

Challenger Capital Notes

Newsletter February 2019



Peter Polson
Chair

Normalised net profit after tax¹ (\$m)



Statutory net profit after tax (\$m)¹



Dividends (cps)



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 the 2019 financial year.

Our results for the first half have clearly been impacted by the difficult operating environment we're experiencing, with increased market volatility, industry disruption and political uncertainty playing out across the sector. While some of these factors are beyond our control, the fundamentals underpinning our business remain supportive. We continue to target a growing market of retirees, we have the leading retirement income brand in the country and our capital position remains very strong.

Our resilient position is well demonstrated by the solid domestic annuities sales we achieved in the half. Australian annuity sales were up 4% on the same period last year, reflecting the continued demand from retirees for our products.

Earnings update

Assets under management were \$78.4 billion, up 2% on the prior corresponding period (pcp). Normalised net profit before tax¹ was \$270 million, down \$5 million or 2% on the pcp. Earnings were impacted by investment market volatility resulting in lower asset returns in the Life business and lower Funds Management performance fees.

Normalised net profit after tax was down \$8 million or 4% to \$200 million. Statutory net profit after tax, which includes investment experience, being the valuation movements on assets and liabilities supporting the Life business, was \$6 million mainly due to the volatile equity and fixed income markets that were experienced in the December quarter.

Normalised return on equity was lower at 15.6% pre-tax, impacted by lower normalised net profit before tax and higher capital levels held.

Strongly capitalised

We retain a very strong capital position, with \$1.4 billion of excess regulatory capital and group cash. We continue to hold capital well above APRA's minimum requirements and at 31 December 2018 Challenger Life held 54% more than the minimum, which is toward the upper end of our target capital range.

Dividend

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

For the first half of 2019, your Board declared a fully franked interim dividend of 17.5 cents per share, unchanged from last year.

Strategic progress

Challenger continues to make progress implementing its strategy to take advantage of the broad demographic tailwinds behind Australia's growing retirement income market.

Challenger's product offering is appealing for retirees in this environment as they seek guaranteed income and longevity protection amid sustained market volatility and political uncertainty.

We continue to expand our distribution reach with the launch on the BT Panorama platform in the first half followed by new relationships formed with fast growing independent platforms. Challenger annuities are on track to launch on Hub24 and Netwealth platforms in the second half of this financial year.

Challenger continues to be recognised as a clear leader in retirement income, maintaining a strong brand and reputation. Challenger retained and strengthened its leadership position, ranked first place at 95%² despite challenges across the sector.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Operating and Financial Review Section of the 2019 Challenger Limited Interim Financial Report.

² Marketing Pulse Adviser Study December 2018.

Trust in the quality of our products and services, and our ongoing focus on improving the experience for our customers and advisers has contributed to our strong brand and reputation. In December, Challenger launched a new website with dedicated content specifically designed for customers and advisers and an improved lead nurturing capability. The new site supports our efforts to better educate customers about retirement income options and assists advisers with their conversations with clients. Later this year, we will launch a new brand campaign focused on educating customers and advisers on the role annuities can play in retirement.

While the retirement income reform process has been impacted by political uncertainty and the election cycle, there has been bipartisan support over many years for policy development to strengthen the retirement phase of superannuation. Challenger is engaging broadly and developing thought leadership to educate and advocate for good policy.

Challenger also continues to grow its Funds Management business through new product and distribution initiatives. Progress has already been made in the second half with FME Asset Management joining Fidante's London-based boutiques. Fidante Partners also launched ActiveX, a series of active ETFs, to address the growing market for exchange traded products.

I'm pleased to report that Challenger continues to be strongly positioned despite the current challenging operating environment, and I am confident the business is well placed to respond to the current market and capture opportunities for future growth.

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



Peter Polson
Independent Chair
Challenger Limited

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For administrative matters in respect of your Challenger Capital Notes holding, please contact Computershare Investor Services.

T: 1800 780 782

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Go electronic

Challenger can deliver your noteholder communications electronically. Please update your communication preferences via Computershare Investor Services.

Challenger Capital Notes distribution history

Distribution payment date	Cash distribution amount ¹	Total return ¹
25 May 2018	\$0.87	5.1800%
27 August 2018	\$0.96	5.3350%
26 November 2018	\$0.93	5.3537%
25 February 2019	\$0.93	5.3441%

Challenger Capital Notes 2 distribution history

Distribution payment date	Cash distribution amount ¹	Total return ¹
22 May 2018	\$1.05	6.1650%
22 August 2018	\$1.12	6.3453%
22 November 2018	\$1.12	6.3550%
22 February 2019	\$1.12	6.3432%

¹ The cash distribution is the cash payment made on each \$100 Challenger Capital Note or Challenger Capital Note 2 for the relevant quarterly Distribution Period. It is calculated as the Distribution Rate, multiplied by the number of days in the relevant quarterly Distribution Period divided by 365 days, applied to each \$100 Challenger Capital Note or Challenger Capital Note 2.