

# 2018 Corporate Governance Report

Providing our  
customers with  
financial security  
for retirement



[challenger.com.au](http://challenger.com.au)

Challenger Limited ACN 106 842 371

challenger 

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## Key dates

- 26 September 2018**  
Final dividend payment date
- 26 October 2018**  
2018 Annual General Meeting
- 12 February 2019**  
Half-year financial results
- 26 March 2019**  
Interim dividend payment date
- 13 August 2019**  
Full-year financial results
- 25 September 2019**  
Final dividend payment date
- 31 October 2019**  
2019 Annual General Meeting

Full listing of key dates available at

[challenger.com.au/share/keydates](http://challenger.com.au/share/keydates)

Dates may be subject to change.

## About this Corporate Governance Report

The 2018 Corporate Governance Report can be viewed online at:

[challenger.com.au/corporategovernance2018](http://challenger.com.au/corporategovernance2018)

## 2018 Annual Review

The 2018 Annual Review provides useful information about your company in an easy-to-read document. Included in the Annual Review is a performance update, reports from the Chair and the Chief Executive Officer, and information on the environmental, social and governance matters that affect your company. The Annual Review can be viewed at:

[challenger.com.au/annualreview2018](http://challenger.com.au/annualreview2018)

## 2018 Annual Report

The 2018 Annual Report, including the financial report for the year ended 30 June 2018, can be downloaded from Challenger’s online Shareholder Centre at:

[challenger.com.au/annualreport2018](http://challenger.com.au/annualreport2018)

## 2018 Sustainability Report

The 2018 Sustainability Report can be viewed online at:

[challenger.com.au/sustainabilityreport2018](http://challenger.com.au/sustainabilityreport2018)

## 2018 Annual General Meeting

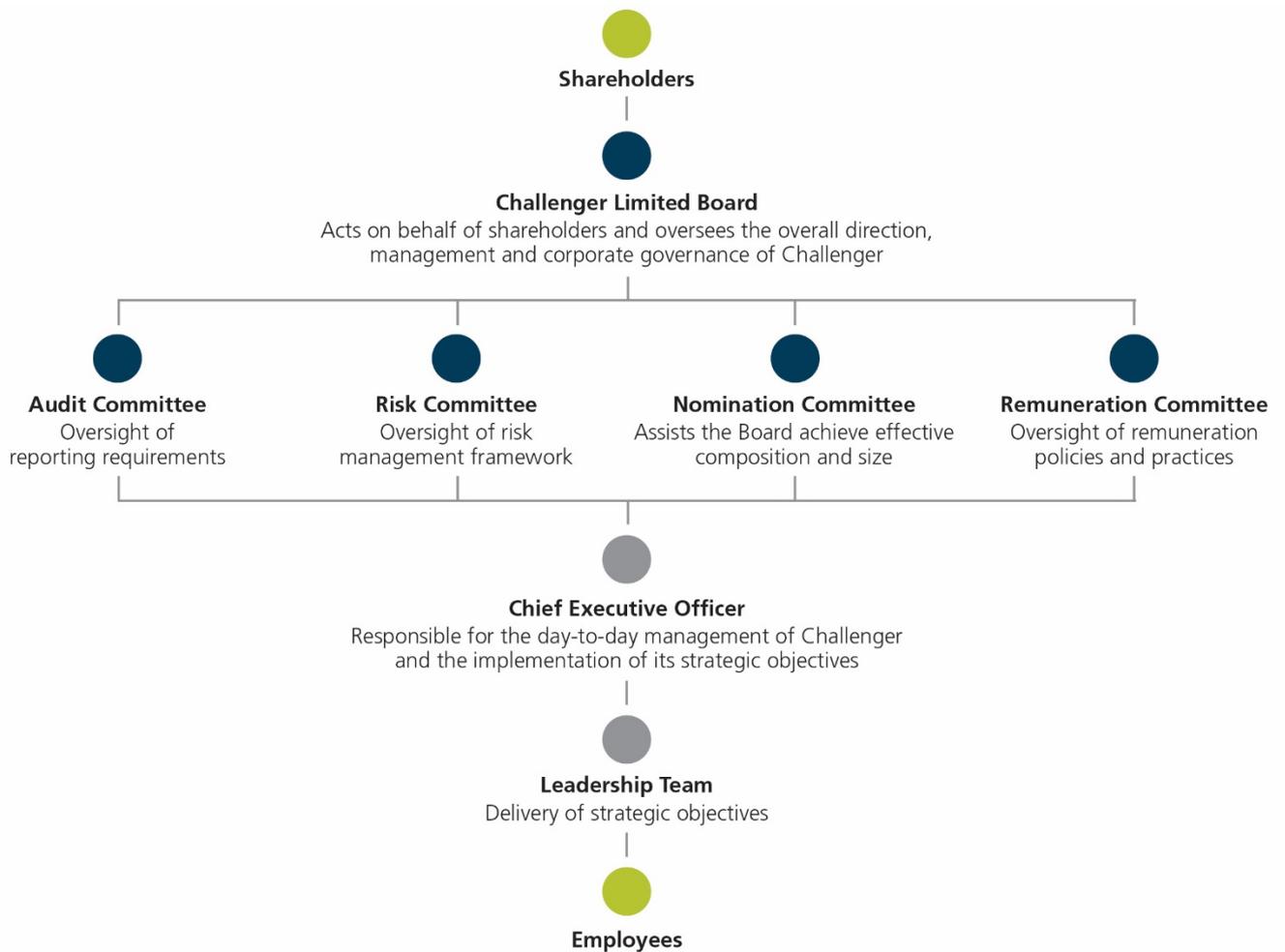
**Location**  
Wesley Centre, 220 Pitt Street, Sydney NSW

