

Challenger Fact Pack – August 2008

Group overview



Contemporary business delivering value

INVESTMENT OBJECTIVES: RONA > 18% DOUBLE DIGIT EPS GROWTH

OPERATING IN MARKETS GROWING > 10% A YEAR

Leveraging Challenger's core competencies and capabilities

PRODUCTS

Focused on delivering superior customer outcomes and quality products and services

OPERATIONS

Centralised contemporary scalable technology, systems and platforms delivering low cost

DISTRIBUTION

Deliver and leverage via 3rd party intermediaries

BUSINESSES →

Mortgage Management Asset Management
Funds Management

INVESTMENT OUTCOMES: RONA > 18% DOUBLE DIGIT EPS GROWTH



Challenger Group - Summary

Funds Management	Asset Management	Mortgage Management
<p>Manufactures and distributes quality investment products – primarily listed securities for both institutional and retail clients</p>	<p>Structures and manages direct investment global assets generating long term predictable income streams for policyholders and investors</p>	<p>White label funding provider delivering competitive lending products to branded distributors and distribution through ownership of broker aggregation platforms</p>
<ul style="list-style-type: none"> • A\$14.9 billion funds under management • Full 'end-to-end' funds management business • Internal teams and external alliances • Partial ownership of a growing number of boutique fund managers 	<ul style="list-style-type: none"> • A\$10.5 billion assets under management • Invests in assets providing long term income streams • Specialised funds business includes four listed funds and unlisted funds/mandates 	<ul style="list-style-type: none"> • A\$21.8 billion mortgages under management • A\$26.3 billion mortgages under administration • Residential lending / Commercial lending • Distribution alliances



Challenger Group - Summary

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<ul style="list-style-type: none"> • RONA¹ – 25% • Quality products contemporary technology • Strong distribution relationships • Market growth (Australia) - 15%+ 	<ul style="list-style-type: none"> • RONA¹ – 22% • Australia's largest annuity provider • Common, centralised and contemporary technology • Strong distribution and institutional support • Market growth (Australia/International) - high 	<ul style="list-style-type: none"> • RONA¹ – 21% • Quality growing product range • Common, centralised and contemporary technology • ~400 Mortgage Managers, ~5,500 brokers • Market growth (Australia) - 10% +



Funds Management



Business Model	Macro Backdrop	Value Drivers	Key Facts
Funds Management			

Business description

FUNDS MANAGEMENT

Background

- Manufacturer and distributor of investment funds
- Currently predominantly Australian based
- Diverse distribution channels via intermediaries including both retail and institutional
- Funds highly regarded by rating agencies and asset consultants/Funds generate (alpha)
- Back office and operations in-sourced and controlled

Internal Management

- Challenger branded product - Creation of investment funds managed by Challenger investment teams across multiple asset classes including Australian shares, fixed interest securities, mortgages and real estate securities
- Distributed via intermediaries
- Experienced fund managers with over 10 years experience on average in the Australian market

Investment Alliances

- Challenger has formed several exclusive relationships with high quality investment management firms to create investment products that Challenger distributes through intermediaries

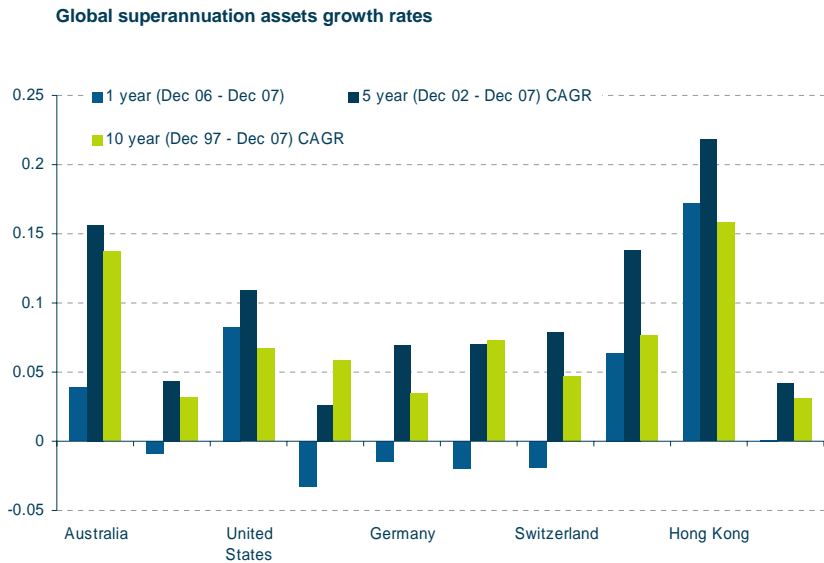
Boutique Partnerships

- Partial ownership of boutique investment firms
- Share of future dividend income streams
- Full range of administration, technology and operational services to partners for a fee
- Marketing and distribution services for a fee



Attractive macro environment

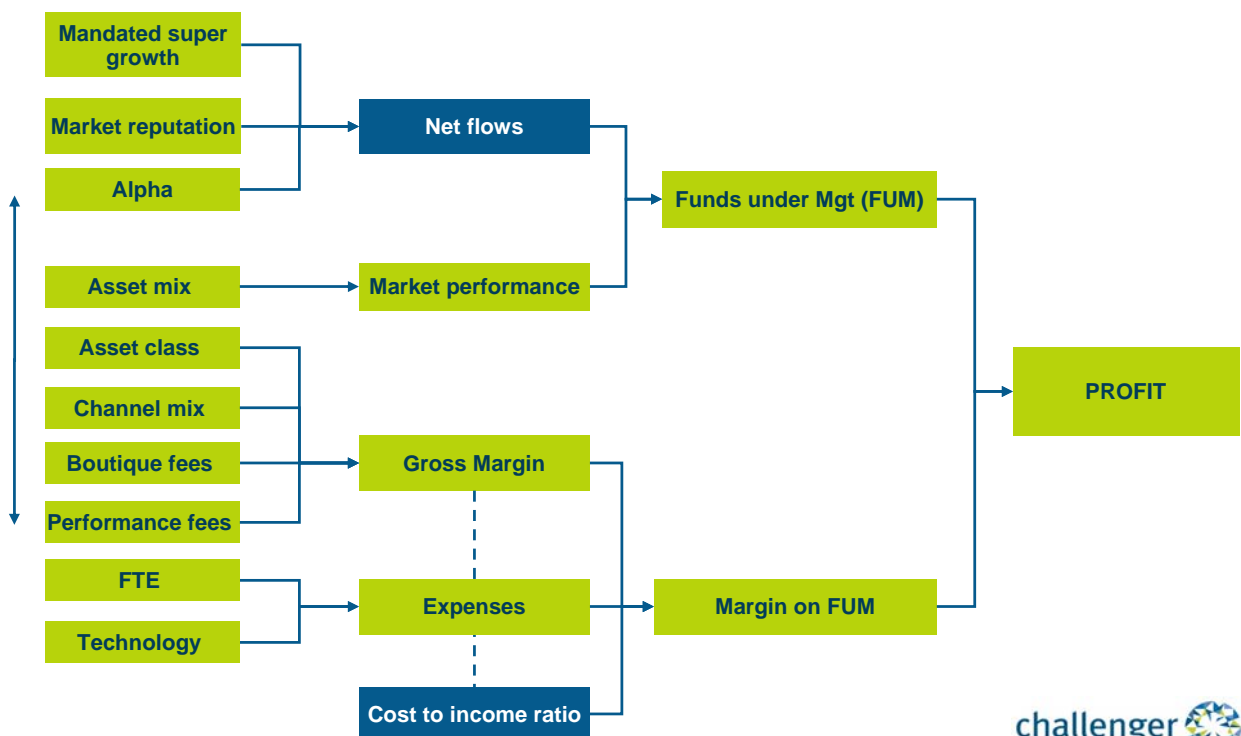
- Australia is the largest funds management market in Asia-Pac and 4th largest in the world
- Assets under management - \$1.4 trillion
- Assets have grown more than 470% since 1992 when compulsory superannuation was introduced and projected to grow to \$2.0 trillion by 2015



Source: Watson Wyatt – January 2008 – compound growth rates in local currency terms; Axiss Australia

