

**Market
release**

Q3 2017

Challenger Limited
Assets and funds under
management, net flows and sales

ASSETS AND FUNDS UNDER MANAGEMENT OF \$66.6 BILLION

ANNUITY SALES OF \$0.9 BILLION UP 53% ON PCP

LIFETIME ANNUITY SALES UP 68% ON PCP

FIXED TERM ANNUITY SALES UP 49% ON PCP

THIRD QUARTER ANNUITY NET BOOK GROWTH 3.6%

FUNDS MANAGEMENT NET FLOWS OF \$1.0 BILLION

**FY17 LIFE COE EXPECTED TO BE MID-POINT OF
\$620 MILLION TO \$640 MILLION GUIDANCE RANGE**

20 April 2017, Sydney – Challenger Limited (ASX:CGF) today announced continued strong performance across its two operating businesses in the March quarter, with growth in assets and funds under management (FUM), net flows and sales.

Challenger's total group assets and funds under management at 31 March 2017 was \$66.6 billion, up 3% for the quarter.

Funds Management achieved positive net flows across both Fidante Partners and Challenger Investment Partners of \$1.0 billion for the quarter. FUM increased by \$2.1 billion for the quarter to \$64.3 billion, as a result of strong net flows (\$1.0 billion) and positive investment markets (\$1.1 billion).

Total Life sales for the quarter were \$1,258 million, comprising annuity sales of \$880 million and Other Life sales of \$378 million.

Annuity sales increased by 53% on the prior corresponding period (pcp), with particularly strong growth in lifetime annuities (up 68%).

Life annuity net book growth was \$344 million, or 3.6% for the quarter, compared to \$135 million or 1.6% in the pcp.

Challenger's Chief Executive Officer Brian Benari said: "Challenger has delivered another strong quarter of sales, demonstrating the benefits of our strategy to expand our distribution and product offering.

"We have continued to reweight our book toward longer tenor business, with a particularly strong contribution from long dated fixed term sales through MS Primary in Japan.

"Two things stand out in this result: the 53% increase in sales on last year, and that over half of our sales were long term annuities. These embed more value for shareholders.

"The significant increase in lifetime annuity sales reflects the strong and growing demand from retirees for products that provide income and protection against the risk of outliving their savings.

"It's not only our Life business experiencing strong growth. Funds Management continues to perform strongly having attracted \$1.0 billion of cash inflows for the quarter, which is further endorsement of our successful model," said Mr Benari.

Funds Management

Funds Management FUM includes both the Fidante Partners' multi-boutique funds management business as well as Challenger Investment Partners' fixed income and commercial property mandates.

Fidante Partners' FUM was \$48.4 billion, up \$1.4 billion or 3% for the quarter, with net inflows of \$0.4 billion and positive investment market movements of \$1.0 billion.

Challenger Investment Partners' FUM was \$15.9 billion, up \$0.7 billion, or 5% for the quarter. Net inflows for the quarter were \$0.7 billion, driven by an increase in fixed income managed on behalf of the Life business due to strong annuity sales.

Life

Annuity sales increased 53% from \$575 million in the March 2016 quarter to \$880 million in the March 2017 quarter. Other Life sales, representing Challenger's Guaranteed Index Return (GIR) product, were \$378 million, predominately being the reinvestment of GIR maturities during the quarter.

Annuity sales of \$880 million comprised fixed term annuity sales of \$662 million and lifetime annuity sales of \$218 million.

Fixed term annuity sales of \$662 million increased by \$217 million or 49% on the pcp. Fixed term annuity sales were supported by a strong contribution from the new MS Primary annuity relationship, with sales benefiting from a strong close to the Japanese financial year.

Lifetime annuity sales were \$218 million for the quarter and increased by \$88 million or 68% on the pcp. Lifetime annuity sales include Liquid Lifetime and CarePlus products.

Demand for Liquid Lifetime products continues to grow as advisers seek to meet the needs of their clients in retirement by implementing comprehensive retirement income models and embracing income layering. Liquid Lifetime sales for the quarter were \$173 million, up 49% on pcp.

CarePlus, a product designed specifically for the aged care market, continues to benefit from increased adviser awareness and education. CarePlus sales for the quarter were \$46 million, up 207% on pcp.

For the March 2017 quarter, 56% of total annuity sales were long term in nature, being either lifetime annuities or 20 year MS Primary fixed term annuities. This compares to 23% of sales in the pcp. With strong growth in long term annuity sales, Challenger continues to reweight toward longer versus shorter tenor sales. Long term business has the benefit of lengthening annuity book tenor, which improves the future maturity outlook.

Annuity net book growth for the quarter was \$344 million, or 3.6% of the opening FY17 Life annuity book. Annuity net book growth for the quarter was supported by both strong sales growth and a lower rate of annuities maturing. The maturity rate for the quarter, which is based on prior period sales, was 6% of the opening FY17 Life annuity book. Challenger continues to expect the maturity rate for 2H17 to be approximately 14%.