**Date**  
26 October 2018

**Time**  
9.30am (Sydney time)

Full details of the meeting will be included in your Notice of Annual General Meeting, which will be sent to shareholders in September 2018.

# Challenger’s approach to corporate governance



The Board of Directors and the Leadership Team of Challenger Limited (Challenger) are committed to implementing and maintaining a robust corporate governance system. Challenger believes that the adoption of good corporate governance adds value to its business and enhances stakeholder confidence.

The Board of Directors of Challenger (Board) determines the most appropriate corporate governance arrangements for Challenger and its controlled entities (Group), taking into consideration Australian and international standards and the prudential requirements of regulators such as the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission.

This Corporate Governance Report reports against the *Corporate Governance Principles and Recommendations* (3rd edition) published by the Australian Securities Exchange (ASX) Corporate Governance Council in 2014 (Principles).

Challenger’s governance approach complied with the Principles for the year ended 30 June 2018.

Reflecting Challenger’s commitment to strengthening its corporate governance system, Challenger has considered the proposed recommendations in the consultation paper entitled *Review of the ASX Corporate Governance Council’s Principles and Recommendations*, which was released on 2 May 2018. Challenger intends to adopt the new recommendations once finalised.

This report applies to Challenger; however, some controlled entities have adopted additional policies and procedures to deal with specific issues relevant to their businesses, for example Australian Financial Services Licence compliance. Where such policies and procedures have been adopted, this has also been done in line with the Principles.

This Corporate Governance Report has been approved by the Board and is current as at 30 June 2018.

# Corporate Governance Principles and Recommendations

## Principle 1 – Lay solid foundations for management and oversight



### The role of the Board and delegations

The Board is accountable to shareholders for the activities and performance of Challenger by overseeing the creation of sustainable shareholder value within an

appropriate framework of risk and regard for all stakeholder interests.

The Board is responsible for setting Challenger’s vision, which is to provide our customers with financial security for retirement. This is a long-term vision and the Board sets strategic priorities each year to work towards fulfilling this vision.

Directors are actively involved in setting, approving and regularly monitoring Challenger’s strategic priorities and holding management accountable for progress. This process includes an annual Board strategy offsite, regular Board reporting and meetings, discussion and review with management. Similarly, the Board ensures that rigorous governance processes are operating effectively to guide decision making across the organisation.

The Board has identified its key functions and full details are set out in the Board Charter, which is available at [www.challenger.com.au](http://www.challenger.com.au). The duties include:

- establishment, promotion and maintenance of the strategic direction of Challenger;
- approval of business plans, budgets and financial policies;
- consideration of management recommendations on strategic business matters;
- establishment, promotion and maintenance of proper processes and controls to maintain the integrity of accounting and financial records and reporting;
- fairly and responsibly rewarding executives, having regard to the interests of shareholders, the performance of executives, market conditions and Challenger’s performance;
- adoption and oversight of implementation of appropriate corporate governance practices;
- oversight of the establishment, promotion and maintenance of effective risk management policies and processes;
- determination and adoption of Challenger’s dividend policy;
- review of the Board’s composition and performance;
- appointment, evaluation and remuneration of the Chief Executive Officer (CEO) and approval of the appointment of the Chief Financial Officer (CFO), Chief Risk Officer (CRO), General Counsel and Company Secretary; and
- determination of the extent of the CEO’s delegated authority.

