

Challenger Limited

Notice of Annual General Meeting 2011



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of shareholders of Challenger Limited (**Challenger**) will be held at Dockside, Cockle Bay Rooms 1 and 2, The Balcony Level, Cockle Bay Wharf, Darling Park Sydney NSW, on Tuesday 22 November 2011 at 10.30 am.

Business

Financial Statements and Reports

1. To receive and consider the Financial Report, Directors' Report and Independent Auditor's Report for Challenger and its controlled entities for the financial year ended 30 June 2011.

Note: A copy of the Reports, part of Challenger's Annual Report, is accessible on Challenger's website at the following address: <http://www.challenger.com.au/share/AnnualReportsShareholderInformation.asp>.

Election of Directors

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

2. That Mr Peter Polson, who retires by rotation in accordance with clause 6.1 of the Constitution of Challenger, be re-elected as a Director of Challenger.
3. That Mr Leon Zwier, who retires by rotation in accordance with clause 6.1 of the Constitution of Challenger, be re-elected as a Director of Challenger.
4. That Ms Brenda Shanahan, who retires in accordance with clause 6.1 of the Constitution of Challenger having been appointed by Directors since the previous Annual General Meeting, be elected as a Director of Challenger.

Remuneration Report

To consider and, if thought fit, to pass the following resolution:

5. That the Remuneration Report for the financial year ended 30 June 2011 be adopted.

Chief Executive Officer Incentive and Retirement Arrangements

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

6. That approval be given to the variations proposed to the hurdled performance rights issued to Mr Dominic Stevens (whereby he has agreed to forfeit certain rights on termination) and, to the extent necessary for the purposes of sections 200B and 200E of the Corporations Act, to the provision of benefits in connection with Mr Dominic Stevens ceasing to hold a managerial or executive office in Challenger, as described in the Explanatory Notes to this Notice of Meeting.

Restrictions on voting (Resolutions 5 and 6)

Resolution 5

Challenger will disregard all votes on the resolution to adopt the Remuneration Report cast by or on behalf of:

- a member of the key management personnel, details of whose remuneration are included in the Remuneration Report; and
- a closely related party of any such member of the key management personnel.

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of Challenger or the Challenger Group, whether directly or indirectly. Members of the KMP include directors (both executive and non-executive) and certain senior executives.

A closely related party of a member of the KMP is defined as:

- a company the member controls;
- the member's spouse, child or dependant (or a child or dependant of the member's spouse); or
- anyone else who is one of the member's family and may be expected to influence, or be influenced by, the member in the member's dealings with the entity.

Challenger will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote on Resolution 5, in accordance with directions on the proxy form.

You may be held liable for breach of the voting restrictions in the Corporations Act if you cast a vote that Challenger will disregard.

Please read the information under the heading 'Undirected Proxies', which (among other things) deals with the Chairman's voting of proxies on the resolution to adopt the Remuneration Report.

Resolution 6

Mr Stevens has agreed that he will not cast, and will ensure that his associates do not cast, a vote (in any capacity) on Resolution 6, except where the vote is cast as proxy for someone other than Mr Stevens or any of his associates, in accordance with directions on the proxy form.

Challenger will disregard any votes cast on Resolution 6 by a person appointed as proxy where the appointment does not specify the way the proxy is to vote on the resolution and the person is:

- a member of the KMP; or
- a closely related party of a member of the KMP.

However, the Chairman may vote on Resolution 6, as proxy for a shareholder other than Mr Stevens or any of his associates, if the appointment of the Chairman as proxy expressly authorises him to exercise the proxy notwithstanding that the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

For the definition of 'key management personnel' and 'a closely related party of a member of key management personnel', see the notes to Resolution 5 above.

You may be held liable for breach of the voting restrictions in the Corporations Act if you cast a vote that Challenger will disregard.

By order of the Board.

Michael Vardanega

Company Secretary

12 October 2011

Information for shareholders

Appointing a Proxy

A member entitled to attend and vote at a meeting of members may appoint not more than two people as the member's proxy to attend and vote for the member at the meeting. A proxy need not be a shareholder of Challenger, and can be either an individual or a body corporate. A proxy form is included with this Notice of Meeting.

If the member appoints two proxies, the proxy form may specify the proportion of voting rights each proxy is appointed to exercise. If no proportions are specified, each proxy may exercise half the available votes (disregarding fractions). If you require a second proxy form, please contact Computershare on 1800 780 782.

