

Shareholder Newsletter



Peter Polson
Chairman

Dear Shareholder,

On behalf of Challenger's Board and management team, I'm pleased to provide you with an update on the performance of your company for the first half of our 2017 financial year.

Challenger's vision is to provide our customers with financial security for retirement and we are very well positioned to meet the needs of the rising wave of retirees.

The year has started strongly with good momentum across both our Life and Funds Management businesses. Furthermore, we have a strong pipeline of growth opportunities, which gives us continued confidence in Challenger's future success.

GROUP ASSETS UNDER MANAGEMENT UP 12%

↑ **65** bn

INCREASE IN NORMALISED PROFIT AFTER TAX

↑ **8%**

INCREASE IN 2017 INTERIM DIVIDEND

↑ **6%**

Growth in earnings

All key underlying performance measures increased in the first half of 2017. We have also paved the way for further success through expanding our annuity distribution relationships and our product range.

However it's not just the 1H17 numbers that are comforting, it's also the business progress made in the last six months that sets the business up for further success.

Total assets under management are now \$65 billion, which makes us Australia's seventh largest asset manager.

Assets under management continue to benefit from strong Funds Management net flows, which were \$3.2 billion for the half and strong growth in Life's annuity book. Life's annuity book increased by \$843 million for the half, benefiting from the new distribution initiatives put in place over the last eighteen months.

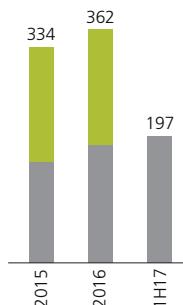
This growth in assets under management drove an 8% increase in normalised net profit after tax to \$197 million for the six months ended 31 December 2016. Normalised earnings per share increased by 7% to 35.0 cents per share.

Statutory net profit after tax¹ was \$202 million, and includes the impact of valuation changes on Challenger Life's assets and liabilities. However statutory profit after tax was lower than the first half of 2016, due to a \$22 million one-off gain included in 2016 following the sale of one of our boutique investment managers.

The board believes that normalised profit is a better indicator of our underlying business performance than statutory profit, and for this reason the Board's dividend policy is based on normalised profit after tax.

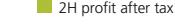
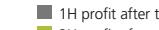
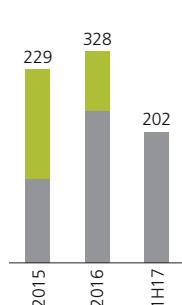
Normalised profit after tax (\$m)

up 8%



Statutory profit after tax (\$m)

down 14%



Increase in interim dividend

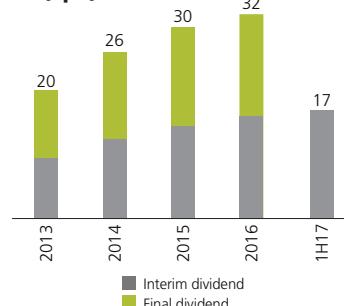
Your Board is focused on increasing dividends over time and seeks to ensure there is an appropriate balance between profits paid to shareholders as dividends and profits retained in order to grow your business.

Reflecting growth in our earnings, a fully franked interim dividend of 17.0 cents per share has been declared for the six months. This dividend is 6% higher than last year, is fully franked and represents around 49% of normalised net profit after tax.

Based on current forecasts, the Board will continue to target paying out between 45% and 50% of normalised net profit each year as dividends.

We have a Dividend Reinvestment Plan (DRP) in place, enabling you to receive some or all of your dividends as Challenger shares instead of cash. If you would like to participate in the DRP, you will need to make an election with Challenger's share register, Computershare Investor Services, at computershare.com/investor.

Dividends (cps)



Interim dividend
Final dividend

Life business update

1H17 Life earnings were \$267 million and increased by \$18 million (7%) on the previous year (1H16).

The Life business targets Australia's increasing superannuation savings pool and the rapidly rising number of retirees with products that help convert savings to regular and reliable income streams.

Over the past five years annuity sales have increased by on average 17% each year. For the first half of 2017 they grew even more strongly, up 34%. Life annuity sales are benefiting from our expanded product and distribution footprint.

In the last six months our annuities have been made available on ClearView's platform, and by three profit-for-member funds (caresuper, legalsuper and Local Government Super). Suncorp also commenced selling Challenger annuities under its own brand. These initiatives are helping accelerate annuity sales and Challenger's growth profile.

We have also recently announced that from the end of the September 2017 quarter, it is expected that both AMP and BT Financial Group will add Challenger annuities to their platforms. This will allow Challenger annuities to be easily and efficiently combined with other products to provide secure and dependable incomes for their customers.

In addition, in November 2016 we commenced a new annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of Australian dollar annuity and life insurance products in Japan. Annuity sales via the MS Primary relationship are long term in nature and we are off to a strong start with \$125 million of sales for the first two months.

The growth of Australia's retirement income market is now supported by the regulatory agenda. Over the past six months we have seen substantial progress in the creation of a policy framework for a world class retirement income system, one that shifts the focus from wealth accumulation to providing stable income in retirement.

Federal Government policy reform underway includes defining the objective of superannuation, legislating new rules that will allow a new range of retirement products to provide retirees with more choice and issuing a discussion paper for Comprehensive Income Products for Retirement (CIPRs), which the Government proposes calling MyRetirement.

These regulatory reforms will enhance the retirement phase of superannuation in the future. We are already seeing some superannuation industry participants move ahead and implement retirement solutions that combine longevity solutions, like annuities, with other products to provide better outcomes for retirees.

Funds Management update

The Funds Management business generally targets the retirement savings phase of superannuation by providing investment products aiming to deliver superior returns in order to maximise superannuation savings.

Funds Management attracted very strong flows, with \$3.2 billion for the half.

Despite the strong increase in funds under management and a rebound in UK transaction activity following the Brexit vote, Funds Management earnings fell by \$1 million due to lower performance fees.

We are focused on growing our stable of boutiques, and recently announced a new boutique fund manager, Avenir Capital, a global equities manager. This new boutique, together with ~\$110 billion of available capacity across our managers should ensure we continue to benefit from growth in Australia's super system.

Key dates

28 March 2017	Payment date for 2017 interim dividend
15 August 2017	Full year 2017 financial results released Final 2017 dividend announcement
1 September 2017	Ex-date for 2017 final dividend
4 September 2017	Record date for 2017 final dividend
5 September 2017	Final dividend DRP election date
27 September 2017	Payment date for 2017 final dividend
26 October 2017	2017 Annual General Meeting – Sydney

Manage your shareholding

For administrative matters in respect of your Challenger shareholding, please contact Computershare Investor Services.

To assist with all enquiries, please quote your unique Security Reference Number (SRN) and your current address.

T: 1800 780 782

 computershare.com/investor

Go electronic

Challenger can deliver your shareholder communications electronically. Please update your communication preferences via Computershare Investor Services. You can also elect to receive your dividend statements via email and all other communications online.

I would like to thank you, our shareholders, for your ongoing support and commitment to Challenger.



Peter Polson
Chairman
Challenger Limited