Life's investment assets at 31 March 2017 were \$14.9 billion, an increase of \$0.3 billion for the quarter. Movements in Life's investment assets reflect net book growth and changes in retained earnings net of dividends paid to the Challenger Group.

Capital Management

During the quarter Challenger further strengthened its capital position with the launch of Challenger Capital Notes 2. Following strong investor demand, the Challenger Capital Notes 2 offer was increased from \$350 million to \$460 million and the Notes were successfully issued on 7 April 2017.

Proceeds were used to fund CLC's qualifying Additional Tier 1 regulatory capital, resulting in CLC's PCA ratio being toward the upper end of its target range (on a 31 March 2017 pro-forma basis).

Outlook

For the 2017 financial year, Challenger expects Life's Normalised Cash Operating Earnings to be around the mid-point of its \$620 million to \$640 million guidance range.

Challenger remains committed to its 18% pre-tax normalised return on equity target.

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For more information contact:

Investors

Stuart Kingham
Head of Investor Relations
Tel (02) 9994 7125
Mob 0401 139 067

Jana Flanagan
Investor Relations Manager
Tel (02) 9994 7815
Mob 0423 823 209

Media

Michelle Taylor
Head of Corporate Affairs & Advocacy
Tel (02) 9994 7181
Mob 0400 356 692

Paul Marriage
Corporate Communications
Tel (02) 9994 7053
Mob 0405 848 327

Challenger Total Group Assets and Funds Under Management

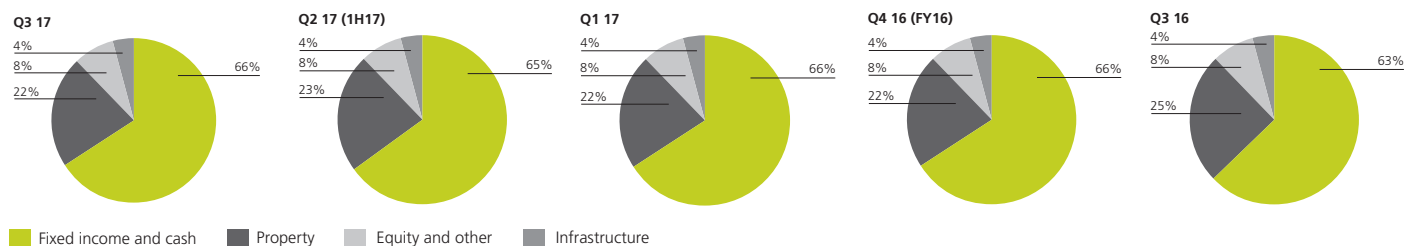
\$m	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16
Funds Management (FUM)	64,271	62,113	58,893	56,662	54,621
Life investment assets	14,940	14,607	14,316	14,112	13,102
Adjustments to remove double counting of cross holdings	(12,640)	(12,015)	(11,215)	(10,723)	(10,289)
Total Assets and Funds Under Management	66,571	64,705	61,994	60,051	57,434

Life quarterly sales and investment assets

Life sales	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16
Fixed Term	662	905	737	912	445
Lifetime (including Care)	218	258	296	223	130
Total annuity sales	880	1,163	1,033	1,135	575
Other Life sales	378	512	50	300	289
Total Life sales	1,258	1,675	1,083	1,435	864

Life	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16
Fixed income and cash ¹	9,907	9,521	9,518	9,316	8,280
Property ¹	3,330	3,328	3,183	3,150	3,243
Equity and other	1,181	1,232	1,079	1,079	1,042
Infrastructure ¹	522	526	536	567	537
Total Life investment assets	14,940	14,607	14,316	14,112	13,102
Average Life investment assets²	14,689	14,354	14,227	13,535	13,134

Life asset allocation



¹ Fixed income, property and infrastructure are reported net of debt.

² Average Life investment assets calculated on a monthly basis.

Funds Management Assets and Funds Under Management and net flows

\$m	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16
Funds Management					
Fidante Partners					
Equities	21,576	20,833	19,124	18,317	17,929
Fixed income	20,393	19,726	19,065	18,364	17,707
Alternatives	6,426	6,399	6,332	6,331	5,880
Total Fidante Partners	48,395	46,958	44,521	43,012	41,516
Challenger Investment Partners					
Fixed income	11,068	10,357	9,703	9,059	8,425
Property	4,808	4,798	4,669	4,591	4,680
Total Challenger Investment Partners	15,876	15,155	14,372	13,650	13,105
Total funds under management	64,271	62,113	58,893	56,662	54,621
Average Fidante Partners	47,438	45,516	44,041	42,539	41,292
Average Challenger Investment Partners	15,490	14,632	14,000	13,506	13,126
Average total funds under management¹	62,928	60,148	58,041	56,045	54,418
Analysis of flows					
Funds Management net flows					
Equities	(157)	936	(56)	(51)	(182)
Fixed Income	446	573	369	360	436
Alternatives	95	(50)	(31)	434	336
Total Fidante Partners	384	1,459	282	743	590
Challenger Investment Partners	650	835	641	338	169
Net flows	1,034	2,294	923	1,081	759

¹ Average total funds under management calculated on a monthly basis.