For an appointment of a proxy to be effective for the scheduled meeting, Challenger must receive the proxy form duly completed and signed by no later than 10.30am on Sunday, 20 November 2011; and if signed by the appointor's attorney or corporate representative, then Challenger must also receive by that time the power of attorney or corporate representative appointment or a certified copy of it.

You can send your proxy form to Computershare by doing one of the following:

- lodging it online at Computershare's website www.investorvote.com.au as instructed there (you will have been taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website); or
- faxing it to (03) 9473 2555; or
- posting it by using the reply paid envelope to:
Computershare Investor Services Pty Limited
GPO Box 242, Melbourne Vic 3001; or
- Custodian voting – for Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions; or
- delivering it to:
Computershare Investor Services Pty Limited, Level 4, 60 Carrington Street, Sydney NSW 2000.

Appointing a proxy does not mean you cannot attend the meeting. However, under the Challenger Constitution, if you vote on any resolution, the proxy is not entitled to vote, and must not vote, as your proxy on the resolution.

Corporate Shareholders

Corporate shareholders wishing to appoint a representative to attend and vote at the meeting on their behalf must provide that person with:

- a properly executed letter or certificate authorising the person to act as the company's representative in accordance with the company's constitution; or
- a copy of the resolution appointing the representative, certified by a secretary or director of the company.

Such authorisation may be for this meeting only or for all meetings of Challenger.

Eligibility to attend and vote

In accordance with the Corporations Regulations and the ASX Settlement Operating Rules, the Board has determined that, for the purposes of the meeting, those members registered as holding shares at 7.00pm (Sydney time) on Sunday 20 November 2011 will have voting entitlements for the meeting. Transactions registered after that time will be disregarded in determining the shareholders entitled to attend and vote at the meeting.

Registration

If you are attending the meeting in person, please bring the personalised proxy form enclosed with this Notice of Meeting with you. The bar code at the top of the proxy form will facilitate registration. If you do not bring the proxy form with you, you will still be able to attend the meeting, but at registration, representatives from Computershare will need to verify your identity. Registration will be available from 9.30am Sydney time on the day of the meeting.

Undirected Proxies

The Chairman of Challenger will chair the meeting. The Chairman will vote undirected proxies in favour of all resolutions on the agenda for the meeting. Challenger recommends that shareholders who submit proxies should consider giving 'how to vote' directions to their proxyholder on each resolution.

If you complete a proxy form that authorises the Chairman to vote on your behalf as proxyholder, and you do not mark any of the boxes so as to give him directions about how your vote should be cast, then your proxy will automatically become a directed proxy in favour of the resolution to adopt the Remuneration Report, and the Chairman will vote accordingly. If you do not want to put the Chairman in the position to cast your votes in favour of the Remuneration Report, you should complete the appropriate box on the proxy form, directing him to vote against or abstain from voting on Resolution 5.

Questions and Comments by Shareholders at the meeting

In accordance with the Corporations Act, a reasonable opportunity will be given to shareholders – as a whole – to ask questions about or to make comments on Challenger's management or its Remuneration Report at the meeting. Similarly, a reasonable opportunity will be given to shareholders – as a whole – to ask Challenger's auditor, Ernst & Young, questions about:

- the conduct of the audit;
- the preparation and content of the Independent Auditor's Report;
- the accounting policies adopted by Challenger in relation to the preparation of its financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

Shareholders may also provide written questions to the auditor concerning the content of the audit report or the conduct of the audit of Challenger's financial report for the financial year ended 30 June 2011 in advance of the meeting. Written questions should be submitted to Challenger no later than 5.00pm on Tuesday 15 November 2011, and should be addressed as follows:

The Company Secretary
Challenger Limited
Level 15,
255 Pitt Street
Sydney NSW 2000

A question list will be prepared by Ernst & Young and will be made available to members at the Annual General Meeting.

Explanatory notes on the resolutions

Item 1 – Financial Statements and Reports

The Financial Report, Directors' Report and Independent Auditor's Report for Challenger and its controlled entities for the financial year ended 30 June 2011 will be laid before the meeting in accordance with the requirements of the Corporations Act.

Challenger's 2011 Annual Report (which includes the Financial, Directors' and Independent Auditor's Reports) is available on Challenger's website at the following address: <http://www.challenger.com.au/share/AnnualReportsShareholderInformation.asp>. A printed copy of the Reports has been sent to those shareholders who requested a printed copy.

Shareholders will be provided with the opportunity to ask questions about, and make comments on, the reports and the management of Challenger generally but there will be no formal resolution put to the meeting in relation to Item 1.

