

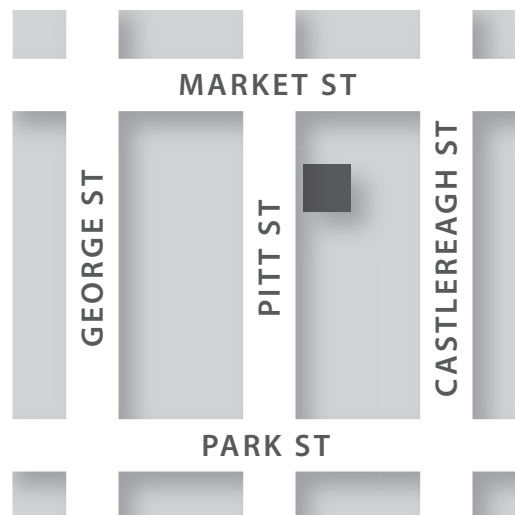
# Challenger Limited

Notice of Extraordinary General Meeting



## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE is hereby given that an Extraordinary General Meeting (**EGM**) of shareholders of Challenger Limited (**Challenger**) will be held at the Wesley Centre, 220 Pitt Street, Sydney, 2000 (see below), on Tuesday 28 February 2012 at 3.30 pm.



# Business

## Chief Executive Officer Remuneration and Retirement Arrangements

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

1. For the purposes of sections 200B and 200E of the Corporations Act, approval is given to the remuneration arrangements for Mr Brian Benari as CEO insofar as they may provide for Mr Benari to be given benefits in connection with his ceasing to hold a managerial or executive office in Challenger or a related body corporate.

## Restrictions on voting

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

Challenger will disregard any votes cast on this resolution 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 Key Management Personnel (**KMP**); or
- a closely related party of a member of the KMP.

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.

However, the Chairman may vote on the resolution, as proxy for a shareholder other than Mr Benari 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.

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

20 December 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 3.30 pm (Sydney time) on Sunday 26 February 2012 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](http://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](http://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 7.00 pm (Sydney time) on Sunday 26 February 2012 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 2.30 pm (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 do not wish to direct your proxy how to vote, you should mark the appropriate box on the proxy form. By doing this, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and the votes cast by him other than as proxy holder would otherwise be disregarded because of that interest.

# Explanatory notes on the resolutions

## Chief Executive Officer Remuneration and Retirement Arrangements

Mr Brian Benari is presently employed by Challenger in the position of Chief Financial Officer and Chief Operating Officer (a position he has held since August 2008) and will become CEO and Managing Director of Challenger (CEO) on 17 February 2012 (**Commencement Date**). Since joining Challenger in 2003, and prior to assuming his current position, Mr Benari has also held the positions of Chief Executive, Mortgage Management and General Manager, Investments.

Shareholders are being asked to approve, for the purposes of sections 200B and 200E of the Corporations Act, Challenger giving benefits in connection with Mr Benari ceasing to hold a board or managerial office on termination under the terms of his employment contract (as described below). Under section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a board or managerial office in the company or a related body corporate if it is approved by shareholders under section 200E or an exemption applies.

In Challenger's view, save for the Accelerated Hurdled Vesting Entitlement (which relates solely to a Material Change as described below), the arrangements set out below relating to termination arrangements, Deferred Performance Rights and Hurdled Performance Rights, if implemented, either do not amount to Challenger giving benefits to Mr Benari in connection with his ceasing to hold a managerial or executive office, or fall within a relevant exemption, and consequently the arrangements and their implementation do not require shareholder approval. However, approval is being sought for good governance reasons and to put the matter beyond doubt.

Under the terms of his new employment contract, Mr Benari's remuneration package comprises the following elements:

- salary package (consisting of base salary and superannuation contributions) of \$1,250,000 per annum;
- an annual bonus payable in cash and/or performance rights (**Deferred Performance Rights**) under the Challenger Performance Plan ('CPP'); and
- a long term incentive comprising the grant of performance rights under the CPP (**Hurdled Performance Rights**).

