

Challenger Financial Services Group Limited

Market Update - Transfer of MetLife Annuity Portfolio

Mike Tilley – Chief Executive Officer

26 June 2007



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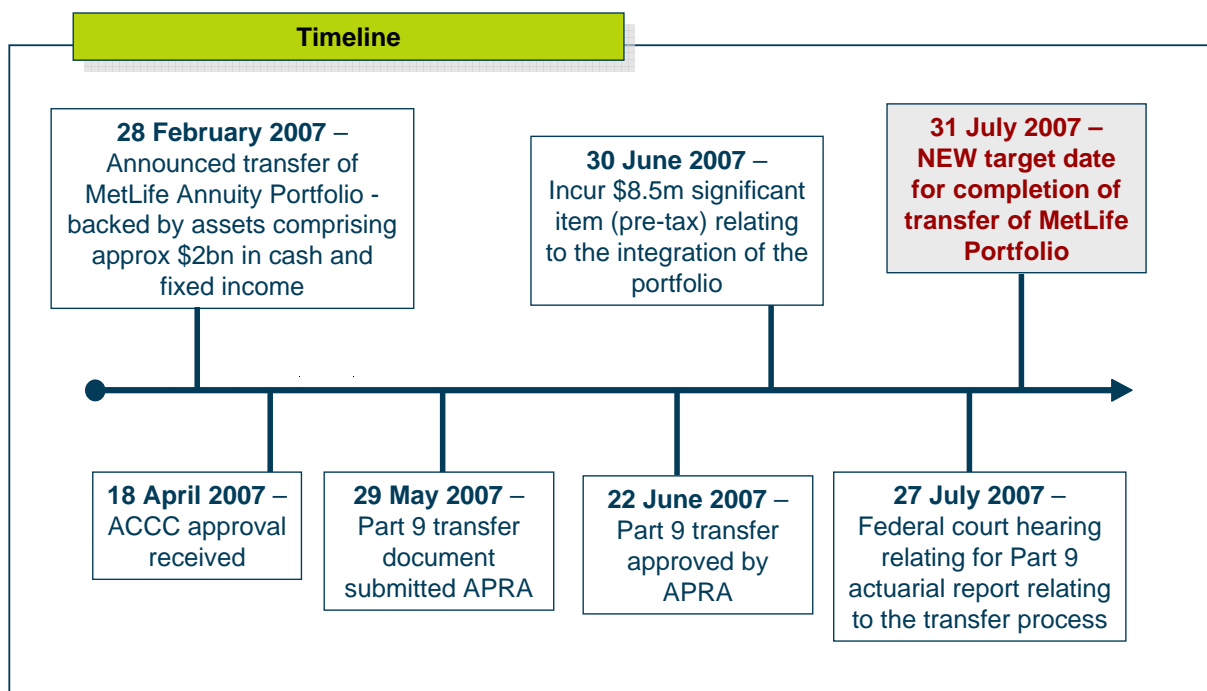
Agenda

- Progress - Part 9 Transfer of MetLife portfolio
- Overview of Asset Management
- Target asset allocation post transfer of MetLife portfolio
- Broadening scope within asset classes




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Progress – Part 9 transfer



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Challenger Financial Services Group Limited

