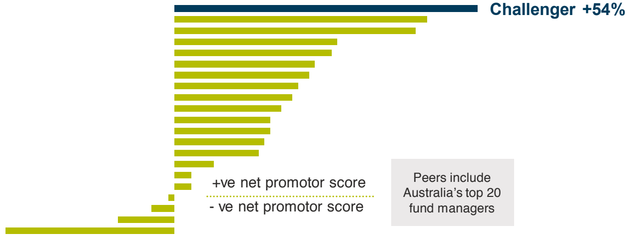
# Clear leader in retirement incomes

## Challenger rated #1 in overall adviser satisfaction

### Challenger adviser satisfaction[1]




### Wealth Insights net promoter score[2]




**Challenger ranked #1**[1]

- BDM Support (8th consecutive year)
- Technical Services (4rd consecutive year)
- IT / Web Functionality (3nd consecutive year)
- Adviser Contact Centre (4rd consecutive year)
- Image and Reputation (4rd consecutive year)
- Overall Adviser Satisfaction (4rd consecutive year)

**FY19** – 30 June 2019

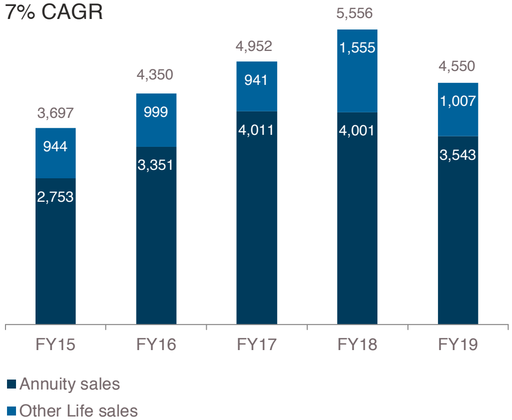
1. Challenger annuities service level analysis conducted by Wealth Insights and compared to the broader Australian funds management market.
2. Wealth Insights 2018 Adviser Market Trends Report.

# Life

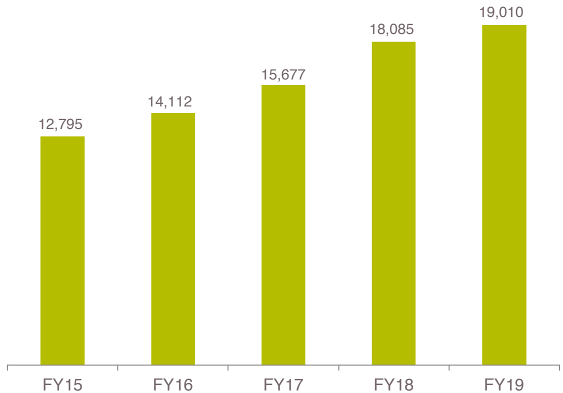
## Sales & AUM benefiting from diversity of products and expanded distribution

**Total Life sales ($m)**
5% CAGR

**Annuity sales ($m)**
7% CAGR



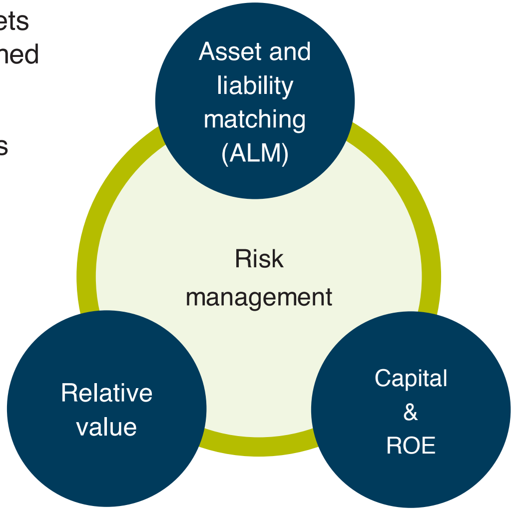

**Life AUM ($m)**
10% CAGR



# 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




**Risk management**

- Strong governance framework
- Risk management entrenched in corporate culture
- Minimise unwanted risks such as interest rate, currency and inflation risks