The CPP was approved by Challenger's shareholders in 2007: See [http://www.challenger.com.au/group/AnnualReports/20071019\\_Notice\\_of\\_AGM\\_2007.pdf](http://www.challenger.com.au/group/AnnualReports/20071019_Notice_of_AGM_2007.pdf). Under the CPP, when performance rights vest, the holder of those rights becomes entitled to receive one Challenger share for each vested performance right, without payment.

Further information about Deferred Performance Rights and Hurdled Performance Rights is given below.

The following termination arrangements are in place should Mr Benari leave Challenger:

- he may resign at any time by giving 6 months' written notice to Challenger, in which case, Challenger may elect to make a payment of salary package in lieu of notice to him;
- Challenger may terminate his employment on giving 12 months' notice, in which case Challenger would make a payment of salary package in lieu of notice to him;
- he may also resign on one month's notice if a substantial diminution in his duties, status, responsibilities or authority occurs without his agreement (Material Change), provided such a resignation occurs within three months of the Material Change. In this circumstance, Mr Benari will be treated as though Challenger had terminated his employment on 12 months' notice and he will be entitled to a payment of salary package in lieu of notice;

- on termination of his employment, Challenger will pay all his outstanding fixed remuneration and any statutory entitlements owing to him;
- if Mr Benari's employment terminates before the end of a financial year for cause or poor performance or because he resigns without Board approval and it is not because of a Material Change (Bad Leaver Termination) he will not be entitled to any bonus. If his employment terminates in 'good leaver' circumstances, he will be eligible for a pro rata bonus (which will be payable at the usual bonus payment date).

### **Deferred Performance Rights as part of Mr Benari's annual bonus**

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

Historically, the proportion of Mr Benari's 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 Benari's annual bonus are determined by the Board on an annual basis and are subject to change from year to year.

Currently, Mr Benari has the following unvested Deferred Performance Rights:

- 124,194 performance rights vesting in September 2012 (which are part of his 2010 annual bonus);
- 92,161 performance rights vesting in September 2012 (which are part of his 2011 annual bonus); and
- 92,162 performance rights vesting in September 2013 (which are part of his 2011 annual bonus).

Presently, unless the Board exercises its discretion otherwise (e.g. to vest Deferred Performance Rights), unvested Deferred Performance Rights will lapse on termination of employment. Going forward, to provide certainty in respect of all Deferred Performance Rights (both existing and future grants) it is proposed that if Mr Benari's employment terminates:

- because of a Bad Leaver Termination, all unvested Deferred Performance Rights will lapse; and
- in 'good leaver' circumstances, all unvested Deferred Performance Rights will immediately vest (**Accelerated Deferred Vesting Entitlement**).

### **Hurdled Performance Rights**

Challenger proposes to grant 1,250,000 Hurdled Performance Rights to Mr Benari after the 2012 EGM. These Hurdled Performance Rights will be subject to the terms of the applicable offer (which are summarised below) and the rules of the CPP.

Subject to the achievement of the relevant performance hurdles detailed below and satisfaction of the Employment Condition, the Hurdled Performance Rights will vest over a maximum period of four years as follows:

- 416,666 of the Hurdled Performance Rights will be eligible to vest on or from 16 February 2014 (Tranche 1);
- a further 416,667 of the Hurdled Performance Rights will be eligible to vest on or from 16 February 2015 (Tranche 2); and
- a further 416,667 of the Hurdled Performance Rights will be eligible to vest on 16 February 2016 (Tranche 3).

The vesting of these Hurdled Performance Rights over a 2, 3 and 4 year period is consistent with the vesting periods for Mr Benari's existing Hurdled Performance Rights.

The Employment Condition for each tranche will be satisfied where Mr Benari remains employed by Challenger on the relevant vesting date, or his employment has terminated prior to the relevant vesting date for a reason other than a Bad Leaver termination and the Hurdled Performance Rights have not otherwise lapsed or vested as at the relevant vesting date.

