

MEDIA RELEASE

Challenger establishes new equity income boutique

6 May 2010 - Challenger Financial Services Group (ASX:CGF) has expanded its boutique funds management business with the establishment of Australian equity income specialist, Merlon Capital Partners.

Created from Challenger's Australian Share Income Fund and related mandates, Merlon will have combined retail and institutional funds under management of \$670 million. It will be headed by the current Portfolio Manager for the Challenger Australian Share Income Fund, Neil Margolis. Neil will be joined by Challenger colleagues Ben Goodwin and Andrew Fraser. New additions to the team will include Hamish Carlisle and Nerida Hall.

Challenger's Joint Chief Executive, Funds Management, Rob Adams said: "The creation of this new equity income boutique reflects growing market endorsement of the institutionally-supported boutique business model. The creation of Merlon supports the growth of a successful team and strategy, with existing portfolio and investment processes remaining unaffected by the move to a true boutique structure".

Merlon Capital Partners Principal Neil Margolis added: "The coupling of a larger dedicated team, a specialist brand and the operational support of Challenger allows us to better address the needs of the growing number of investors seeking more tailored equity investment strategies such as equity income".

Open to retail and institutional investors, Merlon's funds seek to generate tax-effective income and capital growth from listed shares over the medium to long-term by identifying companies with attractive, sustainable and growing dividends. The funds are defensive in nature, using hedging to reduce overall portfolio risk.

Notes:

Merlon Capital Partners becomes the seventh of Challenger's boutique funds, joining Ardea Investment Management, Five Oceans Asset Management, Greencape Capital, Kapstream Capital, Kinetic Investment Partners and WaveStone Capital.

Neil Margolis has over 13 years' investment management experience. Prior to forming Merlon Capital Partners, Neil was Portfolio Manager of Challenger's Australian Share Income Fund for over five years. During his tenure, the Fund performed ahead of its benchmark while delivering on premium yield and lower volatility objectives. Neil has also worked at Alliance Bernstein as Vice President, Equity Research and in JP Morgan's investment banking division.

Challenger Financial Services Group Limited (Challenger) is a listed investment management firm with assets under management of over \$22 billion. Challenger is a successful investment manager across various asset classes and holds interests in a number of leading boutique investment management firms. It is also the foremost issuer of annuities in Australia, managing \$6.6 billion in assets to support guaranteed returns for over 60,000 policy holders.

Further enquiry: Elizabeth Kazi, Challenger Financial Services Group, 02 9994 7806

Stuart Barton, Challenger Financial Services Group. 02 9994 7008

Challenger Financial Services Group Limited A.B.N 85 106 842 371