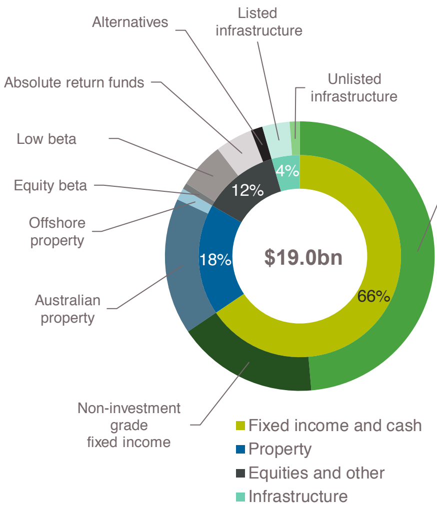
- Investment returns considered relative to base swap rates
- Illiquidity premium contributes to relative value

- Manage asset allocation to capital and ROE targets
- Investment decisions based on risk-adjusted returns

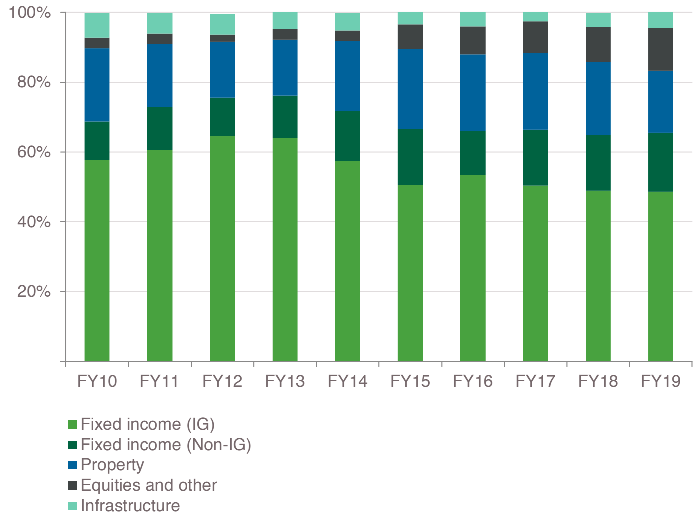
# Life investment portfolio

## High quality portfolio providing reliable income

### Life investment portfolio[1]




### Life investment portfolio – asset allocation



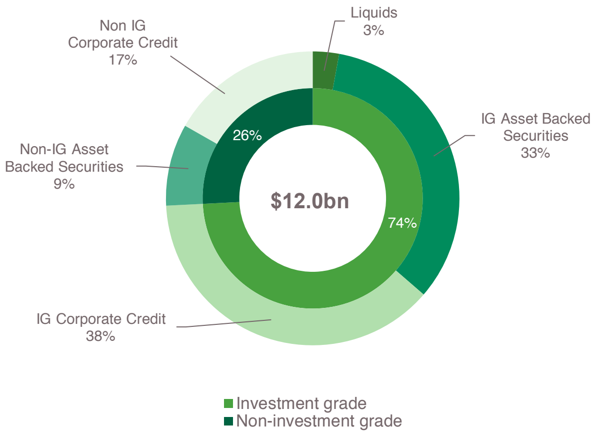

**FY19** – 30 June 2019

1. As at 30 June 2019.

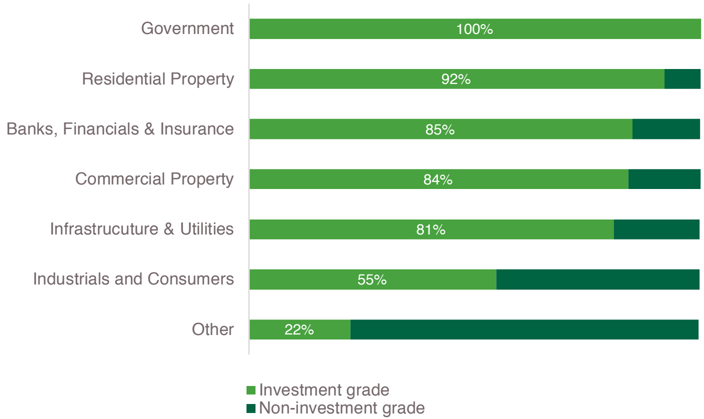
# Life investment portfolio

## Fixed income – 66% of portfolio

### Fixed income portfolio[1]




### Fixed income portfolio by industry[1]

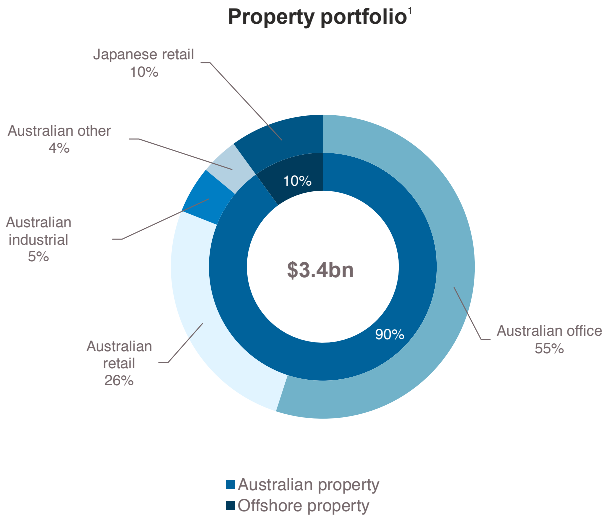



**FY19** – 30 June 2019

1. As at 30 June 2019.

# Life investment portfolio

## Property – 18% of portfolio




### Life's property portfolio

- 51% of tenants investment grade
- Australian Government is a major tenant
  - representing ~30% of rental income[2]
- Average cap rate 5.8%
- WALE 6.7 years[3]