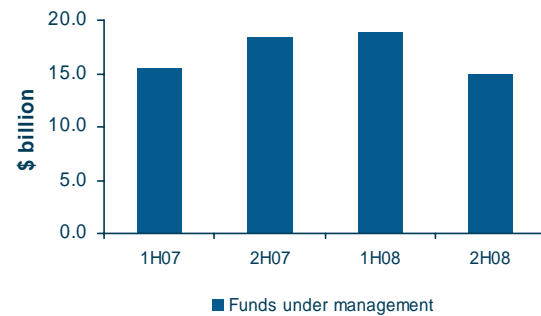
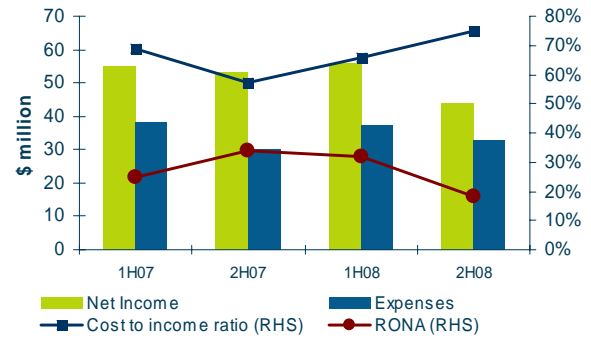


Key value drivers of earnings



Summary financials

Financial Performance	2H08	1H08	2H07	1H07
Funds Under Management ¹	\$14.9bn	\$19.0bn	\$18.4bn	\$15.5bn
Net Income	\$44m	\$56m	\$53m	\$55m
Expenses	\$33m	\$37m	\$30m	\$38m
EBIT	\$11m	\$20m	\$23m	\$17m
RONA annualised ²	18%	32%	34%	25%
Net Assets ³	\$124m	\$124m	\$135m	\$135m



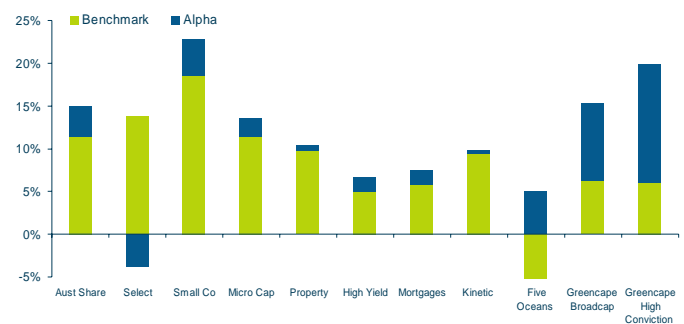
¹ – Includes \$857m of segregated boutique partnerships mandates (FY07: \$710m)
² – Calculated on opening net assets
³ – Net Assets at 30 June 2008 were \$108m



Strong performance since inception

- Long term investment performance remains strong
- Boutiques continue to generate significant returns above benchmark
- Mixed investment performance across internal managed products in 2008
- Continued diversification across asset class and distribution channel. Provides buffer for performance in tough market conditions

Performance – since inception



Performance – 1 year



Expanding our footprint

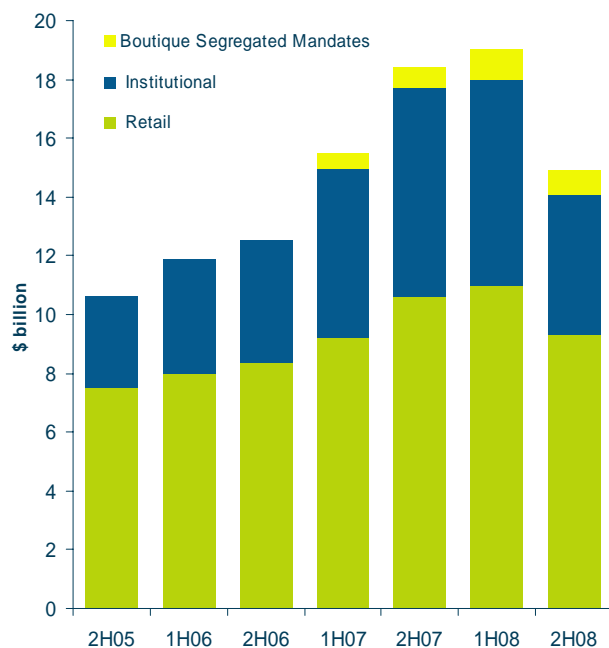
Researcher/Asset Consultant Recommendations for "core" Challenger products

S&P	9 funds ★ ★ ★ ★ or better
Lonsec	15 funds RECOMMENDED or better
Morningstar	13 funds RECOMMENDED or better
Research houses	67 active recommendations
Dealer group approvals	2,453 across 813 dealer groups
Consultant ratings	37 'Buy' ratings across 13 strategies
Platform approvals	257 products across 34 platforms