Subject to satisfaction of the Employment Condition, the Hurdled Performance Rights comprised in each tranche will vest if an Absolute Total Shareholder Return ('TSR') performance hurdle as described below has been satisfied:

- no Hurdled Performance Rights comprised in that tranche will vest if Challenger Limited achieves compound absolute TSR growth of less than 8% per annum in the applicable TSR Performance Period(s);
- 33% of the Hurdled Performance Rights comprised in that tranche will vest if Challenger Limited achieves compound absolute TSR growth of 8% per annum in the applicable TSR Performance Period(s);
- 100% of the Hurdled Performance Rights comprised in that tranche will vest if Challenger Limited achieves compound absolute TSR growth of 12% per annum or more in the applicable TSR Performance Period(s);
- a percentage between 33% and 100% of the Hurdled Performance Rights comprised in that tranche will vest if Challenger Limited achieves compound absolute TSR growth of between 8% and 12% per annum in the applicable TSR Performance Period(s), as determined on a straight line basis (for example if Challenger Limited achieves compound absolute TSR growth of 9% then 49.75% of the Hurdled Performance Rights would vest);
- Awards not satisfying the applicable vesting conditions will lapse on the day immediately after the Performance Test Verification Period in respect of Tranche 3 (referred to below), unless an earlier lapsing date applies.

The TSR Performance Period(s) for each tranche is as follows:

- Tranche 1: the initial period is from 16 February 2012 to 16 February 2014, with the initial Performance Test Date being the second anniversary of the Commencement Date, following which, there will be a two week period to allow for independent verification of the satisfaction (or not) of the performance test (**Performance Test Verification Period**);
- Tranche 2: the initial period is from 16 February 2012 to 16 February 2015, with the initial Performance Test Date being the third anniversary of the Commencement Date, which will be followed by the Performance Test Verification Period; and
- Tranche 3: the period from the 16 February 2012 to 16 February 2016, with the Performance Test Date being the fourth anniversary of the Commencement Date, which will be followed by the Performance Test Verification Period.

Absolute TSR is determined by calculating the amount by which the 90 trading day volume weighted average price ('VWAP') for Challenger's Limited's ordinary shares in the period up to and including the last day of the applicable TSR Performance Period for the relevant tranche exceeds the 90 trading day VWAP for Challenger Limited's ordinary shares in the period up to and including 16 February 2012 expressed as a percentage. For these purposes dividends paid on ordinary shares in Challenger Limited during the applicable TSR Performance Period shall be deemed to be reinvested in Challenger Limited shares at the closing price on the date such dividends are paid.

The Board may in its absolute discretion, in lieu of any obligation to transfer shares to Mr Benari in respect of vested Hurdled Performance Rights, make a cash payment.

Presently, unless the Board exercises its discretion otherwise (e.g. to vest Hurdled Performance Rights), unvested Hurdled Performance Rights will lapse on termination of employment. Going forward, to provide certainty in respect of all Hurdled Performance Rights (both existing and future grants) it is proposed that if Mr Benari's employment terminates:

- as a result of a Bad Leaver Termination, all unvested Hurdled Performance Rights (including all existing and future grants) will lapse at the date Mr Benari ceases to be employed by Challenger;



- for any reason other than a Bad Leaver termination (except for a resignation following a Material Change), it is proposed that all unvested Hurdled Performance Rights (including all existing and future grants) will remain on foot subject to the specified performance hurdles and time based vesting conditions. There will be no early vesting on termination of employment – the performance rights will continue to be held by Mr Benari as if he had remained an employee of Challenger (**Continued Vesting Arrangements**). Under the Continued Vesting Arrangements, any Hurdled Performance Rights which do not meet performance hurdles will lapse in accordance with the CPP; and
- as a result of him resigning following a Material Change, it is proposed that all unvested Hurdled Performance Rights (including all existing and future grants) will immediately vest (**Accelerated Hurdled Vesting Entitlement**).

These arrangements will apply to the:

- 350,000 Hurdled Performance Rights granted in September 2010, vesting in three equal tranches in September 2012, 2013 and 2014, provided specific performance hurdles are met;
- 600,000 Hurdled Performance Rights granted in September 2011, vesting in three equal tranches in September 2013, 2014, 2015, if specified performance hurdles are met;
- 1,250,000 Hurdled Performance Rights to be granted after the 2012 EGM, vesting in three equal tranches on 16 February 2014, 2015, and 2016, if specified performance hurdles are met; and
- all future grants of Hurdled Performance Rights.