- 58% of leasing area has contracted leases expiring in FY24 and beyond
- 94% occupancy rate[4]

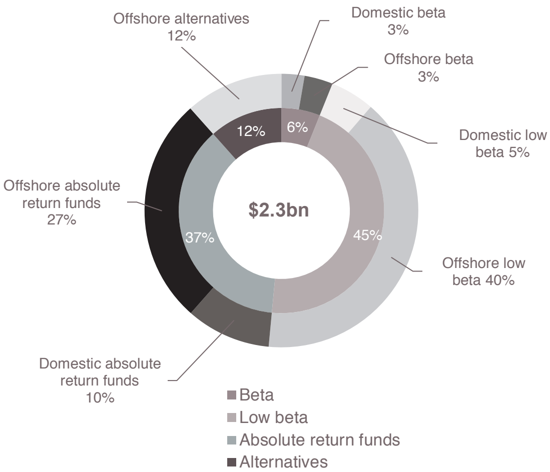


1. As at 30 June 2019.
2. Total gross passing income attributable to the direct property portfolio.
3. Assumes tenants do not terminate leases prior to expiry of specified lease term. Based on weighted average lease expiry and measured by gross income.
4. As measured by area.

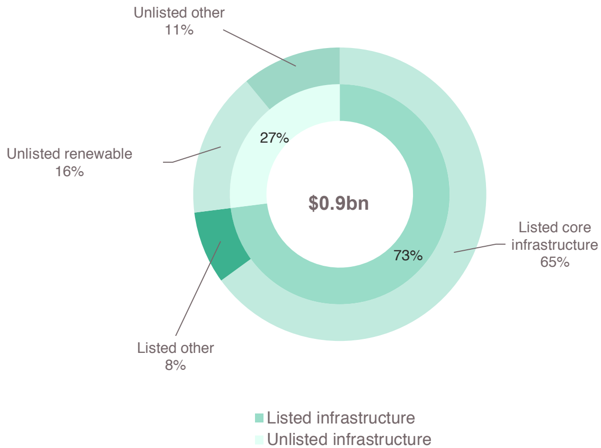
# Life investment portfolio

## Equities and other & infrastructure – 16% of portfolio

### Equity portfolio[1]




### Infrastructure portfolio[1]




**FY19** – 30 June 2019

1. As at 30 June 2019.

# 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

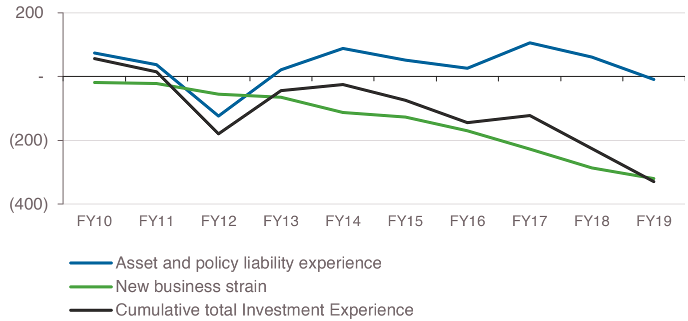
Difference between expected capital growth[1] for each asset class compared to actual investment returns

Includes impact of changes in macroeconomic variables[2] 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 risk free rate plus an illiquidity premium[3] used to fair value annuities. New business strain unwinds over the annuity contract.