The Board has established committees to assist in carrying out its responsibilities and to consider certain issues and functions in detail. The Board committees are discussed in Principle 2.

## Management responsibility

The Board has delegated to the CEO the authority and powers necessary to implement the strategies approved by the Board and to manage the business affairs of Challenger within the policies and specific delegation limits specified by the Board from time to time. The CEO may further delegate within those specific policies and delegation limits, but remains accountable for all authority delegated to management.

## Nominations and appointment of new Directors

The Board has established a Nomination Committee comprised of a majority of Independent Non-Executive Directors, having at least three members and chaired by an Independent Non-Executive Director.

Appropriate checks are undertaken before appointing a person and recommending that person for election as a Director. These include checks as to the person’s character, fitness and propriety, experience, education, criminal record and bankruptcy history. Similar checks are also undertaken for newly appointed senior executives.

The Nomination Committee conducts periodic assessments of the Board’s competencies. This assists the Nomination Committee in determining the appropriate composition of the Board and to consider the desirable depth and range of skills required when selecting new Board members. The Nomination Committee will draw on industry contacts and, where appropriate, engage external consultants to assist with the identification and selection of a diverse range of candidates which meet the Nomination Committee’s desired competencies. The Nomination Committee will also have regard to such criteria as independence, commercial capability, cultural fit and time availability to meet the commitment required.

The Nomination Committee makes an assessment of potential new Directors on the above criteria and makes recommendations to the Board for consideration and approval. A copy of the Nomination Committee Charter can be found at [www.challenger.com.au](http://www.challenger.com.au).

If a new Director is appointed during the year, that person will stand for election by shareholders at the next annual general meeting (AGM). Shareholders are provided with all material information known to Challenger which is relevant to a decision on whether or not to elect or re-elect a Director.

On behalf of Challenger, the Chair provides a letter to each new Director, setting out the terms of their appointment including their roles and responsibilities. All current Directors have been provided with a letter confirming the terms of their appointment.

## Retirement and re-election of Directors

Challenger’s constitution requires that, excluding the CEO and any Director appointed during the year, one third of the remaining Directors must retire each year.

Any Director who is appointed during the year must stand for election at the next AGM. In addition, any Director who has

been in office for three or more years, or for three or more AGMs, must retire and stand for re-election at the third AGM.

### Succession planning

In conjunction with the Nomination Committee, the Board considers the succession of its members, the CEO, CFO, CRO, General Counsel and Company Secretary, and Chief Executives of each of the business divisions, as required.

The Board is undergoing Board renewal with the retirement of Ms Brenda Shanahan on 26 October 2017 and Mr Jonathan Grunzweig on 6 December 2017, and the appointment of Ms Melanie Willis and Mr John M Green on 6 December 2017. The Board continues to review its composition having regard to the knowledge, skills and experience of the Directors.

### Review of Board performance

The Board always seeks to ensure that it is operating effectively and to support this undertakes a formal review of its performance, individual Directors and Board committees at least annually.

A review of the Board's performance was conducted in June 2018. The review was conducted by the Chair with all Board members. It involved consideration of the effectiveness of the Board and its committees having regard to the knowledge, skills and experience of the Directors. The review involved considering the weighting of attributes, culture and capabilities of the Board.

### Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on matters to do with the proper functioning of the Board.

### Diversity

The Board is committed to promoting a diverse and inclusive culture at Challenger. This commitment is reflected in a range of policies and practices, and these are assessed using measurable targets including a target minimum of 30% women Directors by 2020. The current Board has 25% women Directors.

Challenger's approach to diversity and inclusion is set out in the Diversity Policy, which is available at

[www.challenger.com.au](http://www.challenger.com.au). To drive continued focus and implementation, Challenger has a Diversity Committee, which is sponsored by the Chair of the Board. The Diversity Committee represents a broad cross-section of the business and is chaired by the CFO, reporting directly to the CEO.