Market Update - Transfer of MetLife Annuity Portfolio

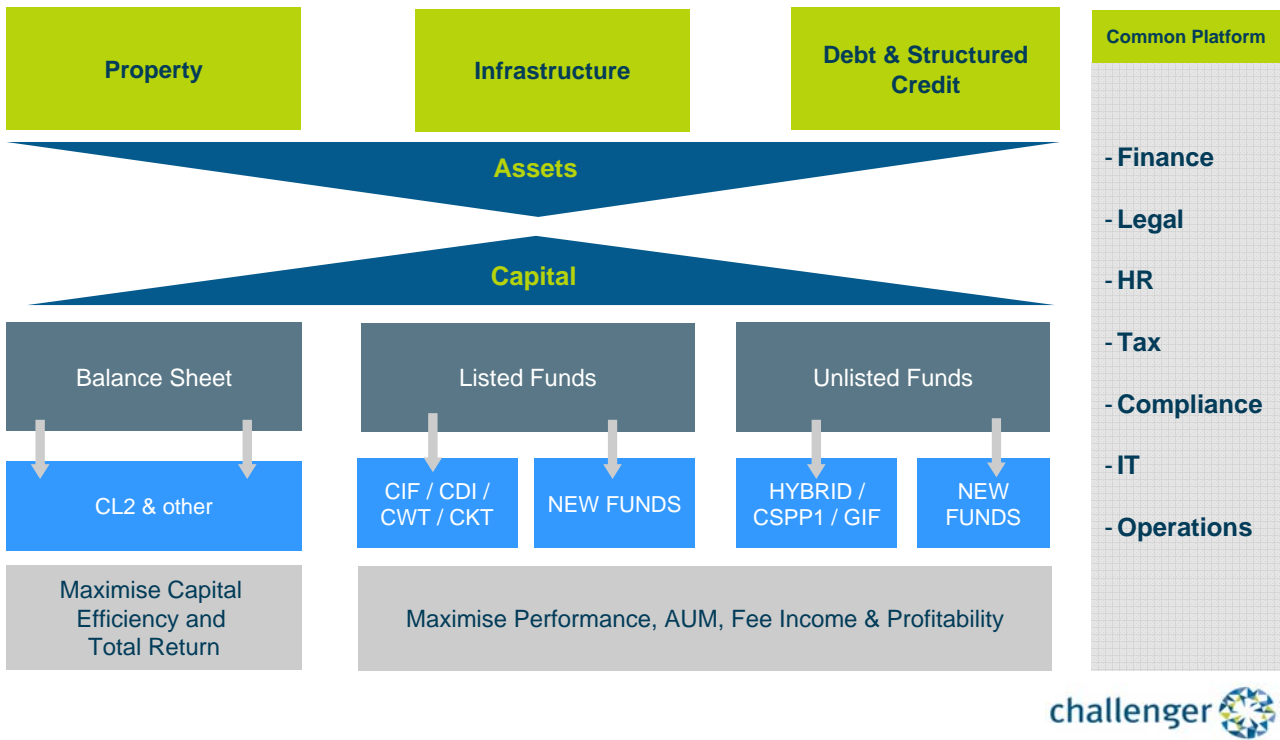
Rob Woods – Chief Executive Asset Management

26 June 2007

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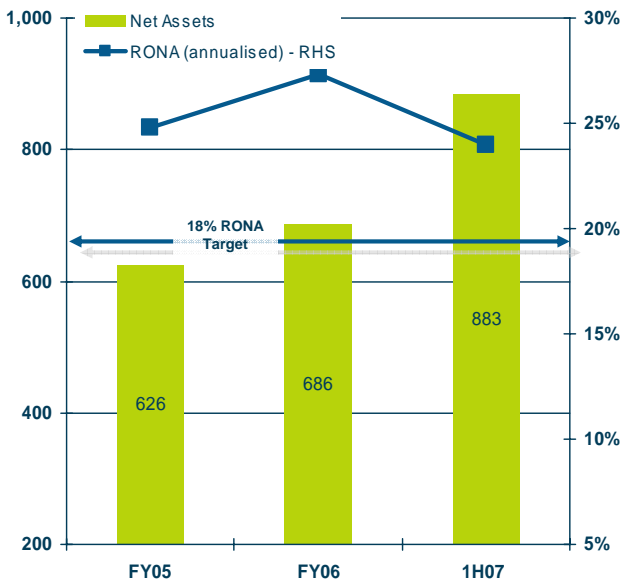
Asset Management – matching assets and capital