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




| Normalised assumptions | per annum |
|---|---|
| Fixed income (allowance for credit default) | -35 bps |
| Property | 2.0% |
| Infrastructure | 4.0% |
| Equities and other (from FY20 reduced to 3.5%) | 4.5% |



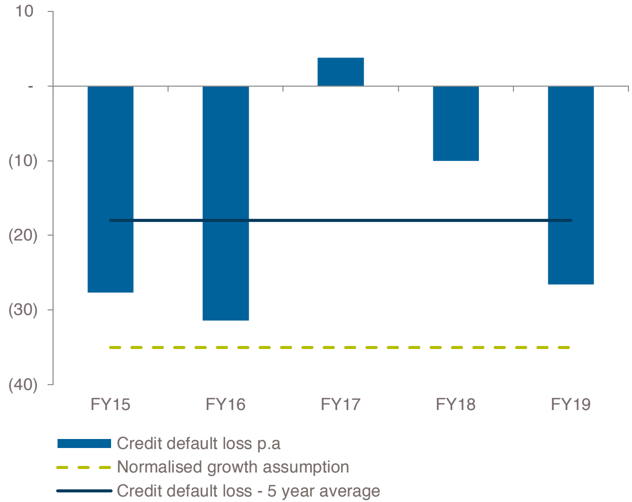
1. Based on normalised assumptions. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2019 Annual Report - Operating and Financial Review section 8.
2. Macroeconomic variables include changes to bond yields, inflation factors, expense assumptions and other factors.
3. Lifetime annuities are fair valued using a risk-free discount rate, based on the Australian Commonwealth Government bond curve plus an illiquidity premium.

# Normalised profit framework

## Fixed income credit default loss history

- Normalised growth assumptions includes -35 bps for fixed income
- Represents an allowance for credit default losses
- FY19 credit default losses recognised in investment experience -27bps (-$32m)
- Five year average credit default loss -18 bps p.a.

**Credit default loss history (bps)**



# Asset and liability matching

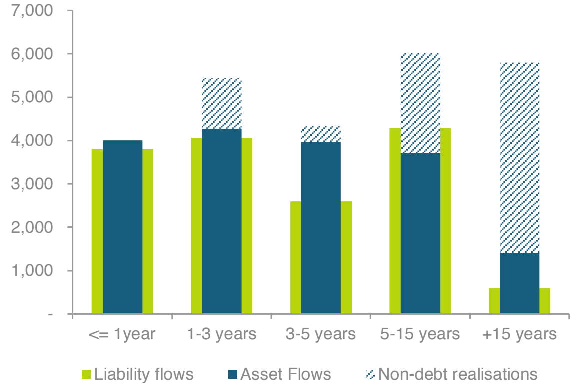
## Unwanted risks mitigated with assets and liabilities cash flow matched

- Assets deliver contracted cash flows to match contracted liabilities
- 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) – June 2019**



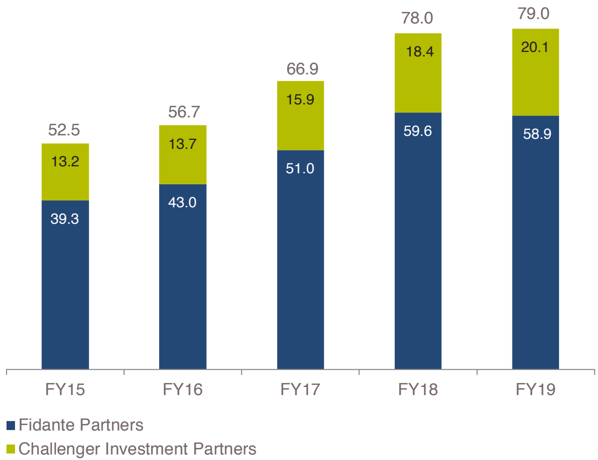
Funds Management sales and FUM

# Funds Management

## Strong FUM growth track record

- Fidante Partners
  - multiple boutique brands
  - located in Australia, UK and US
  - asset class diversification
  - replicating model in Europe
- Challenger Investment Partners (CIP)
  - proven track record in asset origination
  - strong investment performance
  - growing 3rd party credit and property offerings

**Funds Under Management (FUM) ($bn)**[1]
11% CAGR




**FY19** – 30 June 2019

1. FY15 excludes $5.4bn of institutional FUM that was derecognised in July 2015 following the sale of Kapstream. Fidante Partners continues to distribute Kapstream products to retail clients.