The Diversity Committee's objectives include designing, implementing and maintaining programs and initiatives to help achieve measurable objectives set by the Board each year. The adequacy of the Group's diversity programs and initiatives and the Group's progress towards achieving those objectives, including the proportion of men and women on the Board, in senior executive positions and across the whole organisation, are reviewed monthly by management and at least annually by the Remuneration Committee. The objectives and progress for the year ended 30 June 2018 are set out in the 2018 Sustainability Report, which is available at [www.challenger.com.au](http://www.challenger.com.au).

Challenger's most recent annual report to the Workplace Gender Equality Agency, which reports on the 'Gender Equality Indicators' under the *Workplace Gender Equality Act 2012*, is available at [www.challenger.com.au](http://www.challenger.com.au).

### Executive performance assessment

Challenger has written employment agreements with each of its senior executives, and the performance of senior executives is reviewed at least annually against appropriately agreed and documented performance objectives and measures, consistent with the performance management framework that applies to all Challenger employees. Detailed information about these performance measures and outcomes is included in the Remuneration Report in Challenger's 2018 Annual Report. All employees at Challenger are also assessed against the Challenger Principles (refer to Principle 3).

The Remuneration Committee is responsible for reviewing the performance of the CEO at least annually, including setting the CEO objectives for the year and reviewing progress in achieving those objectives and making recommendations to the Board. The CEO and the Remuneration Committee set the performance objectives and review the performance of the CEO's direct reports (Leadership Team).

Performance evaluations for the CEO and the members of the Leadership Team have taken place in respect of the 2018 financial year in accordance with the above process.

### Board members

Name	Position	Independent	Appointed
Peter Polson	Chair	Yes	2003
Brian Benari	Managing Director & CEO	No	2012
Graham Cubbin	Non-Executive Director	Yes	2004
John M Green	Non-Executive Director	Yes	2017
Steven Gregg	Non-Executive Director	Yes	2012
JoAnne Stephenson	Non-Executive Director	Yes	2012
Melanie Willis	Non-Executive Director	Yes	2017
Leon Zwier	Non-Executive Director	Yes	2006

## Principle 2 – Structure the Board to add value

### Membership of the Board



The Board has a majority of Independent Non-Executive Directors. The Chair, who is selected by the Board, is an Independent Non-Executive Director. The roles of Chair and CEO are not held by the same person.

The current Board as at 30 June 2018 is set out on page 5. Details of the members of the Board, including their skills, experience and their term of office, are set out in the Directors' Report contained in the 2018 Annual Report, which is available at [www.challenger.com.au](http://www.challenger.com.au).

The Board is committed to ensuring that it has an effective composition, size and commitment to discharge its responsibilities and duties.

The Board has determined that its current members have an appropriate collective mix of skills, experience, expertise and diversity to:

- exercise independent judgement;
- have a proper understanding of, and competence to deal with, the current and emerging issues of the business;
- encourage enhanced performance of Challenger; and
- effectively review and challenge the performance of management.

The Board's competencies are assessed annually. The results of the most recent assessment are shown in the table to the right.

Board members generally have a high level of competency across the areas of expertise relevant to the business.

The Board recognises that information technology and public policy are emerging and constantly evolving issues. To keep abreast of the developments in these areas, the Board supplements its competency through expert support from both in-house and external consultants. This includes reviews of information technology strategy, risks, technical updates and presentations on emerging issues. For public policy, this includes topical updates on government and regulatory reform from external and in-house experts. The Board is conscious that these are areas of ongoing focus and will continue to supplement its competency in these areas as appropriate.

### Director induction and education

All new Directors participate in an induction program covering Challenger's business including the Group's financial, strategic, operational and risk management position.

Challenger supports and encourages continuous education. Ongoing Director education is provided through regular management presentations on key business functions or activities. Regulatory developments are summarised and brought to the attention of the Board on a regular basis by the General Counsel and the CRO. Ernst & Young (EY), the Group's external auditor and KPMG, the Group's internal auditor, as well as other industry experts also address the Board from time to time on matters or topical issues relevant to the Group's business or its operating environment.

### Directors' skills matrix

#### Leadership & Strategy

Leadership, effective communication and influencing skills. Strategic thinking capability and transactional expertise.



#### Corporate Governance

Public company corporate governance literacy.



#### Financial Acumen

Financial reporting literacy including exposure to accounting standards.



#### Risk & Compliance

Financial services and fiduciary regulatory awareness. Relevant compliance and risk experience including legal and tax risk management.