The Board will next consider the total remuneration package for Mr Benari at the FY13 Remuneration Review. This review will consider prevailing market conditions, Mr Benari's performance and business performance at that time.

### Approval of shareholders

As noted above, in Challenger's view, save for the Accelerated Hurdled Vesting Entitlement (which relates solely to a Material Change), the arrangements set out above relating to termination arrangements, Deferred Performance Rights and Hurdled Performance Rights, if implemented, either do not amount to Challenger giving benefits to Mr Benari in connection with his ceasing to hold a managerial or executive office, or fall within a relevant exemption, and consequently the arrangements and their implementation do not require shareholder approval. However, to avoid doubt, in the interests of good governance and transparency, and to provide certainty, Mr Benari and Challenger seek shareholder approval to the extent that any of these arrangements might involve Challenger giving Mr Benari any such benefit.

### The value of possible retirement benefits

For the purposes of shareholder approval of retirement benefits, the Corporations Act requires disclosure of certain details concerning the proposed benefit. Challenger's disclosure is made in the following table.

<b>Payment in lieu of notice:</b>	<b>Manner of calculation:</b> The amount of a payment in lieu of notice will depend on the circumstances of termination of employment, as disclosed above, the amount of Mr Benari's contractual entitlement to salary package at the time, and the number of months' notice for which the payment is in substitution.
<b>Pro rata bonus:</b>	<b>Manner of calculation:</b> The amount of any pro rata bonus will depend on the circumstances of termination of employment, as disclosed above, the number of months worked by Mr Benari in the financial year up to the termination of his employment and the Board's assessment of his performance against approved performance criteria and the performance of the Challenger Group.

<p><b>Accelerated Vesting Arrangements for Deferred Performance Rights:</b></p> <p>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>	<p><b>Manner of calculation:</b></p> <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 (<b>Applicable Period</b>).</p> <p>The matters, events or circumstances affecting that value are:</p> <p>(A) the number of Deferred Performance Rights held by Mr Benari (see above) at retirement</p> <p>(B) the market price of Challenger Shares at the time of early vesting</p> <p>(C) the market interest rate for the Applicable Period</p> <p>(D) the period of time from retirement to the date the Deferred Performance Rights would have otherwise vested in the ordinary course.</p>
<p><b>Continued Vesting Arrangements for Hurdled Performance Rights:</b></p> <p>Where Hurdled Performance Rights do not vest on termination or retirement, but continue to be held by Mr Benari subject to the original performance hurdles and time vesting conditions</p>	<p><b>Manner of calculation:</b></p> <p>Mr Benari 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).</p>
<p><b>Accelerated Vesting Arrangements for Hurdled Performance Rights following a resignation due to a Material Change:</b></p> <p>The vesting of Hurdled Performance Rights early on termination or retirement, rather than at the later vesting date specified in the terms of grant</p>	<p><b>Manner of calculation:</b></p> <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 Hurdled Performance Rights would have vested in the ordinary course had the performance hurdles been met (<b>Applicable Period</b>).</p> <p>The matters, events or circumstances affecting that value are:</p> <p>(A) the number of Hurdled Performance Rights held by Mr Benari (see above) at retirement</p> <p>(B) the market price of Challenger Shares at the time of early vesting</p> <p>(C) the market interest rate for the Applicable Period</p> <p>(D) the period of time from retirement to the date the Hurdled Performance Rights would have otherwise vested in the ordinary course</p> <p>(E) the performance conditions are, in effect, waived.</p>

### **Board comments**

Mr Benari's remuneration package has been designed by the Board to achieve retention and provide performance based incentives which align the interests of Mr Benari with those of Shareholders in order to increase company performance.

The Board has examined carefully the individual components and totality of Mr Benari's remuneration package. As part of that examination, the Board has sought advice from KPMG, in relation to the reasonableness of the proposed remuneration under section 211 of the Corporations Act in the context of Mr Benari's employment as Chief Executive Officer of Challenger.

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

### **Recommendation**

The Board unanimously recommends that the shareholders approve the resolution.

Please note that Mr Benari is not yet a member of the Board.

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