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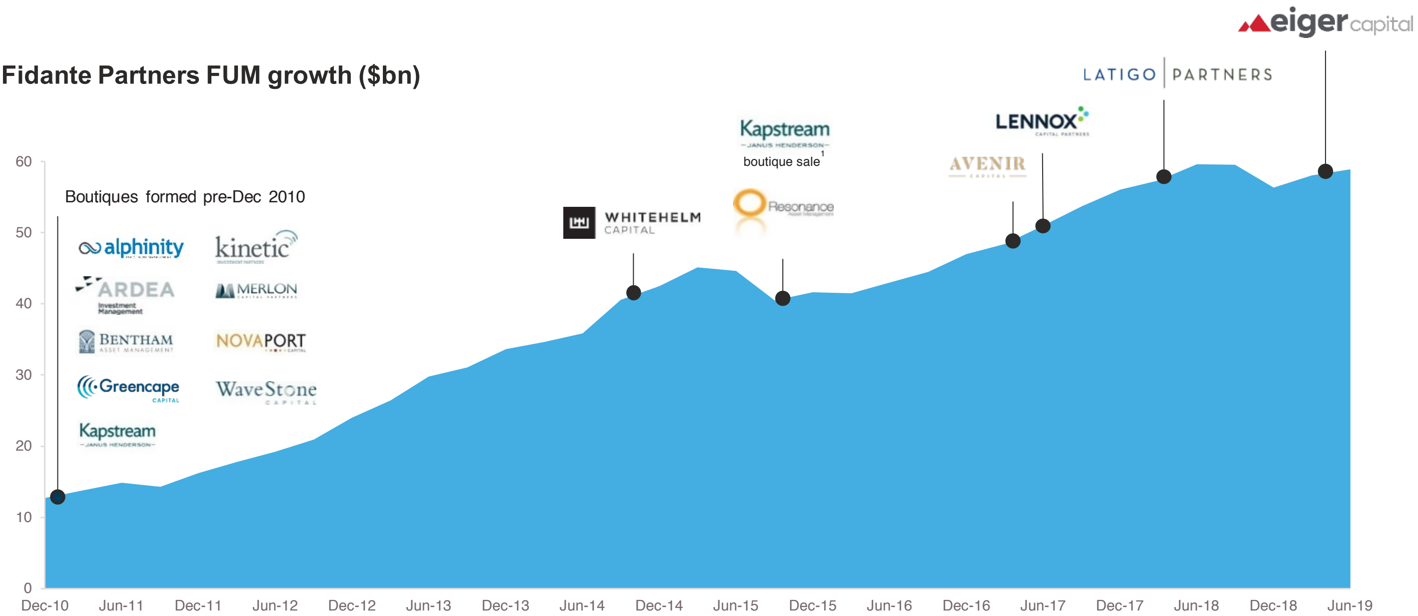
Funds Management sales and FUM

# Fidante Partners capability

## Adding new managers and expanding distribution footprint

### Fidante Partners FUM growth ($bn)




**FY19** – 30 June 2019

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.