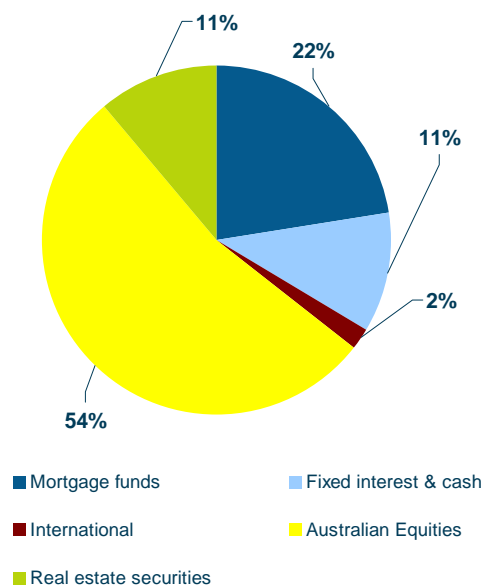


Funds under management

FUM by channel – June 2008

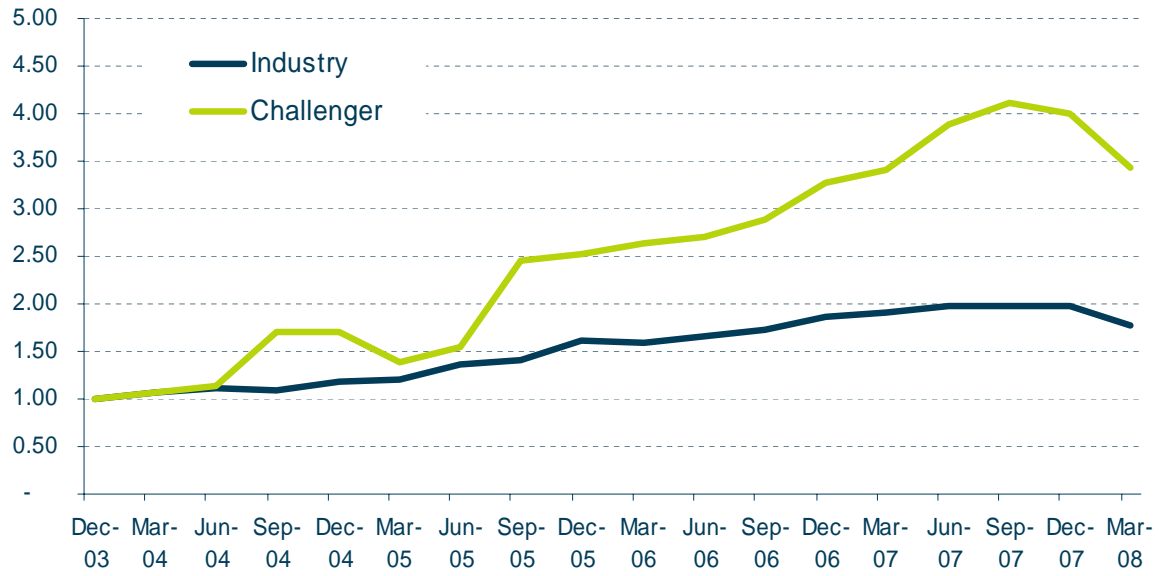


FUM by asset class – June 2008



Change in market share

Cumulative FUM growth



Mortgage Management

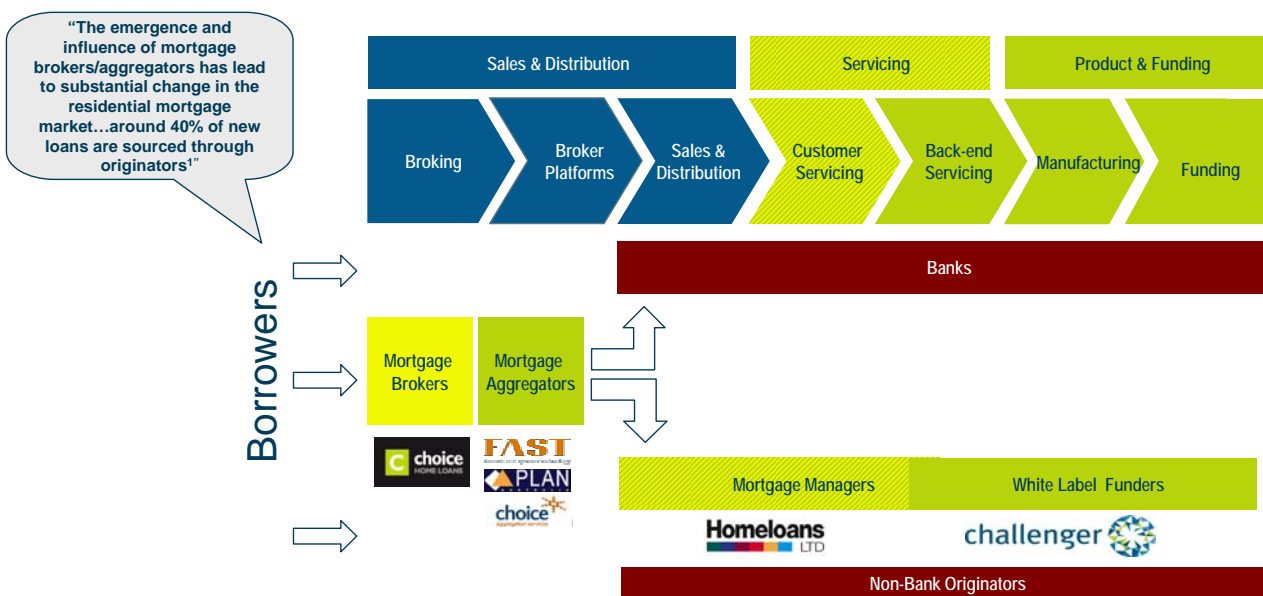
Business description

MORTGAGE MANAGEMENT

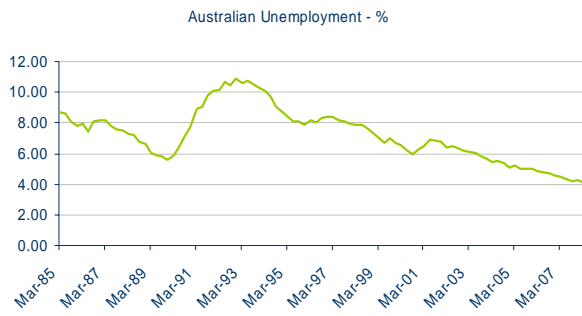
<p>White Label Funding</p> <ul style="list-style-type: none"> • Manufacturer and servicer of mortgage products for Australian consumers • Largest non-bank provider of financing in Australia • Distribution through national network of 3rd party mortgage managers • Established provider operating for more than 15 years 	<p>Funding Source</p> <ul style="list-style-type: none"> • Mortgages funded initially through bank warehouses - when sufficient volume is written, mortgages will be term securitised (RMBS) • Current book – approx two thirds term securitised, remaining held in warehouses – non-recourse • Majority of mortgages are individually insured (for principal and timely repayment) at origination • No credit exposure to commercial mortgages
<p>Broker Aggregation Platforms</p> <ul style="list-style-type: none"> • Increased presence in mortgage aggregators (platforms used by mortgage brokers) – 100% ownership of Choice, 15% of PLAN (moving to 100% in Sep 08) and 19% of FAST • Broker channel is increasing its penetration (currently ~40% of new flow) supporting growth for aggregators 	<p>No Funding requirement</p> <ul style="list-style-type: none"> • Income earned for the provision of the platform only (portion of the broker commission) • No credit exposure to the mortgages written • Margin earned on all flow (bank or non-bank mortgages)



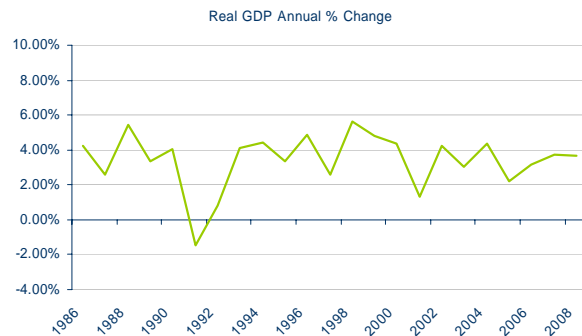
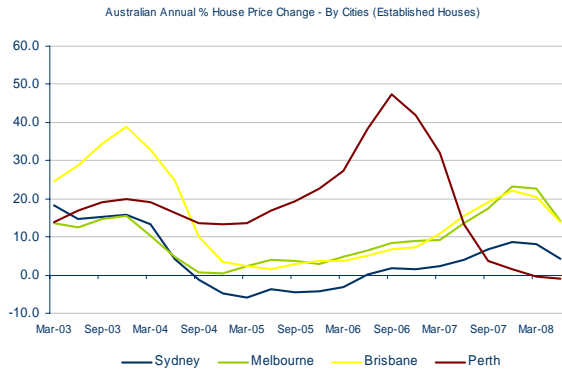
White label funding and distribution



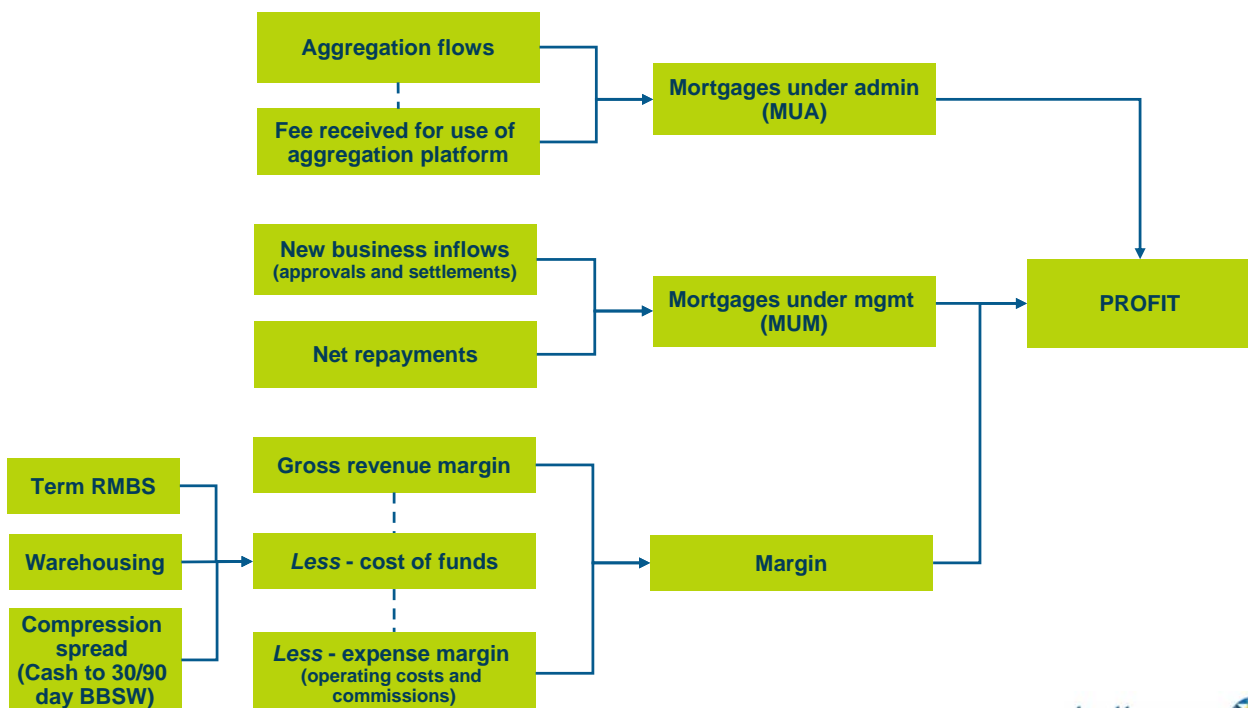
Supportive macro economic environment



- Australia continues to experience steady GDP growth
- Unemployment remains at “full employment” levels supported by the resilience of the Australian economy
- The strong house price growth experienced in Australia over the last decade stabilised over 2004 and 2005 before moving upward again in mid 2006