#### Sectoral Exposure

Exposure to funds management and life insurance sectors, and market experience in jurisdictions in which Challenger operates.



#### Investment & Credit Expertise

Credit risk management and investment expertise including asset class literacy and exposure (for example, property, fixed income, equities, etc.).



#### Marketing & Distribution

Experience in distribution, marketing and fostering key institutional customer relationships.



#### Public Policy

Experience in relevant public policy areas and key Government and regulator relationships.



#### Information Technology

Understanding of IT strategy, the application of technology in large organisations and innovation.



#### People & Remuneration

Building capable and highly engaged teams and understanding of current remuneration regulation, structuring and sectoral conditions.



## Director independence

The Board has adopted an Independence Policy that states that an Independent Non-Executive Director should be independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board has undertaken a review of all Directors in the 2018 financial year taking into account relevant factors including tenure, and has determined that each Non-Executive Director remains independent. The Board noted the expertise, judgement, industry knowledge and understanding of Challenger's business brought by each Director.

The Board regularly considers and assesses the independence of each Director in light of the interests and information that Directors disclose in accordance with the *Corporations Act 2001*.

In assessing independence, the Board will have regard to whether the Director has any of the following relationships with Challenger or any Group company:

1. is, represents or is otherwise affiliated with, a substantial shareholder (as defined by Section 9 of the *Corporations Act 2001*) of Challenger, or is a director or officer of, or otherwise associated directly with, a substantial shareholder of Challenger;
2. is employed, or has previously been employed, in an executive capacity by Challenger or any of the other members of the Group, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
3. receives performance-based remuneration (including options or performance rights) or participates in an employee incentive scheme;
4. is, or has been within the last three years, a material supplier, professional adviser, consultant or customer of Challenger or the Group, or an officer of or otherwise associated directly or indirectly with a material supplier, professional adviser, consultant or customer;
5. has a material contractual relationship with Challenger or the Group other than as a Director;
6. has close personal ties with any person who falls within any of the categories described in points 1 to 5 above; or
7. has been a Director of Challenger for such a period that his or her independence from management and substantial shareholders may have been compromised.

The Board will state its reasons if it considers a Director to be independent notwithstanding the existence of a relationship of the kind referred to in points 1 to 7 above.

## Determination of materiality in assessing independence

The materiality of a relationship is assessed on a case-by-case basis having regard to each Director's individual circumstances.

## Conflicts of interest

In accordance with the Board Charter and the *Corporations Act 2001*, any Director with a material personal interest in a matter being considered by the Board must declare such an interest and may only be present when the matter is being considered at the Board's discretion. Directors with a material interest may not vote on any matter in which they have declared a personal interest.

## Meetings of the Board

The Board meets formally approximately every six weeks. In addition, the Board may meet, in person or via electronic means, whenever necessary to deal with specific matters needing attention between scheduled meetings.

The CEO, in consultation with the Chair, establishes the meeting agendas to ensure adequate coverage of strategic, financial and material risk matters throughout the year. Senior executives are invited to attend Board meetings and are available for contact by Independent Non-Executive Directors between meetings. The Independent Non-Executive Directors often hold a private session without any executive involvement in conjunction with scheduled Board meetings.

## Board access to information and advice

All Directors have unrestricted access to Challenger's records and information. The Company Secretary provides Directors with guidance on corporate governance issues and developments, and on all other matters reasonably requested by the Directors, and monitors compliance with the Board Charter.

The Board or each Director has the right to seek independent professional advice to assist them in discharging their duties. Challenger will meet the cost of the advice provided the Chair's prior approval is obtained. Such approval is not to be unreasonably withheld or delayed.

## Board committees

To assist it in undertaking its duties, the Board has established the following standing committees:

- the Group Risk Committee (GRC);
- the Group Audit Committee (GAC);
- the Remuneration Committee (RemCo); and
- the Nomination Committee (NomCo).

Each committee has its own charter, copies of which are available at [www.challenger.com.au](http://www.challenger.com.au). The charters specify the composition, responsibilities, duties, reporting obligations, meeting arrangements, authority and resources available to the committees and the provisions for review of the charter. Details of Directors' membership of each committee and those eligible members' attendance at meetings throughout the period from 1 July 2017 to 30 June 2018 are set out on page 8.