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Funds Management mangers

# FM – multiple brands and strategies

## Scalable and diversified ~$79bn of FUM

**Equities $25.9bn[1]**

alphinity

WaveStone CAPITAL

LENNOX CAPITAL PARTNERS

Greencape CAPITAL

kinetic INVESTMENT PARTNERS

NOVAPORT CAPITAL

AVENIR CAPITAL

eiger capital

MERLON CAPITAL PARTNERS

Multiple brands & strategies

WHITEHELM CAPITAL

Resonance Asset Management

LATIGO PARTNERS

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Kapstream —JANUS HENDERSON—

ARDEA Investment Management

BENTHAM ASSET MANAGEMENT

**Alternatives $12.5bn[1]**

**Fixed Income $40.6bn[1]**

**FY19** – 30 June 2019

1. Funds Under Management (FUM) as at 30 June 2019.

# Fidante Partners boutique managers

## Diversified managers and investment strategies

| Boutique | Partnership commenced | Asset class |
|---|---|---|
| alphinity | Aug 2010 | Australian and global equities |
| ARDEA Investment Management | Nov 2008 | Australian fixed income |
| AVENIR CAPITAL | Feb 2017 | Global equities |
| BENTHAM ASSET MANAGEMENT | Jun 2010 | Global credit portfolios |
| eiger capital | Apr 2019 | Australian small cap equities |
| Greencape CAPITAL | Sep 2006 | Mid and large cap Australian equities |
| Kapstream JANUS HENDERSON | Feb 2007 | Global fixed income |
| kinetic | Oct 2005 | Australian small cap equities |

| Boutique | Partnership commenced | Asset class |
|---|---|---|
| LATIGO PARTNERS | Mar 2018 | Event-driven credit specialist |
| LENNOX CAPITAL PARTNERS | Mar 2017 | Australian small cap equities |
| MERLON | May 2010 | Australian equities (income focus) |
| NOVAPORT | Aug 2010 | Australian small and micro cap equities |
| Resonance | Jul 2015 | Renewable energy and water infrastructure |
| WaveStone CAPITAL | Nov 2008 | Australian equities (long only & long/short) |
| WHITEHELM CAPITAL | Jul 2014 | 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

### Partnership

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



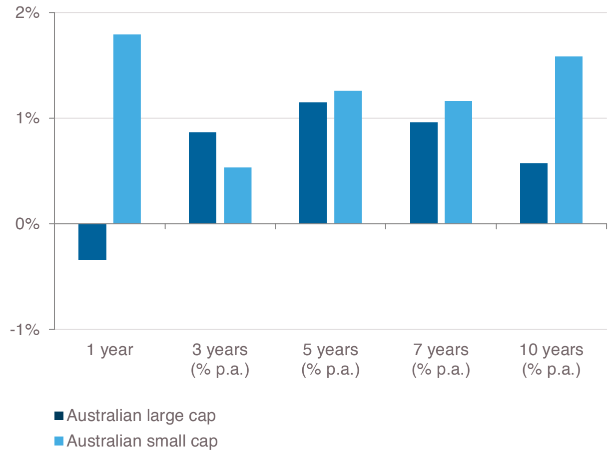
1. As at 30 June 2019.

# Fidante Partners performance advantage

## Model supports superior performance

- Boutiques:
  - enjoy investment autonomy
  - are high conviction investors
  - take more active exposures
  - have generated consistent alpha
- Fidante Partners business model
  - attracts talented portfolio managers
  - favoured by investors due to alignment

**Outperformance of Australian boutique managers**[1]



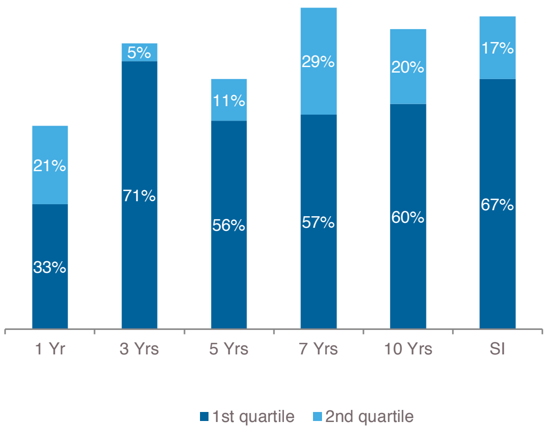



1. Fidante Partners study of Australian boutique performance. Data as at December 2018. Includes investment managers that are at least 20% owned by the portfolio managers.