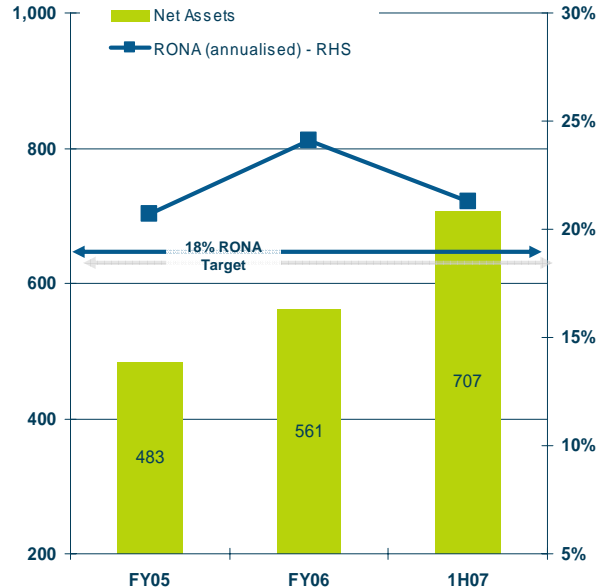
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Focused on total returns for our ‘spread’ business

Statutory¹ (\$m)



Historic Cost² (\$m)



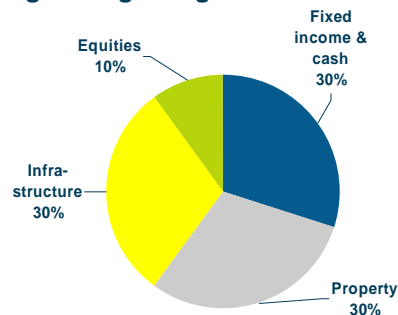
Source: Challenger 1H07 Results Pack
 Refer Appendix 18 and 19 for Stat EBIT / RONA and HC EBIT / RONA respectively
 Refer Appendix 2 & 5 1H07 for Stat/HC adjustments

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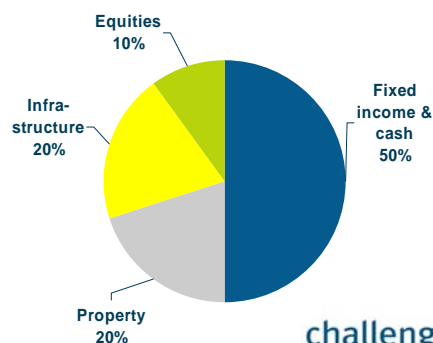
Target asset allocation post transfer

- Since Feb 07 undertook review of asset allocation/asset classes
- Outcome - no change to strategic target Asset Allocation Plan of:
 - 30% Fixed Income
 - 30% Infrastructure
 - 30% Property
 - 10% Equities/Other
- Following transfer of the MetLife portfolio there will be an initial shift in the allocations
 - 50/20/20/10
- Minimal impact to running yield but some dilution to total return on gross assets until portfolio is fully invested

Existing strategic target asset allocation



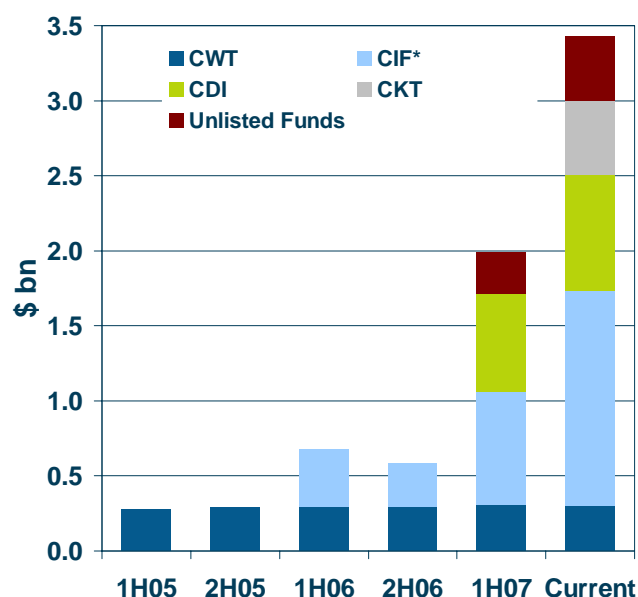
Initial impact of transfer of MetLife portfolio



Accelerating growth in fee generating AUM

- Growth in specialised funds from approx \$300m AUM in 1H05 to almost \$3.5bn AUM currently
- Expanded capacity within CIF through LBC acquisition
- Seek to expand wholesale/unlisted offerings
- Growth in base management fees