Items 2 and 3 – Re-election of Directors by rotation

In accordance with Challenger's Constitution, it is necessary for one-third of the directors, excluding the Managing Director (rounded down to the nearest whole number), to retire by rotation each year. Additionally, each director who was last elected at least three Annual General Meetings ago must stand for re-election.

Accordingly, Messrs Polson and Zwier will retire by rotation at the 2011 Annual General Meeting and, being eligible, each offers himself for re-election as a director at the meeting.

The Board is accountable to shareholders for the activities and performance of Challenger. Board members have been selected for their experience and knowledge of the financial markets in which Challenger operates, their familiarity with Challenger's stakeholders and their capacity to assist the Board to act cohesively and with integrity.

A brief description of each director follows.

Mr Polson

Mr Polson was appointed to the Challenger Board as an Independent Non-Executive Director on 6 November 2003. Mr Polson retired from the Commonwealth Bank in October 2002, where he held the position of Group Executive, Investment and Insurance Services. Mr Polson joined the Colonial group in 1994 prior to its acquisition by the Commonwealth Bank. Previously, Mr Polson was Managing Director of National Mutual Funds Management (International) Limited. Mr Polson is also Chairman of Customers Limited.

Committees

Mr Polson is Chairman of the Remuneration Committee, Chairman of the Nomination Committee and is a member of the Group Risk and Audit Committee.

Mr Zwier

Mr Zwier was appointed to the Challenger Board as an Independent Non-Executive Director on 15 September 2006. Mr Zwier is a partner in the law firm Arnold Bloch Leibler. Mr Zwier is a member of the External Advisory Committee of the Department of Business Law and Taxation (Monash University) and is an Honorary Fellow of the same department.

Committees

Mr Zwier is a member of the Nomination Committee.

Recommendation

The Board has significantly benefited from the contributions of Mr Polson and Mr Zwier and their commercial experience. Each member of the Board (other than Mr Polson and Mr Zwier in relation to their own re-election) recommends that shareholders vote in favour of the re-election of both Mr Polson and Mr Zwier.

Item 4 – Election of Directors appointed by the Board

Ms Brenda Shanahan has been appointed by the Board as an Independent Non-Executive Director since the last Annual General Meeting. Under Challenger's Constitution, she will cease to hold office if not elected at the AGM and, hence, is standing for election.

Ms Shanahan

Ms Shanahan was appointed as a Director on 1 April 2011. Ms Shanahan has a research and institutional background in finance in Australia and overseas economies and sharemarkets. She has held executive positions in stock broking, investment management and an actuarial firm.

Ms Shanahan is also a non-executive director of Clinuvel Pharmaceuticals Limited.

Committees

Ms Shanahan is a member of the Group Risk and Audit Committee and the Nomination Committee.

Recommendation

The Board has significantly benefited from the contribution of Ms Shanahan. Each member of the Board (other than Ms Shanahan) recommends that shareholders vote in favour of the election of Ms Shanahan.

Item 5 – Remuneration report

The Annual Report for the financial year ended 30 June 2011 contains a Remuneration Report, which sets out Challenger's remuneration policy and reports on the remuneration arrangements in place for the KMP (including executive Directors, specified executives and Non-Executive Directors). A copy of the Report is set out on pages 34 to 55 of the Annual Report and can also be found on Challenger's website at www.challenger.com.au.

This resolution, which is proposed pursuant to the requirements of section 250R(2) of the Corporations Act, proposes that shareholders adopt the Remuneration Report.

This resolution to adopt the Remuneration Report is advisory in nature and does not bind the Directors or Challenger. However, as a consequence of recent changes to the Corporations Act, if at least 25% of the votes cast on the resolution are voted against adoption of the Remuneration Report at the meeting, then:

- if comments are made on the report at the Annual General Meeting, Challenger's Remuneration Report for the next financial year will be required to include an explanation of the Board's proposed action in response or, if no action is proposed, the Board's reasons for this; and
- if at next year's Annual General Meeting, at least 25% of the votes cast on the resolution for adoption of the Remuneration Report are against it, Challenger will be required to put to shareholders a resolution proposing that an extraordinary general meeting (EGM) be called to consider the election of Directors of Challenger (**spill resolution**). If a spill resolution is passed (ie, more than 50% of votes cast are in favour), all of the Directors (other than the Managing Director) will cease to hold office at the subsequent EGM, unless re-elected at that meeting.

A reasonable opportunity will be provided for discussion of and questions relating to the Remuneration Report at the meeting.