Key value drivers of earnings

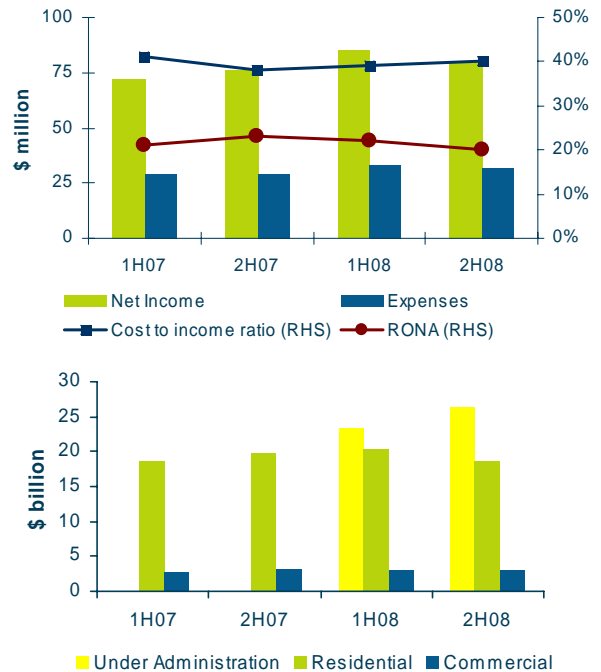


Summary financials

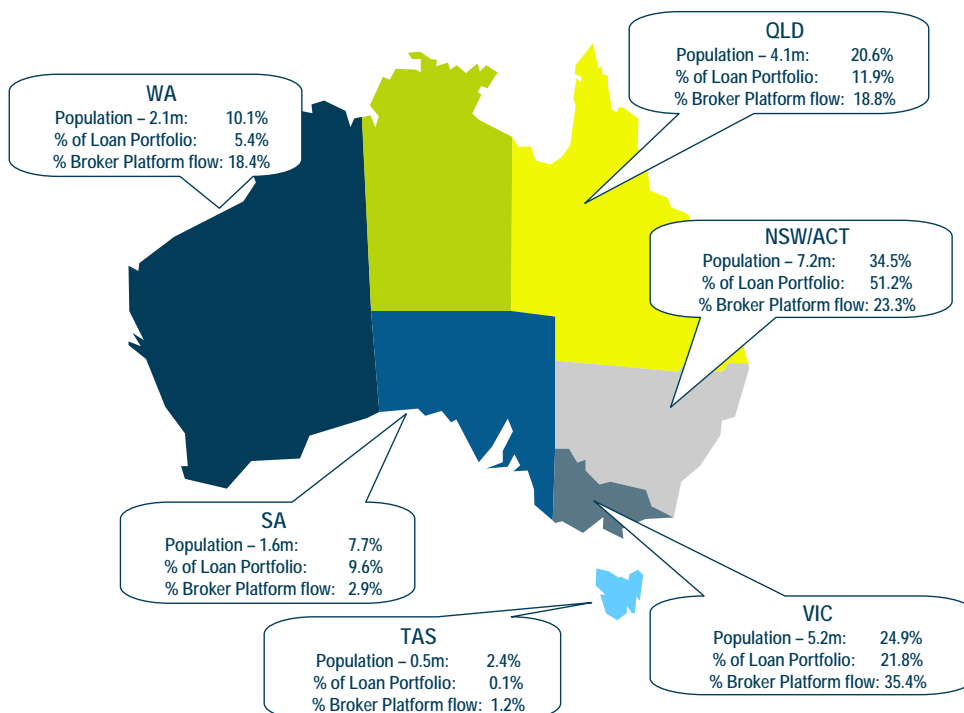
Financial Performance	2H08	1H08	2H07	1H07
Mortgages Under Management	\$21.8m	\$23.3bn	\$23.0bn	\$21.6bn
Mortgages Under Administration	\$26.3m	\$23.2bn	-	-
Net Income	\$80m	\$85m	\$76m	\$72m
Expenses	\$32m	\$33m	\$29m	\$29m
EBIT	\$48m	\$52m	\$47m	\$43m
RONA annualised ¹	21%	22%	23%	21%
Net Assets ²	\$469m	\$469m	\$412m	\$412m

¹ - Calculated on opening Net Assets

² - Net Assets at 30 June 2008 were \$571m



Footprint - Lending portfolio & Broker platform distribution



- Challenger Mortgage Management – leading white label funding provider to more than more than 400 mortgage managers across Australia
- Distribution footprint expanded via aggregation acquisitions – covering more than 5,500 mortgage brokers



Broker Aggregation Platforms

- Aggregators derive fee income from the provision of a technology platform and loan portfolio administration and support services to mortgage brokers – similar to funds management platforms e.g. FirstChoice
- Our strategy is to participate in high growth sectors of the market and deliver pre-eminent service for intermediaries across our businesses
- Acquired 19% interest in FAST in September 2007
- Intention to acquire remaining 85% of PLAN in Q1 FY09
- Choice, PLAN and FAST agreed to combine their support services via a common technology platform, establishing Challenger Broker Support Services (CBSS)

Choice Settlements / Market Commitments

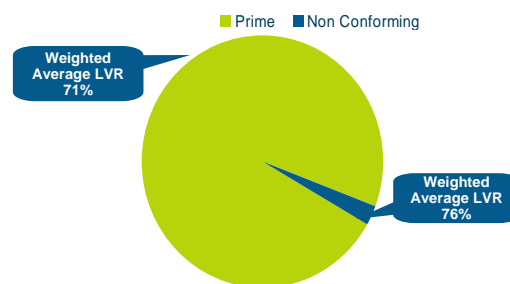


Source – ABS, Challenger, Choice

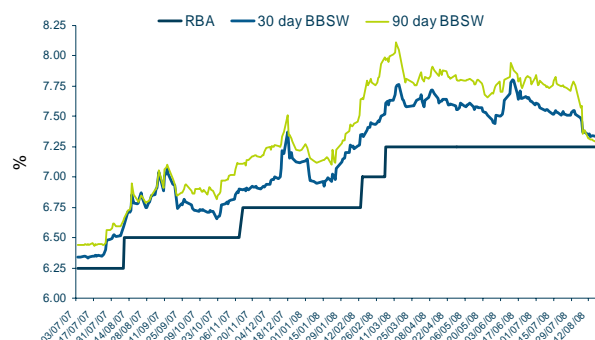


Funding and asset quality

- Mortgage Management has benefited from a conservative approach to funding its book
 - Eight warehouse providers with ~\$8.5bn in capacity - typically rolling 364 day facilities
 - 100% of residential securitisation term matched funding – no asset liability mismatch
 - Impact of cash / 30 & 90 day BBSW spread and higher warehouse costs offset by increase in asset pricing
 - Compression spread expected to normalise to ~15-20bps in the medium term
- Portfolio 97% Australian prime mortgages
 - Weighted average LVR of residential portfolio less than 75%



RBA Cash rate versus 30 and 90 day BBSW



Asset Management



Business Model	Macro Backdrop	Value Drivers	Key Facts
Asset Management			

Business description

ASSET MANAGEMENT

Background

- Structures and manages direct investment global assets generating long term predictable income streams for policyholders and investors
- Currently predominantly Australian based. UK presence, continued international focus

Asset origination and structuring

- Source assets for the specialist funds and balance sheet that match fund and balance sheet mandates
- Use specialist knowledge to optimally structure deals for shareholder and investor returns
- Earn origination fees