AUM – Specialised Funds

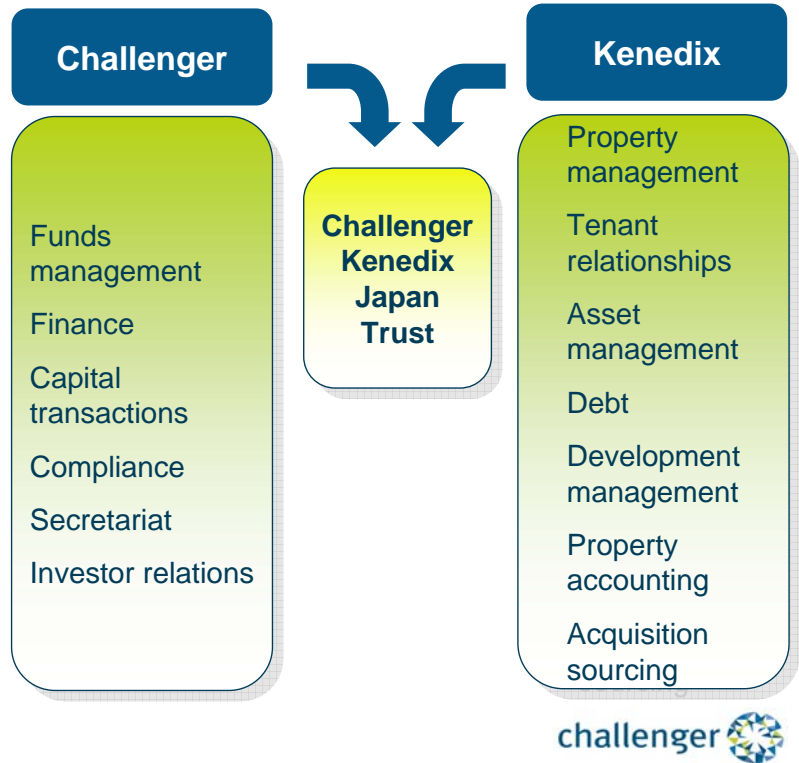


* Calculated using closing price on 21 June 2007 of \$4.14 and includes all securities to be issued under the recent CIF entitlement offer



Strategic alliances accelerating property transactions

- Kenedix – a leading Japanese retail estate manager with current assets under management of \$5.9bn
- JV lead to successful listing of CKT on 30 April 2007 on the ASX
- JV provides flexibility to accelerate growth independent of use of proprietary balance sheet
- Assets ~\$500m by end of June 2007

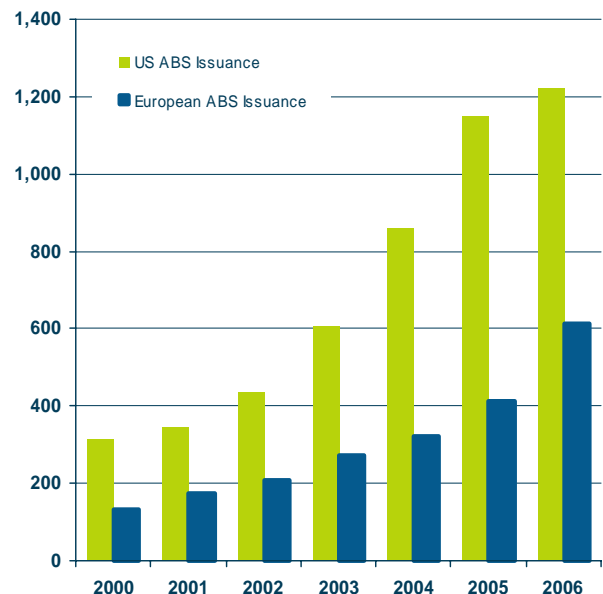


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Leveraging fixed income expertise – structured credit

- More than 50% exposure to fixed income – greater than 80% investment grade
- Growth in structured credit globally - market for similar products continuing to build in Australia
- Existing structuring skills well suited to expanding into non-housing securitised assets
- Establishment of UK presence
- Diversifying investment into new geographies and higher yielding products/tranches