If you intend to appoint a proxyholder to vote on your behalf on the Remuneration Resolution, please read the information above, under the heading 'Undirected Proxies'.

The Remuneration Report forms part of the Directors' Report which has been made in accordance with a unanimous resolution of the Challenger Board. Each director recommends that shareholders vote in favour of the adoption of the Remuneration Report.

Item 6 – Chief Executive Officer Incentive and Retirement Arrangements

Mr Stevens commenced as CEO and Managing Director of Challenger on 1 September 2008. At the Annual General Meeting in 2008, shareholders voted to approve the terms of Mr Stevens' employment contract (including approval of certain retirement benefits for the purposes of section 200B of the Corporations Act). A copy of the 2008 Notice of Annual General Meeting is available on Challenger's website at the following address: <http://www.challenger.com.au/share/AGM.asp>.

Mr Stevens' employment contract provides that all unvested performance rights issued under the Challenger Performance Plan (CPP) immediately vest when he ceases to be employed by Challenger in 'good leaver' circumstances (ie, circumstances other than a Bad Leaver Termination as described below) (**Accelerated Vesting Entitlement**). A performance right gives the holder a conditional entitlement to acquire a Challenger share (by way of transfer) at no cost to the holder. Further information about performance rights is set out in the Remuneration Report.

The Accelerated Vesting Entitlement, while appropriate for deferred performance rights granted as part of his annual bonus arrangements (**Deferred Performance Rights**), does not reflect Challenger's long term remuneration objectives for performance rights that carry a performance hurdle under the CPP (**Hurdled Performance Rights**), granted to Mr Stevens as his long term incentive award.

In light of the above, and subject to shareholder approval, Mr Stevens has agreed to vary his employment contract by forgoing his contractual entitlement to the Accelerated Vesting Entitlement in respect of the unvested 2010 Hurdled Performance Rights and any Hurdled Performance Rights which may be granted in the future. This forfeiture of Accelerated Vesting Entitlement is designed to better reflect the intent of the Hurdled Performance Rights (ie, to operate as a long term incentive tool) and to better align those arrangements to shareholder interests.

Deferred Performance Rights as part of Mr Stevens' annual bonus

In 2011, and prior years, Mr Stevens was granted Deferred Performance Rights as a deferred component of his annual bonus. It is also anticipated that Mr Stevens will be granted performance rights on a deferred basis as part of future annual bonuses (**Future Deferred Performance Rights**). No performance hurdles apply to these deferred performance rights as performance hurdles were/are met prior to the rights being issued through the achievement by Mr Stevens of annual performance measures and targets.

Historically, the proportion of Mr Stevens' annual bonus which is deferred into Deferred Performance Rights has been in the order of 50% per annum. The measures applied and the quantum of Mr Stevens' annual bonus are determined by the Board on an annual basis and are subject to change from year to year.

Presently, Mr Stevens has the following unvested Deferred Performance Rights:

- 147,691 performance rights vesting in September 2012 (which are part of his 2010 annual bonus); and
- 110,593 performance rights vesting in September 2012 (which are part of his 2011 annual bonus); and
- 110,594 performance rights vesting in September 2013 (which are part of his 2011 annual bonus).

The Accelerated Vesting Entitlement means that any unvested Deferred Performance Rights and Future Deferred Performance Rights will vest on termination of Mr Stevens' employment (except in circumstances of termination for cause or poor performance or resignation without Board approval (**Bad Leaver Termination**)). In a Bad Leaver Termination, unvested Deferred Performance Rights and Future Deferred Performance Rights will lapse.

Hurdled Performance Rights

In 2010, as a result of regulatory reforms and consistent with market practice, the Board changed the form of long term incentive awards for key Challenger executives (including Mr Stevens) from share options to Hurdled Performance Rights.

As noted above, Mr Stevens' employment contract provides for the Accelerated Vesting Entitlement to apply to performance rights generally – including Hurdled Performance Rights.

To better reflect the long term remuneration objectives of the Hurdled Performance Rights, and better align those arrangements to shareholder interests, Mr Stevens has agreed, subject to shareholders approving Resolution 6, to forgo the Accelerated Vesting Entitlement in respect of the unvested 2010 Hurdled Performance Rights and any Hurdled Performance Rights which may be granted in the future and to hold those rights after a 'good leaver' termination in accordance with, and subject to, the hurdles recorded in

the terms of offer (**Continued Vesting Arrangements**). For the avoidance of doubt, on a Bad Leaver Termination, unvested Hurdled Performance Rights will lapse.

