CHALLENGER EXPANDS STRATEGIC RELATIONSHIP WITH MS&AD

Challenger (ASX: CGF) has further progressed its strategic relationship with MS&AD Insurance Group Holdings Inc. (MS&AD) to support Challenger’s strategy for growth in Australia and internationally.

Under the new arrangement, Challenger will commence a quota share reinsurance of US dollar denominated annuities issued in the Japanese market by Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a subsidiary of MS&AD, and is expected to commence from 1 July 2019.

MS Primary will provide to Challenger Life an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (currently ~A$640 million) per year for a minimum of five years. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

MS&AD also intends to increase its Challenger shareholding to over 15% of issued capital and seek representation on the Challenger Limited Board, subject to necessary regulatory approvals (including the Australian Prudential Regulation Authority and Treasurer’s approval under the Finance Sector (Shareholdings) Act) and market conditions. MS&AD reserves the right to change its intention, and to acquire, dispose of or vote shares in Challenger as it sees fit and is subject to regulatory approvals and market conditions.

Once MS&AD’s Challenger shareholding exceeds 15%, and the reinsurance of US dollar annuities with MS Primary has commenced, MS&AD will nominate one non-executive director to join the Challenger Limited Board. Challenger will appoint the MS&AD nominee as a Challenger director (and support his or her re)election from time to time).

Challenger’s Chief Executive Officer Richard Howes said: “Today’s announcement reflects the success of the strategic relationship Challenger and MS&AD commenced three years ago. This expanded alliance leverages the strengths of both businesses to create opportunities for continued growth.”

MS&AD President and CEO Yasuyoshi Karasawa said: “The expansion of our relationship to cover a wider range of annuities and include Board representation for MS&AD, demonstrates our commitment and confidence in Challenger.”

Since November 2016, Challenger has partnered with MS Primary, a leading provider of foreign currency annuities in Japan, to reinsure Australian dollar denominated annuity products.

The foreign currency fixed annuity market in Japan is continuing to grow strongly and has increased by 70% over the past three years and now represents ¥3.6 trillion in annual sales. Recently, the relative attractiveness of US dollar annuities has increased, reflecting changes in US exchange rates.

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1 Subject to necessary approvals including regulatory, compliance and contractual requirements.
2 Based on an exchange rate of 0.012839 as at 25 March 2019. Exchange rates may change over time.
3 The amount refers to foreign currency denominated fixed annuity products of the bancassurance channel.
and Australian interest rates. As a result, the mix of foreign currency annuity sales in Japan has shifted away from Australian to US dollar products.

Challenger Life currently reinsures an Australian dollar 20-year term product and an Australian dollar lifetime product. Challenger Life has entered into a new agreement with MS Primary to commence reinsuring the US dollar version of the 20-year term product. Challenger will provide a guaranteed interest rate and assume the investment risk in relation to those policies issued by MS Primary and reinsured by Challenger. Challenger currently has ~15% of its fixed income portfolio in US dollar assets and will hedge any residual foreign currency risk in relation to the agreement.

The expanded strategic relationship with MS&AD builds on Challenger’s successful relationship with MS Primary and broadens access to the Japanese market while diversifying exposure across different currency products.

Challenger and MS&AD will also continue to work together to explore new growth opportunities for both groups.

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About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for retirement.

Challenger operates two core investment businesses, a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

About MS&AD

MS&AD is a leading Japanese insurance company. It is the largest general insurer in both Japan and Asia, and through its life company operations, a leading provider of foreign currency annuity products in Japan.

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4 As at 1H19 and represents the portion of US dollar fixed income investments, excluding liquid investments.