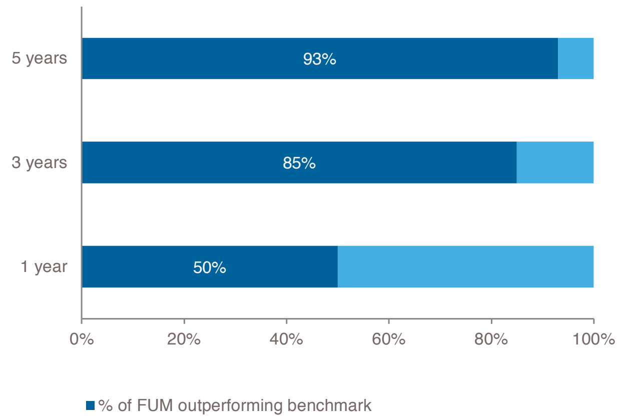
# Funds Management investment performance

## Strong performance underpinning superior net flows

**Fidante Partners percentage of funds 1st or 2nd quartile[1]**




**Funds Management performance relative to benchmark[2]**




**FY19** – 30 June 2019

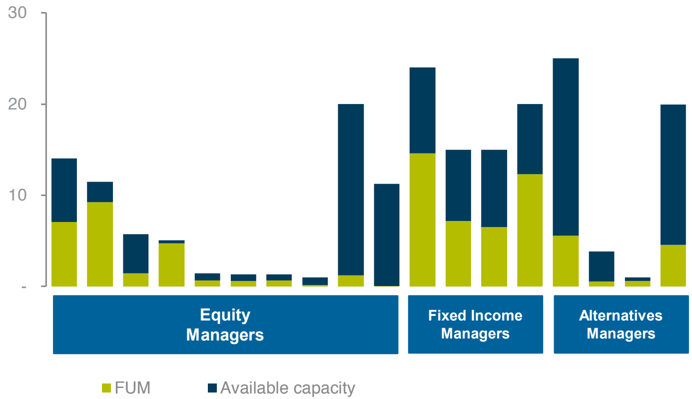
1. Source: Mercer as at June 2019.
2. As at 30 June 2019. Percentage of Funds Management Australian boutiques and CIP funds meeting or exceeding performance benchmark

Fidante Partners manger capacity

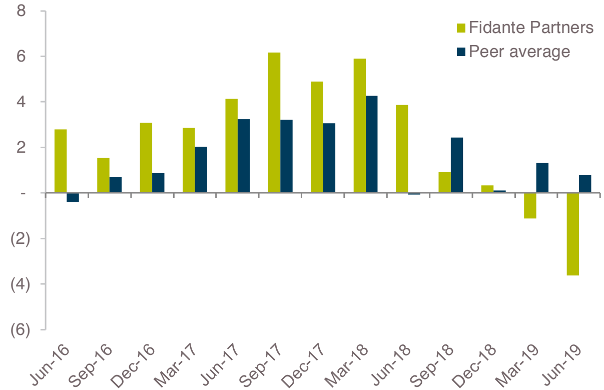
# Funds Management

## Growth supported by available capacity and superior flows

**Manager capacity ($bn)**




**Quarterly net flows vs peers[1] ($bn)**




- ~$120bn of available capacity
- Capacity provides platform for growth

**FY19** – 30 June 2019

1. Quarterly net flows for peers (rolling 12 month average), including AMP Capital Investors, Magellan, Pendal, Pacific Current Group, Perpetual, and Platinum. June 2019 peer net flows includes only those that have reported June 2019 data by 1 August 2019.

# Challenger Investment Partners (CIP)

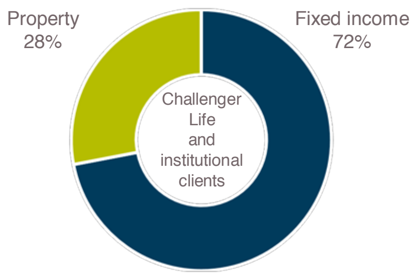
## Proven long-term investment track record and capability

- $20 billion of FUM[1]
- Investment manager for Challenger Life and 3rd party institutions
- Clients benefit from experience and market insights through breadth and scale of mandates

### Trusted partner

- Local relationships
- Asset origination capability
- Proven track record
- Strong execution
- Risk management expertise
- Excellent client service
- Strong compliance culture

### Asset specialisation




### Institutional clients

- Sovereign wealth funds
- Australian superannuation funds
- International funds
- International insurance companies
- Pension funds
- Large family offices
- Manage ~85% of CLC's portfolio



1. As at 30 June 2019.

# Important note

The material in this presentation is general background information about Challenger Limited 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 2019 Annual Report is available from Challenger's website at 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 2019 Annual 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 2019 Annual 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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