Balance Sheet management

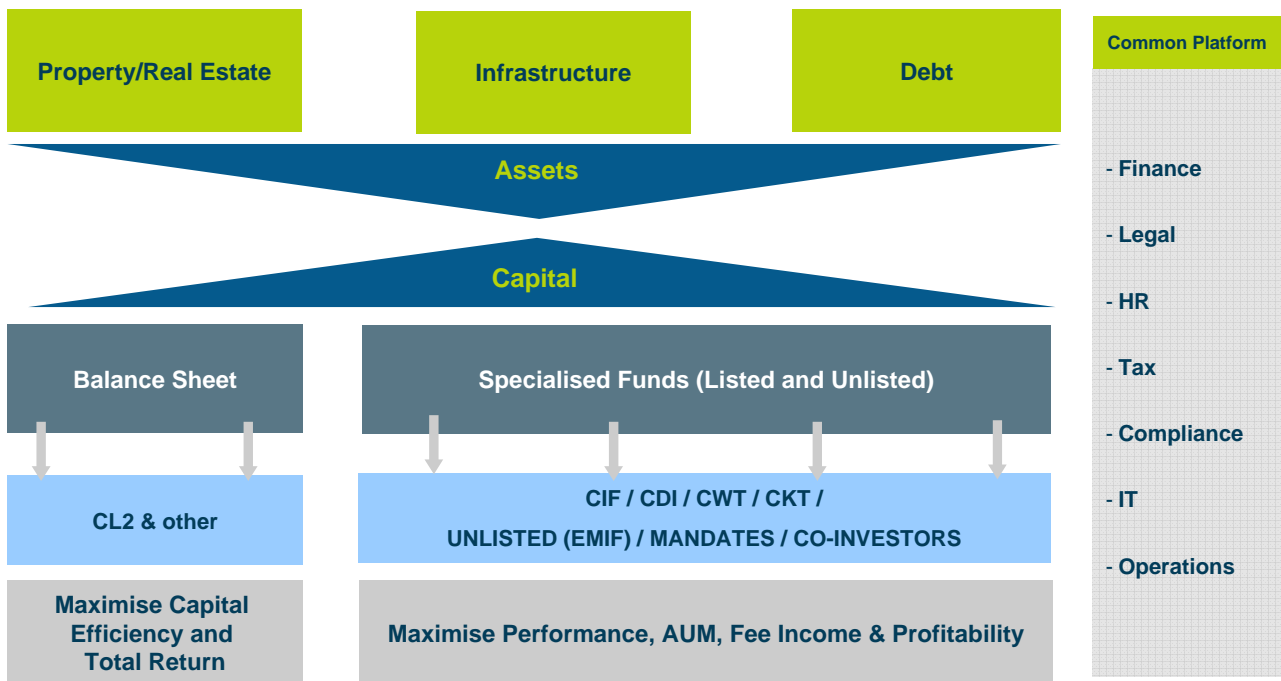
- Invest in assets funded by liabilities (primarily annuities) and earn a 'spread'
- Fixed term fixed rate funding from annuity books. Grow funding sources via acquisition or debt raising
- Maximize capital efficiency and return via optimal asset mix. Challenger primarily use fixed income, property and infrastructure as the major asset classes
- Earn stable returns via hedging interest rates, foreign exchange rates and other macro economic risks

Specialised funds

- Manage assets on behalf of shareholders and investors to produce returns in excess of mandates and benchmarks
- Provide a portfolio of assets in markets which match the increasing customer demands for stable and predictable returns. Current asset classes are infrastructure and property
- Drive recurring fees for shareholders



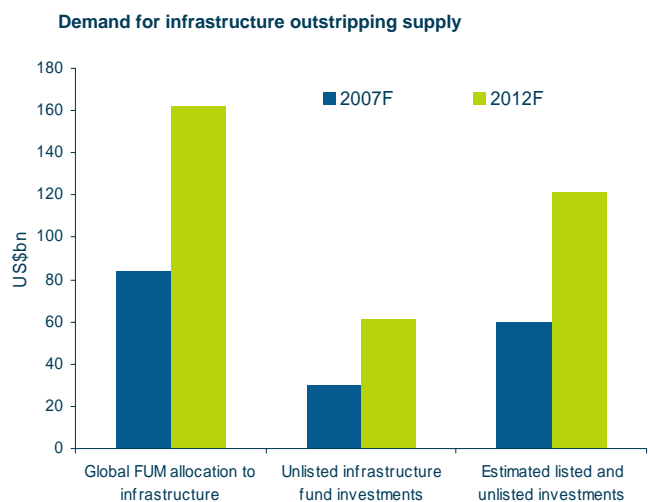
Strategy - matching assets and capital



Continuing demand for alternative assets

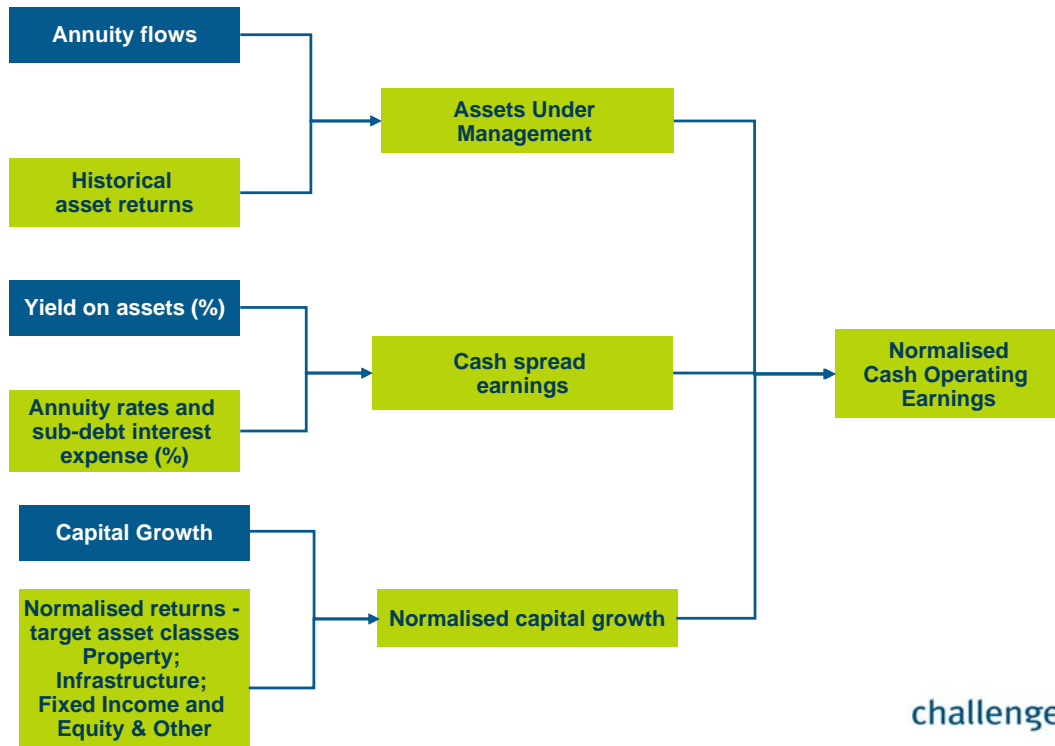
Challenger's expertise and specialised funds are well placed to cater to demand for alternative assets

- Continuing strong global demand for infrastructure investments
- US and European pension funds including infrastructure in asset allocation targets
- Competition for assets reduced and vendor expectations falling