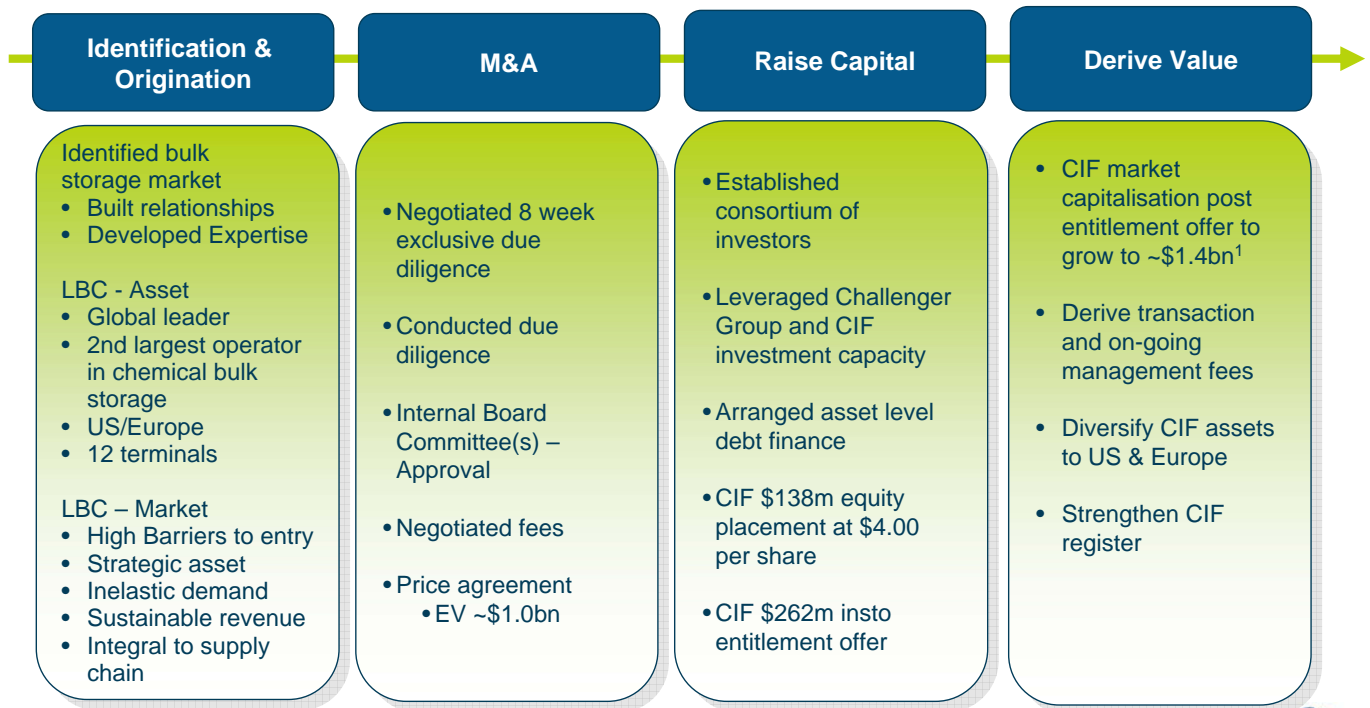
US/European ABS issuance (US \$bn)



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* Source: S&P - ABS category includes home equity, commercial property, CDOs, auto, credit card, student loan and equipment.