Under the Continued Vesting Arrangements, any Hurdled Performance Rights which do not meet performance hurdles will lapse in accordance with the CPP. The Continued Vesting Arrangements will apply to the:

- 750,000 Hurdled Performance Rights granted in September 2010 vesting in three tranches in September 2012, 2013 and 2014, provided specified performance hurdles are met;
- 750,000 Hurdled Performance Rights to be granted after Challenger's 2011 AGM – which vest in three tranches in September 2013, 2014 and 2015, if specified performance hurdles are met; and
- All future grants of Hurdled Performance Rights.

Shareholder approval

Shareholder approval (which clarifies all existing arrangements) is a pre-condition to Mr Stevens' agreement to vary his employment contract to provide for the Continued Vesting Arrangements. If Resolution 6 is not approved, there will need to be further negotiations with Mr Stevens about the Accelerated Vesting Entitlement in respect of the unvested 2010 Hurdled Performance Rights and any Hurdled Performance Rights which may be granted in the future (including the 2011 grant) bearing in mind section 200B of the Corporations Act. These negotiations will have regard to, among other things, the fact that the Accelerated Vesting Entitlement is a term of his employment contract and views expressed by shareholders.

Even if shareholders do not approve Resolution 6, the Board's intention is that future grants of Hurdled Performance Rights (including the 2011 grant) will be subject to the Continued Vesting Arrangements.

'Retirement benefits'

In Challenger's view, the:

- Accelerated Vesting Entitlement for Deferred Performance Rights; and
- Continued Vesting Arrangements in respect of the 2010 Hurdled Performance Rights,

do not constitute the giving of benefits to Mr Stevens by Challenger in connection with him ceasing to hold a managerial or executive office in Challenger or its associates (within the meaning of section 200B of the Corporations Act) and do not require shareholder approval. However, in the interests of good governance and transparency, Mr Stevens and Challenger seek shareholder approval for each of these arrangements to provide certainty to Mr Stevens, Challenger and shareholders in relation to those arrangements.

The money value of the Accelerated Vesting Arrangements and Continued Vesting Arrangements cannot be ascertained by Challenger as at the date of this notice of meeting. However, the manner in which their value is to be calculated on retirement and the matters, events or circumstances that will, or will be likely to, affect the calculation of that value are as follows:

Accelerated Vesting Arrangements for Deferred Performance Rights:	Manner of calculation
The vesting of Deferred Performance Rights early on termination or retirement, rather than at the later vesting date specified in the terms of grant.	<p>The value of the benefit is equal to the interest that could be earned on the amount realised on a sale of Challenger shares over the period from retirement to the date the Deferred Performance Rights would have vested in the ordinary course (Applicable Period).</p> <p>The matters, events or circumstances affecting that value are:</p> <ul style="list-style-type: none"> (A) the number of Deferred Performance Rights held by Mr Stevens (see above) at retirement; (B) the market price of Challenger Shares at the time of early vesting; (C) the market interest rate for the Applicable Period; and (D) the period of time from retirement to the date the Deferred Performance Rights would have otherwise vested in the ordinary course.

Continued Vesting Arrangements for Hurdled Performance Rights: Where Hurdled Performance Rights do not vest on termination or retirement, but continue to be held by Mr Stevens subject to the original performance hurdles and time vesting conditions.	Manner of calculation Mr Stevens forfeits value as his Hurdled Performance Rights will change from having an Accelerated Vesting Entitlement to Continued Vesting Arrangements. This means that Mr Stevens will continue to hold the Hurdled Performance Rights following retirement subject to the original performance hurdles and time based vesting conditions (and there is no early vesting on retirement).
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Board comments

The Board considers that the changes outlined, and Mr Stevens' agreement to forgo the Accelerated Vesting Entitlement in respect of the unvested 2010 Hurdled Performance Rights and any Hurdled Performance Rights which may be granted in the future (including the 2011 grant), are important to achieve Challenger's long term remuneration objectives for those performance rights and better align them with shareholder interests. Other than as outlined above, there have been no other changes to Mr Stevens' terms of employment as approved by Shareholders at the 2008 AGM.

Based on advice received and its own continued evaluation, the Board considers that the totality of Mr Stevens' remuneration package, including the benefits which may be payable to Mr Stevens on retirement, continues to be reasonable in the circumstances of Challenger, in light of Mr Stevens' experience and knowledge of the financial services industry.

Recommendation

Each director, other than Mr Stevens, recommends that the shareholders approve the resolution.

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