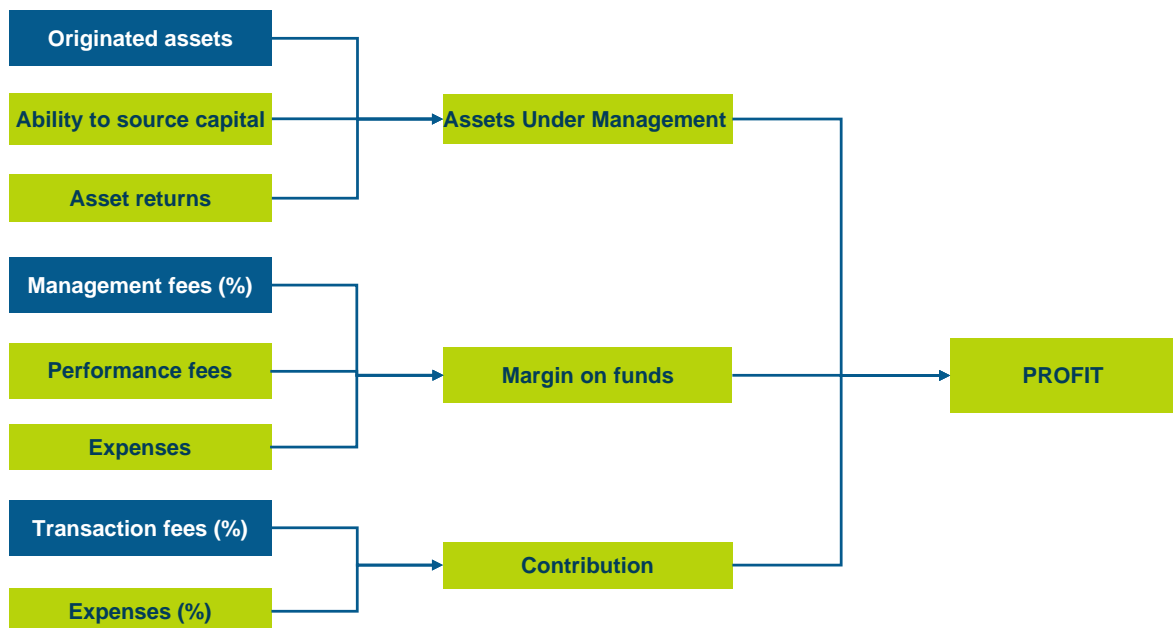


Source: ABN AMRO estimates June 2008

Key value drivers of earnings - Spread



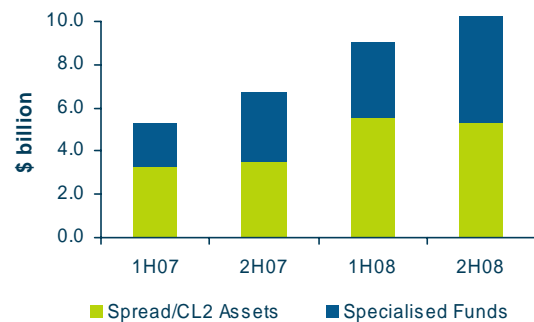
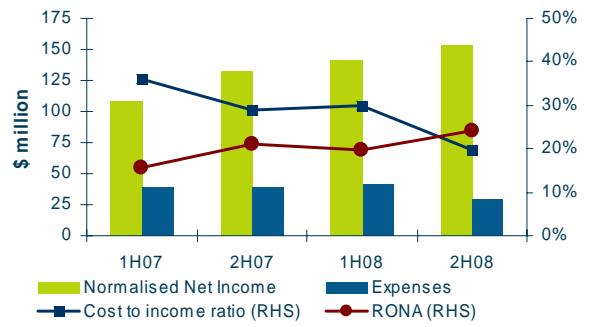
Key value drivers of earnings - Fee



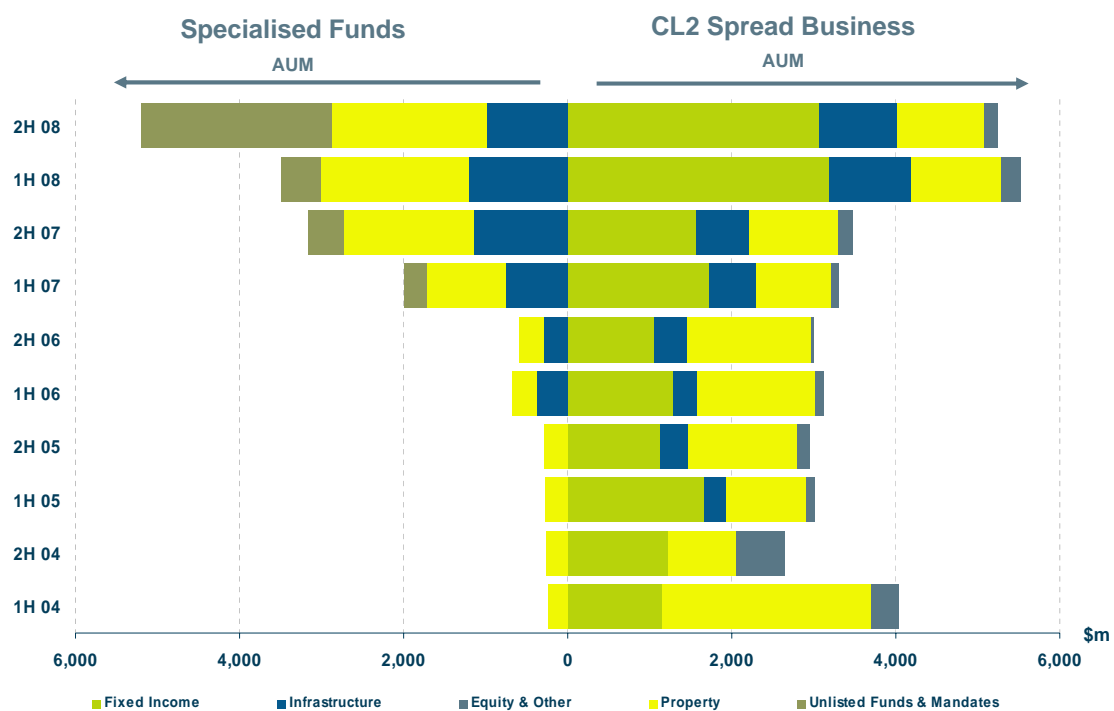
Summary financials

Financial Performance	2H08	1H08	2H07	1H07
Assets Under Management (AUM) – CL2	\$5.3bn	\$5.5bn	\$3.5bn	\$3.3bn
AUM – Specialised Funds	\$5.2bn	\$3.5bn	\$3.2bn	\$2.0bn
Normalised Net Income	\$153m	\$142m	\$132m	\$108m
Expenses	\$30m	\$42m	\$39m	\$39m
Normalised EBIT ¹	\$123m	\$100m	\$93m	\$69m
RONA annualised ²	24%	20%	21%	16%
Net Assets ²	\$1,014m	\$1,014m	\$883m	\$883m

¹ – Before significant items and investment experience
² – Calculated on opening net assets; Net Assets at 30 June 2008 were \$919m



Developing fee and spread business

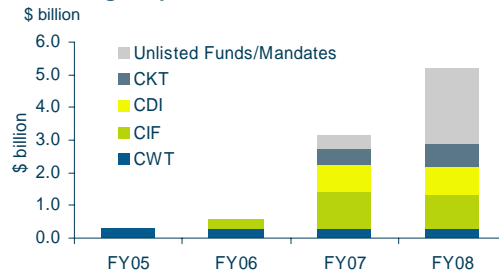


* CL2 Property net of property debt

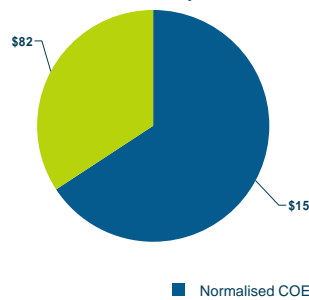
Continued growth in fee generating AUM

- Continued growth in our specialised funds
 - Recurring base management fees
 - Platform for transaction and performance fees
- Seek to expand wholesale/unlisted offerings in both domestic and offshore markets
- Leveraging our strategic property alliances

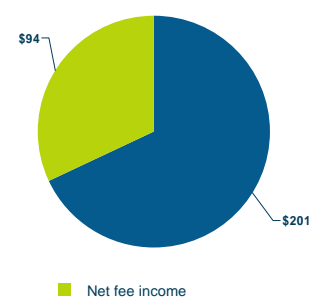
Challenger Specialised Funds AUM



Net income composition FY07



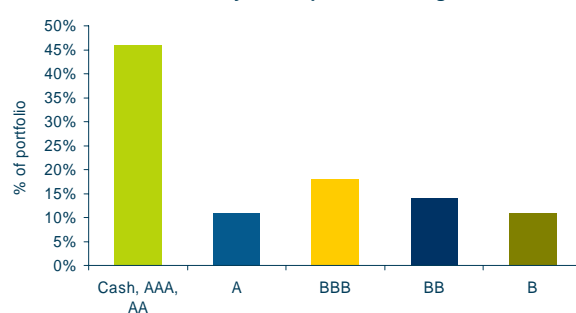
Net income composition FY08



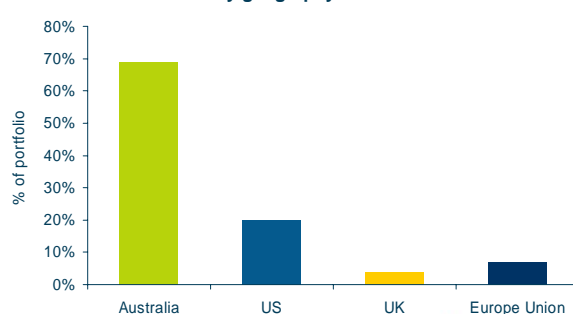
Asset portfolio – fixed income

- ~\$3.0bn portfolio
 - 13% cash and cash equivalents
 - 25% AAA rated securities
 - 75% investment grade
- Average life of 3 years
- Expect the majority of current negative mark to market to unwind as investments are held to maturity
- No requirement to sell assets
- Managed by experienced fixed income fund managers within Asset Management