## Directors' meetings

Director	Board		Group Risk Committee		Group Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
<b>B Benari<sup>1</sup></b>	9	9	4	4	4	4	4	4	3	3
<b>G Cubbin</b>	9	9	4	4	4	4	5	5	3	3
<b>J M Green<sup>2</sup></b>	5	5	-	-	-	-	-	-	1	1
<b>S Gregg<sup>2</sup></b>	9	8	-	-	-	-	5	4	3	3
<b>J Grunzweig<sup>3</sup></b>	4	3	-	-	-	-	-	-	2	-
<b>P Polson</b>	9	9	4	4	4	4	5	5	3	3
<b>B Shanahan<sup>4</sup></b>	1	1	1	1	1	1	2	2	1	1
<b>J Stephenson</b>	9	9	4	4	4	4	-	-	3	3
<b>M Willis<sup>2</sup></b>	5	5	-	-	-	-	-	-	1	1
<b>L Zwier</b>	9	7	-	-	-	-	-	-	3	1

<sup>1</sup> B Benari attends the Group Risk Committee, Group Audit Committee, Remuneration Committee and Nomination Committee meetings at the invitation of these committees. There are no management representatives appointed as members of any Board committee.

<sup>2</sup> J M Green, S Gregg and M Willis were appointed as members of the Group Risk Committee and Group Audit Committee on 1 June 2018.

<sup>3</sup> J Grunzweig ceased to be a Director on 6 December 2017.

<sup>4</sup> B Shanahan ceased to be a Director on 26 October 2017.

## Principle 3 – Act ethically and responsibly

The Board and Challenger's commitment to ethical and responsible decision making is reflected in the internal policies and procedures, underpinned by the Challenger Principles of:

- integrity;
- commercial ownership;
- working together;
- compliance; and
- creative customer solutions.



### Code of Conduct

The Board has adopted a Corporate Code of Conduct (Code) which applies to all Directors, executives and employees and contractors of Challenger and the Group. The Code articulates the standards of honest, ethical and law-abiding behaviour expected by Challenger. Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not comply with the Code, other policies and procedures in place, or other regulatory requirements or laws. They can also do this anonymously using Challenger's whistleblower provisions. A summary of the Code can be found at [www.challenger.com.au](http://www.challenger.com.au).

### Political donations policy

The Board has adopted a policy of not making political donations in any country or jurisdiction in which it operates. The policy prohibits Challenger from making donations, or contributing funds, to any political party, parliamentarian, elected official or candidate for political office and prohibits Challenger employees, executives and directors from attending events, in their official capacity, where funds are raised for these purposes.

Challenger seeks to actively participate in effective policy development and will submit views to governments and other

political stakeholders on matters that affect Challenger, its customers, shareholders and the wider community.

### Director and Employee Trading Policy

The Board has approved a Trading Policy which prescribes the manner in which Directors and employees can trade in Challenger's securities.

Generally pre-trade approval is required for all trading in Challenger securities.

Directors and employees are prohibited from trading in Challenger securities at any time while in possession of non-public price-sensitive information. In addition, Directors and employees are prohibited from trading in Challenger securities at certain times prior to the release of Challenger's half-year and full-year financial results to the ASX. Other prohibited periods may also be imposed in accordance with the Trading Policy.

Challenger's Trading Policy prohibits any employees from hedging any unvested performance rights which they received as part of their remuneration.

It is also Challenger policy to prohibit Directors and employees from taking out margin loans over Challenger shares.

A copy of the policy is available at [www.challenger.com.au](http://www.challenger.com.au).

### Sustainability

Challenger has a clear sustainability strategy that supports its business strategy. Information about the Group's most material matters, strategy and progress are reported in accordance with the Global Reporting Initiative Standards in Challenger's 2018 Sustainability Report, which is available at [www.challenger.com.au](http://www.challenger.com.au).

## Principle 4 – Safeguard integrity in corporate reporting

### Integrity of corporate reporting

The Board has the responsibility to ensure truthful and factual presentation of Challenger's financial position. The Board has established a Group Audit Committee to assist the Board to focus on issues relevant to the integrity of Challenger and the Group's financial reporting. In accordance with its Charter, the Group Audit Committee is comprised of a majority of Independent Non-Executive Directors, having at least three members. The Committee must be chaired by an Independent Non-Executive Director, who is not Chair of the Board.

Details of the qualifications and experience of the Group Audit Committee members are described in the Directors' Report in the 2018 Annual Report, a copy of which is available at [www.challenger.com.au](http://www.challenger.com.au). The Committee typically meets four times a year, and additional meetings are scheduled as required.