Infrastructure asset origination – LBC case study



Appendices

MetLife – summary of liabilities to be transferred

	Guaranteed Income Plan – Immediate Annuities	Allocated Pension Plan	Personal Superannuation	Deferred Annuity
Product Overview	A term certain immediate annuity providing a regular income for a selected term in exchange for an initial investment amount	Allocated pension plan – provides a regular income in retirement	Superannuation savings and accumulation product. Also accommodates those who wish to roll over monies already accumulated	A long-term multi phase personal retirement account, no longer open to new investments
Investment Term	1 to 20 years for RCV100 1 to 25 years for Residual Capital Value 0 (RCV0)	1 to 5 years (fixed term option only)	1 to 5 years (fixed term option only)	1 to 5 years (fixed term option only)
% of portfolio by funds under management	72.7%	15.0%	10.6%	1.7%
Policies	+17,500	+3,700	+2,900	+1,200

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Recap – changes to annuities

- Final form SIS and tax amendments – favourable for annuities
 - Term certain annuities can be ‘tax free qualifying pensions’ from 1 July 2007
- Retail sales continuing to track ahead of FY06 with higher weighting to long term annuities in anticipation of September changes
- Some upswing in sales expected in period to 19 September - end of the asset test concession for complying income streams but now in competition with TAPs
- Post September position of new retail sales
 - Strategy built around new product features and distribution approach
 - Further diversification of funding sources
- Wholesale annuities
 - Regularly approached to do large offshore liquid issues
 - Significant flexibility – recently bought back \$50m wholesale annuity due to pending access to MetLife retail liabilities
 - Market remains attractive source of capacity / liquidity

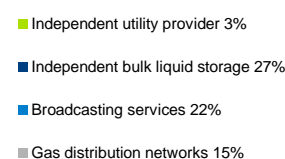
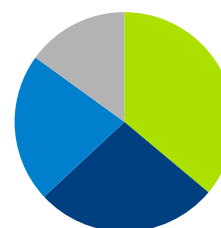
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Key facts – CIF

- **Fund type:** Global infrastructure and utilities fund listed on ASX
- **Listing date:** August 2005
- **Investment objective:** To deliver investors a stable income return with potential for capital growth via investment in a globally diversified portfolio of infrastructure and utilities assets
- **Portfolio Investment Value:** \$1.2 billion
- **Market capitalisation:** \$1.4 billion (A and B class units on issue: 283m; Unit price: \$4.14; Issue price: \$3.50)
- **Challenger investment:** 32%
- **FY08 forecast distribution:** 34.0 cents per security
- **FY08 forecast distribution yield:** 8.2%¹
- **Fee structure:**
 - **Base fee:** Estimated at 1.00% (excl GST) pa of Adjusted Equity Value (Equity value less uncommitted cash). Payable in securities until June 2008.
 - **Performance fee:** 20% (excl GST) of any out-performance vs S&P/ASX 200 Industrials Accumulation Index. Underperformance carried forward into future periods. Payable in securities until June 2008.
 - **Advisory fees:** Arms length market rates

Portfolio Asset classes



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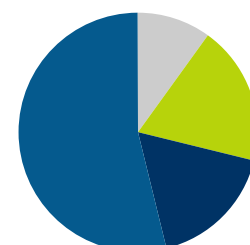
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¹ Based on closing unit price on 21 June 2007 - \$4.14

Key facts – CDI

- **Fund type:** Diversified property trust listed on ASX
- **Listing date:** October 2006
- **Investment objective:** To deliver investors a combination of secure and growing income with opportunity for capital growth via investment in core and value-add property globally
- **Total assets:** \$770 million
- **Market capitalisation:** \$584 million (Units on issue: 536m; Unit price: \$1.08; Issue price: \$1.00)
- **Challenger investment:** 39%
- **FY08 PDS forecast distribution:** 8.2 cents per unit
- **FY08 forecast distribution yield:** 7.6%¹
- **Fee structure:**
 - **Base fee:** 0.50% pa of Gross Asset Value (reduced to 0.30% pa until June 2008 on IPO assets). Payable in units until June 2009.
 - **Performance fee:** Out-performance vs S&P/ASX 200 PAI – 5% of first 2% out-performance and 15% of further out-performance up to a cap of 0.25% of Gross Asset Value at end of financial year. Payable in units until June 2009.
 - **Acquisition and Disposal fees:** 1.0% / 0.5% of consideration paid on offshore assets. Debt placement and due diligence fees may also be payable
 - **Development management fees:** scaled fee to maximum of 5% on project costs

Portfolio sector diversification (by value)



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¹ Based on closing unit price on 21 June 2007 - \$1.08