Fixed Income Portfolio by S&P Equivalent Rating



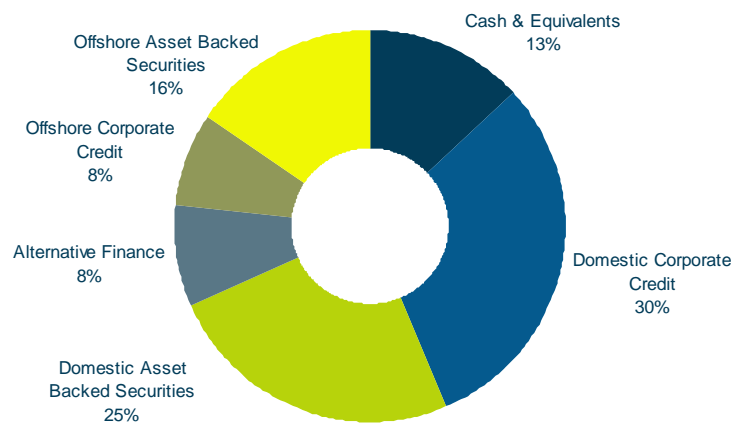
Fixed Income Portfolio by geography



Asset portfolio – fixed income

- Well diversified portfolio across industry and asset type
- More than 400 securities
- No assets in default

Fixed Income Portfolio by asset type



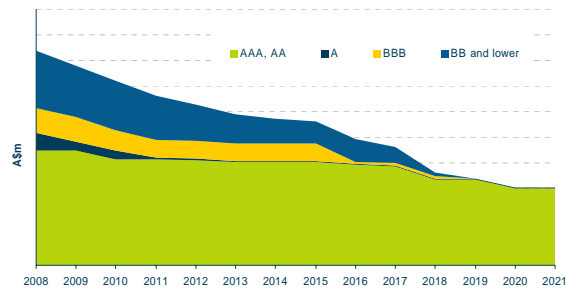
Asset portfolio – fixed income

Security Rating	Current valuation \$m	% of portfolio	Average Life of Securities
Cash & cash equivalents	397	13%	N/A
AAA	761	25%	3 years
AA	251	8%	2 years
A	329	11%	4 years
BBB	540	18%	3 years
BB	415	14%	4 years
B	380	11%	4 years
Total	3,072	100%	3 years

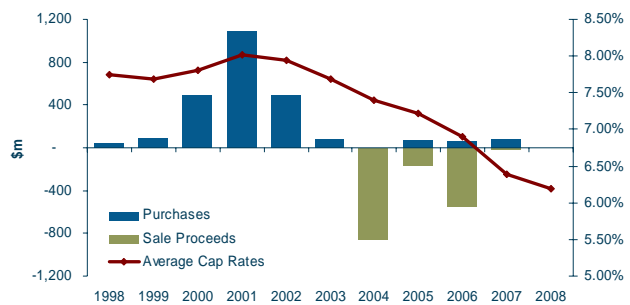
Asset portfolio – property

- Direct property exposure – 70%
- Indirect property exposure – 30%
- Holdings in listed vehicles CDI, CWT and CKT are held at market unit price and are trading at significant discounts to their Net Asset Values / Net Tangible Assets
- Overall property portfolio at the more conservative end of the spectrum
 - More than 50% of tenants are AAA rated
 - 91% of leases have fixed increases or CPI adjustments
 - Weighted average life of ~9 years

Lease Tenant Quality – Direct Property Portfolio June 08



Challenger property purchases/sales



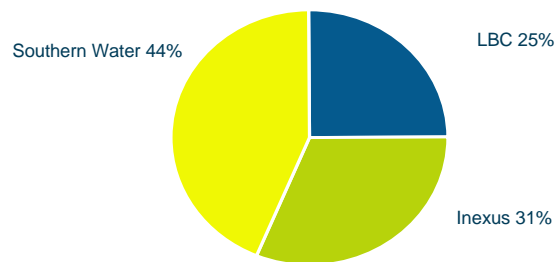
Source: Challenger, IPD Australian Composite Weighted Average Cap Rates



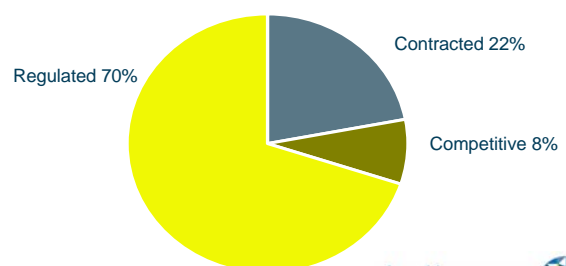
Quality assets – infrastructure

- Indirect – 87%
 - Primary exposure via the Challenger Infrastructure Fund – units and Redeemable Preference Shares
 - CIF valuation based on market unit price which is significantly below the Fund NAV
 - Investments in a third party wholesale infrastructure funds
- Direct exposure – 13%
 - Direct holdings are un-gearred
- Recent asset sales by CIF at significant premiums to NAV have reduced capital intensity of the holding

CIF Diversification by asset



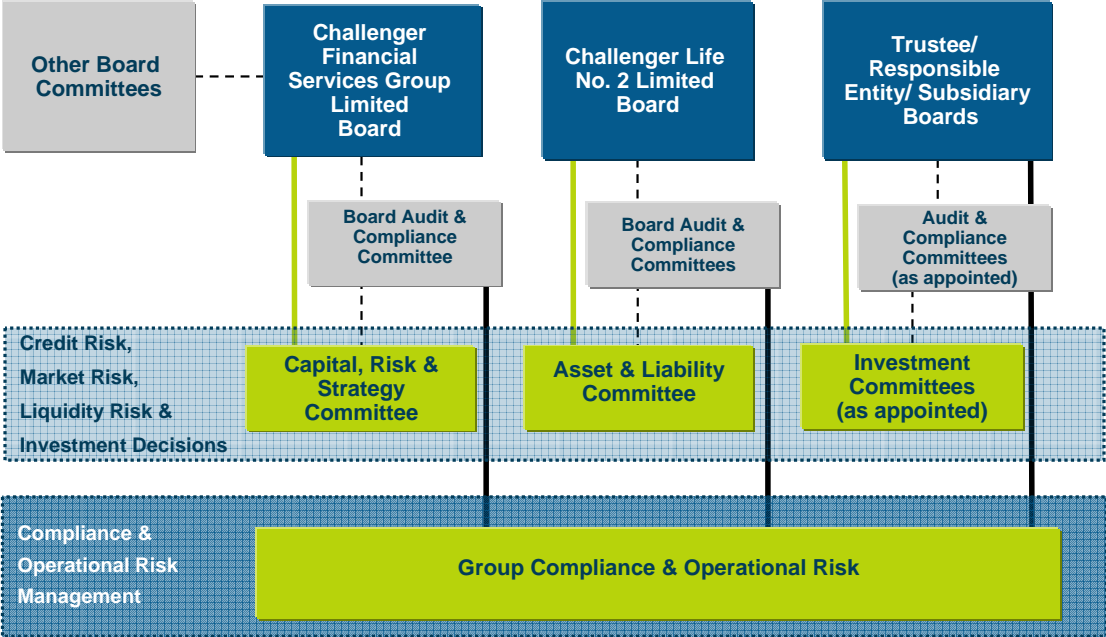
CIF Diversification by revenue



Challenger – Governance



Governance and risk management framework



Normalised Cash Operating Earnings



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Normalised cash operating earnings – Asset Management