The members of the Group Audit Committee and attendance at meetings are set out in the table on page 8.

The Committee makes recommendations to the Board in relation to the appointment, review and removal of an external auditor, assessment of the external auditor's independence and the appropriateness of non-audit services that the external auditor may provide. A copy of the Group Audit Committee Charter is available at [www.challenger.com.au](http://www.challenger.com.au).

### Declaration by the CEO and CFO

In respect of the financial report for the year ended 30 June 2018, the Board has received a written declaration from the CEO and the CFO that:

- in their opinion, the Group's financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group; and
- that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

### Independent external audit

Challenger requires its independent external auditor to:

- provide stakeholders with assurance as to whether the Group's financial reports are true and fair; and
- ensure that Group accounting policies comply with applicable accounting standards and guidance.

Challenger's independent external auditor is EY. EY was first appointed in November 2003, and this appointment was ratified by shareholders at the AGM held in November 2004. A competitive tender process was conducted in 2014, resulting in the reselection of EY.

To ensure independence, external auditors are required to rotate the engagement partner assigned to Challenger every five years. Tony Johnson will be replacing Steve Ferguson as lead audit partner and client service partner and will transition in the 2019 financial year.



The Board has requested, and it is anticipated, that EY will attend Challenger's 2018 AGM, and that EY be available to answer any shareholder questions relating to the external audit.

## Principle 5 – Make timely and balanced disclosure

### Continuous Disclosure Policy

Challenger is committed to ensuring that all investors have equal and timely access to material information concerning Challenger and that its announcements are factual and presented in a clear and objective manner.

The Board has approved and implemented a Continuous Disclosure Policy. A summary of the policy can be found at [www.challenger.com.au](http://www.challenger.com.au). The policy is designed to ensure compliance with the *Corporations Act 2001* and the ASX Listing Rules continuous disclosure requirements. Challenger has a Continuous Disclosure Committee, which is responsible for:

- making decisions on what should be disclosed publicly under the Continuous Disclosure Policy;
- maintaining a watching brief on information; and
- ensuring that disclosure is made promptly and without delay.

## Principle 6 – Respect the rights of security holders

### Maintaining relationships with shareholders and noteholders

Challenger recognises the importance of enhancing its relationships with shareholders and noteholders by:

- communicating effectively;
- providing ready access to clear and balanced information about Challenger; and
- encouraging participation at AGMs.

Challenger's Investor Relations Practice Note details its approach to facilitating effective two-way communication. A summary of the practice note is available at [www.challenger.com.au](http://www.challenger.com.au).

All materially price-sensitive announcements made by Challenger are lodged with the ASX and made publicly available via the ASX company announcements platform before being discussed with or disseminated to stakeholders. Furthermore, in relation to any shareholder or analyst presentation given by Challenger, a copy of the presentation is lodged with the ASX ahead of the presentation.

### Online and electronic communication with Challenger is encouraged

As set out in Principle 5, it is Challenger's policy to announce to the market material information concerning Challenger in a timely, clear, balanced and objective manner. Following release to the ASX, Challenger publishes half-yearly and annual reports, major announcements, media releases and other



relevant information, including its governance arrangements, on its website.

Webcasting details are provided for market briefings to enable participation regardless of location. Challenger also encourages receipt of reports and meeting notices electronically. Shareholders and noteholders are encouraged to, and do, regularly communicate electronically with Challenger's registry, Computershare Investor Services, on all matters relating to their holdings.

Challenger also provides a facility to ask questions about its business via its website, which are answered directly. Interested parties can register via the website to receive updates regarding material Challenger market announcements.

### Annual General Meeting (AGM)

Challenger believes that AGMs provide an important opportunity for shareholders to engage with the Board and management of their company. Challenger's 2018 AGM will be held on Friday 26 October 2018 at the Wesley Centre, 220 Pitt Street, Sydney. A formal notice and AGM documents are sent to shareholders at least 28 days in advance of the meeting. The AGM documents include explanatory notes that clearly explain the nature of the AGM business and the resolutions to be put to shareholders.

Shareholders who are unable to attend the AGM are encouraged to appoint a proxy in advance of the meeting.

Generally, all resolutions being considered at the AGM will be decided by a poll rather than a show of hands. The AGM voting result is lodged with the ASX as soon as practicable after the AGM and published on the Challenger website.