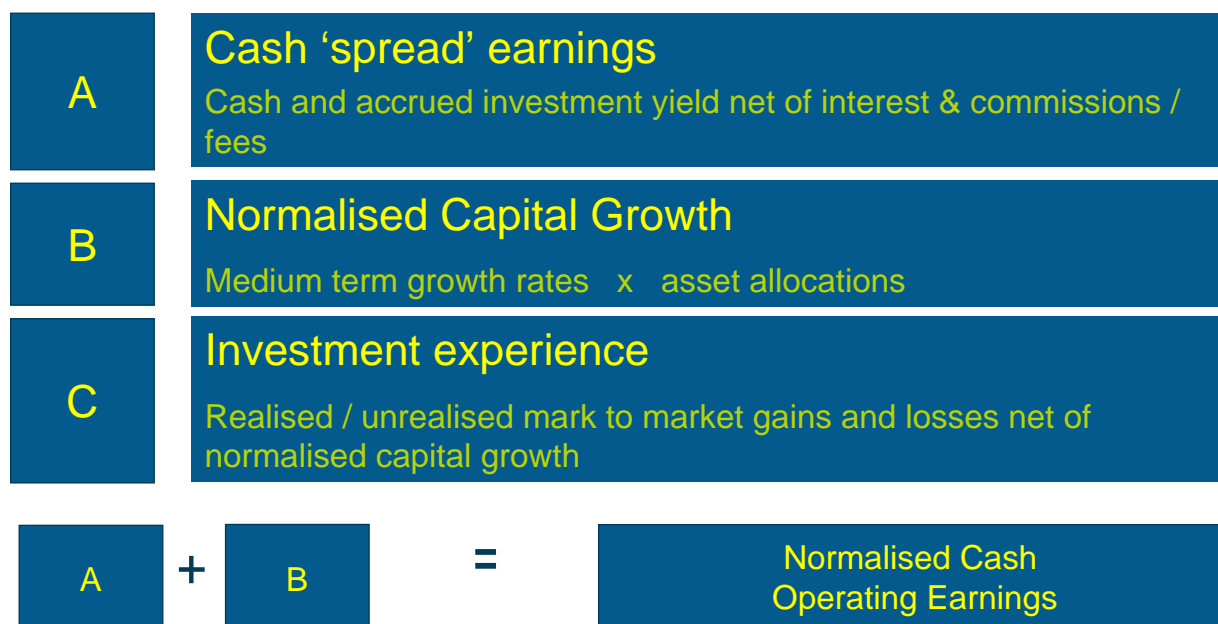
- Normalised cash operating earnings ('COE') – supplementary disclosure to existing statutory reporting framework
- New disclosure will provide clarity on the separation between the predictable underlying cash spread, normalised capital growth each year and the more volatile non-cash unrealised mark to market movements
- Additional disclosure will enhance transparency around operating spread within the prudentially regulated Challenger Life No. 2 balance sheet
- This will enable forecasting of normalised COE and better reflect the underlying performance
- Guidance for normalised COE excluding the impact of the transfer of the AXA annuity and life portfolio for 2009¹ - \$210m

¹ – 2009 guidance is based on similar spread generation to FY08 and \$5.0bn of average assets with comparable asset allocation as at 31 March 2008



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COE – Asset Management



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COE – Asset Management



Spread earnings will be accounted on a cash and accruals basis

- Investment yield will account for net rental income, dividends received and accrued, interest as it is earned and discounts/premiums on fixed income securities amortised on a straight line basis
- Interest expense accrued at contracted rates paid to annuitants and subordinated-debt note holders
- Commission and fees accounted for when paid or accrued

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COE – Asset Management

B

Normalised Capital Growth

Medium term growth rates x asset allocations

- Challenger's medium term capital growth expectations of the portfolio
 - Property 2.5%
 - Infrastructure 4.0%
 - Equity and Alternative 6.0%
 - Debt and Fixed Interest (0.35%)
- Growth expectations multiplied by investment asset allocation derives *Normalised Capital Growth*
- Existing Quarterly AUM disclosure provides update on asset allocation and annuity sales, allowing for inter-period modelling
- Debt and fixed interest is assumed to have an expected loss rate through the credit cycle of 35bps

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COE – Asset Management

C

Investment experience

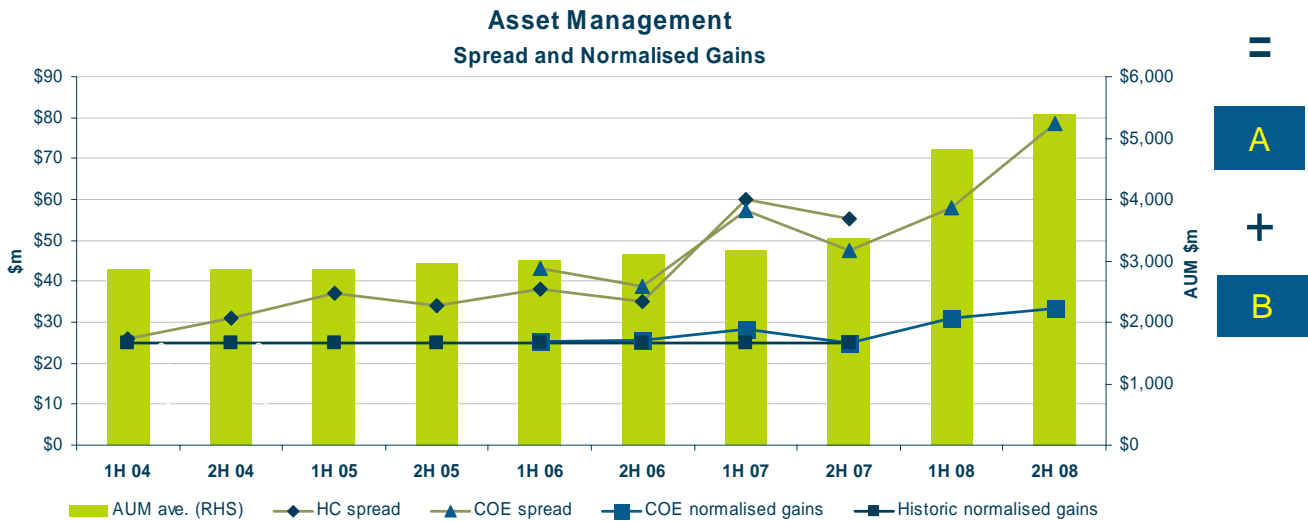
Actual capital gains / (loss) over normalised capital growth

- *Investment experience* accounts for all realised and unrealised gains and losses. Investment experience is net of the normalised capital growth.
- This provides a reconciliation to audited statutory financial profits
- Also includes all actuarial valuation assumption adjustments

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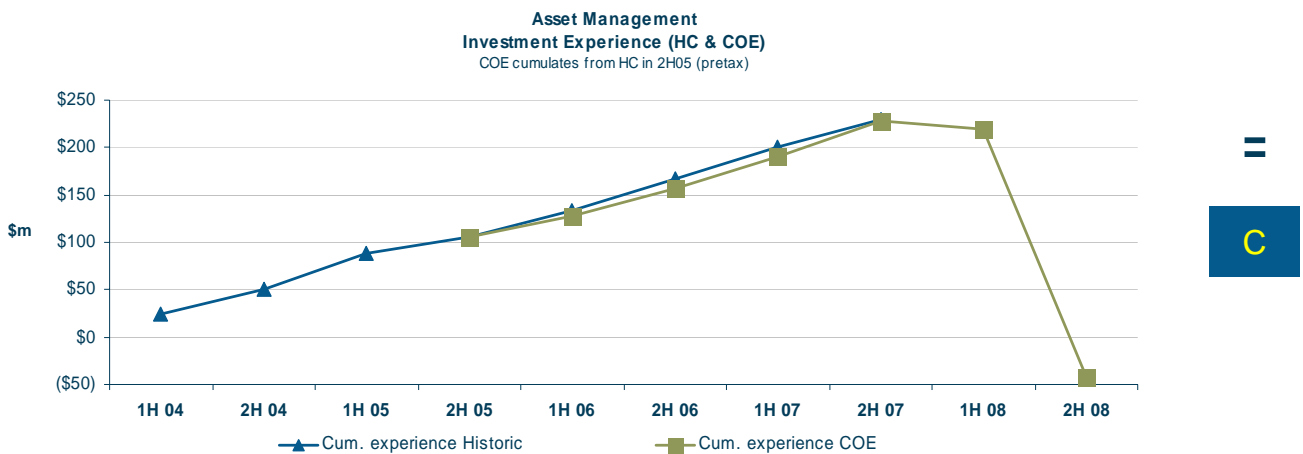
Historical comparatives normalised COE



- COE – supplements existing robust statutory reporting whilst maintaining consistency with prior management presentations
- Spread income has grown through time in alignment with growth in AUM
- Guidance for 2009 of \$210m excludes any growth impact from the transfer of the AXA portfolio



Investment experience history



- Positive investment experience for 8 halves until 1H08
- Fixed income portfolio and listed investments are the key drivers of negative 2H08 performance
- Some recovery in credit default swap spreads but cash bond prices continue to reflect widened liquidity premiums
- Investment experience is primarily non-cash and expect the majority to unwind over time



* Historic experience is the statutory earnings less historic spread and historic realised capital gains