## Principle 7 – Recognise and manage risk

### Risk management and compliance

The management of risks is fundamental to the Group's business and to building shareholder value. The Board recognises the broad range of risks that apply to the Group as a participant in the financial services industry, including, but not limited to, funding and liquidity risk; investment and pricing risk; counterparty risk; strategic, business and reputational risk; operational risk; licence and regulatory risk. The Board is responsible for determining the Group's risk management strategy and risk appetite. Management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the whole of the Group's operations in line with its risk appetite.

The key design component of Challenger's approach to risk management is that the heads of the business units have accountability for the risks within their divisions, with oversight, analysis, monitoring and reporting of these risks conducted by the Executive Risk Management Committee (ERMC), which is chaired by the CRO. The CRO is independent of the business units and accountable to the CEO and the Board and its committees.



The framework and policies are developed by the CRO, which are reviewed and approved by the GRC, and then made available to all employees.

The Board has established a GRC comprised of a majority of Independent Non-Executive Directors, having at least three members. The Committee must be chaired by an Independent Non-Executive Director, who is not the Chair of the Board.

The Committee meets a minimum of four times a year, and additional meetings are scheduled as required.

The members' names and attendance at meetings are set out on page 8.

The Group's risk management function has day-to-day responsibility for monitoring the implementation of the framework and policy, with regular reporting provided to the GRC, via the ERMC, on the adequacy and effectiveness of management controls for material business risk.

The GRC reports to the Board on the effectiveness of the framework, internal controls and policies. Challenger undertakes a detailed review of the Group's risk management framework on an annual basis to satisfy the GRC and the Board that it continues to be sound. A review took place in the financial year ended 30 June 2018. In addition to the detailed annual review, the risk management framework is reviewed on an ongoing basis against the external environment and internal reporting.

A summary of Challenger's risk management framework and a copy of the GRC Charter can be found at [www.challenger.com.au](http://www.challenger.com.au).

### Internal audit

Internal audit services for the Group were provided by KPMG during the period. The GRC oversees the scope of internal audit and monitors the progress of the internal audit work program, which must include (at least annually) an evaluation of compliance with and effectiveness of the financial and risk management framework of the Group.

The GRC receives reports from internal audit at each meeting and monitors management's responsiveness to internal audit findings and recommendations.

The internal audit function is independent of the external auditor, and reports directly to the GRC.

### Material exposure to environmental or social risks

There are a number of material business risks that could adversely affect the Group and the achievement of the Group's financial performance objectives. Those risks and how those risks are managed by the Group are described in Note 18 to the financial statements in the 2018 Annual Report, a copy of which is available at [www.challenger.com.au](http://www.challenger.com.au).

Environmental, social and sustainability risks and how those risks are managed by the Group are described in the 2018 Sustainability Report, which is available at [www.challenger.com.au](http://www.challenger.com.au).

Challenger considers climate change risk both in terms of its investment decision making and ownership practices; and how it manages the impact the company has on the environment from direct operations.

## Principle 8 – Remunerate fairly and responsibly

### The Board Remuneration Committee

The Board has established a RemCo comprised of a majority of independent Non-Executive Directors, having at least three members and chaired by an Independent Non-Executive Director.



The background details of the RemCo members are set out in the Directors' Report contained in the 2018 Annual Report, which is available at [www.challenger.com.au](http://www.challenger.com.au). The RemCo usually meets at least five times during the year, and additional meetings are scheduled as required. A copy of the RemCo Charter can be found at [www.challenger.com.au](http://www.challenger.com.au).

The members of the RemCo and attendance at meetings are set out on page 8.

The RemCo is responsible for reviewing and recommending to the Board on:

- Challenger's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements;
- the remuneration framework including the reimbursement of expenses for Directors; and
- remuneration by gender.

### Remuneration

Setting and overseeing remuneration policies and practices is a key responsibility of the Board.

The remuneration details for key management personnel and Independent Non-Executive Directors are included in the Remuneration Report, which is contained in the Directors' Report in the 2018 Annual Report. A copy of the 2018 Annual Report is available at [www.challenger.com.au](http://www.challenger.com.au).

Independent Non-Executive Directors are not entitled to participate in incentive plans.

There are no termination payments to Independent Non-Executive Directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

As mentioned above under Principle 3, it is also Challenger policy to prohibit Directors and employees from taking out margin loans over Challenger shares.