

MACQUARIE AUSTRALIA CONFERENCE 2019 PRESENTATION

Challenger Limited (ASX:CGF) attaches a copy of the presentation Managing Director and Chief Executive Officer Richard Howes will deliver at 11.15am today at the Macquarie Australia Conference 2019 in Sydney.

ENDS

About Challenger

Challenger Limited (Challenger) is an investment management firm focusing 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.

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Richard Howes

Managing Director & CEO

2 May 2019



Our vision and strategy

A clear plan for sustainable long-term growth

To provide our customers with financial security for retirement



Increase the Australian retirement savings pool allocation to secure and stable incomes



Be recognised as the leader and partner of choice in retirement income solutions with a broad product offering



Provide customers with relevant investment strategies exhibiting consistently superior performance



Deliver superior outcomes to customers and shareholders through a highly engaged, diverse and agile workforce committed to sustainable business practices and a strong risk and compliance culture

Expanding strategic relationship with MS&AD

Diversifying and increasing access to Japanese market



MS Primary annuity relationship

- Currently Australian dollar product reinsurance
 - commenced November 2016
- Expanding reinsurance to include US dollar product¹
 - commences 1 July 2019²
 - at least ¥50 billion (~A\$640 million) in total A\$ and US\$ sales per year for minimum of five years³
 - provides reliable and diversified sales contribution

MS&AD strategic relationship

- Intention to increase Challenger ownership above 15%⁴
- Representative to join Challenger Board⁴
- Growth opportunities for both companies

MS&AD
MS&AD Insurance Group

~A\$27bn market cap	41,733 employees
Total assets ~A\$280bn	5 business domains

(as at 30 September 2018)

- 1

 Japanese general insurer
#1 market share
 - MS&AD Mitsui Sumitomo Insurance**
 - MS&AD Aioi Nissay Dowa Insurance**
 - MS&AD Mitsui Direct General Insurance**

- 2

 Japanese life insurer
#7 market share
#1 foreign currency annuity provider
 - MS&AD Mitsui Sumitomo Aioi Life Insurance**
 - MS&AD Mitsui Sumitomo Primary Life Insurance**

- 3

 International operations
operations in 45 countries
#1 ASEAN general insurer

MSIG

A Member of **MS&AD** INSURANCE GROUP

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1. 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.
2. Subject to necessary approvals including regulatory, compliance and contractual requirements.
3. Subject to review in the event of a material adverse change for either MS Primary or Challenger Life.
4. Subject to necessary regulatory approvals, including the Australian Prudential Regulation Authority and Treasurer's approval under the Finance Sector (Shareholdings) Act.

Highly engaged workforce

With a strong risk and compliance culture



Employee engagement¹



Category	Total favourable score	Australian National norm	Global Financial Services norm	Global High Performance norm
Sustainable engagement	84%			
Diversity and flexibility	94%			
Risk culture	85%			

Exceeds
 No material difference

Strong risk and compliance culture

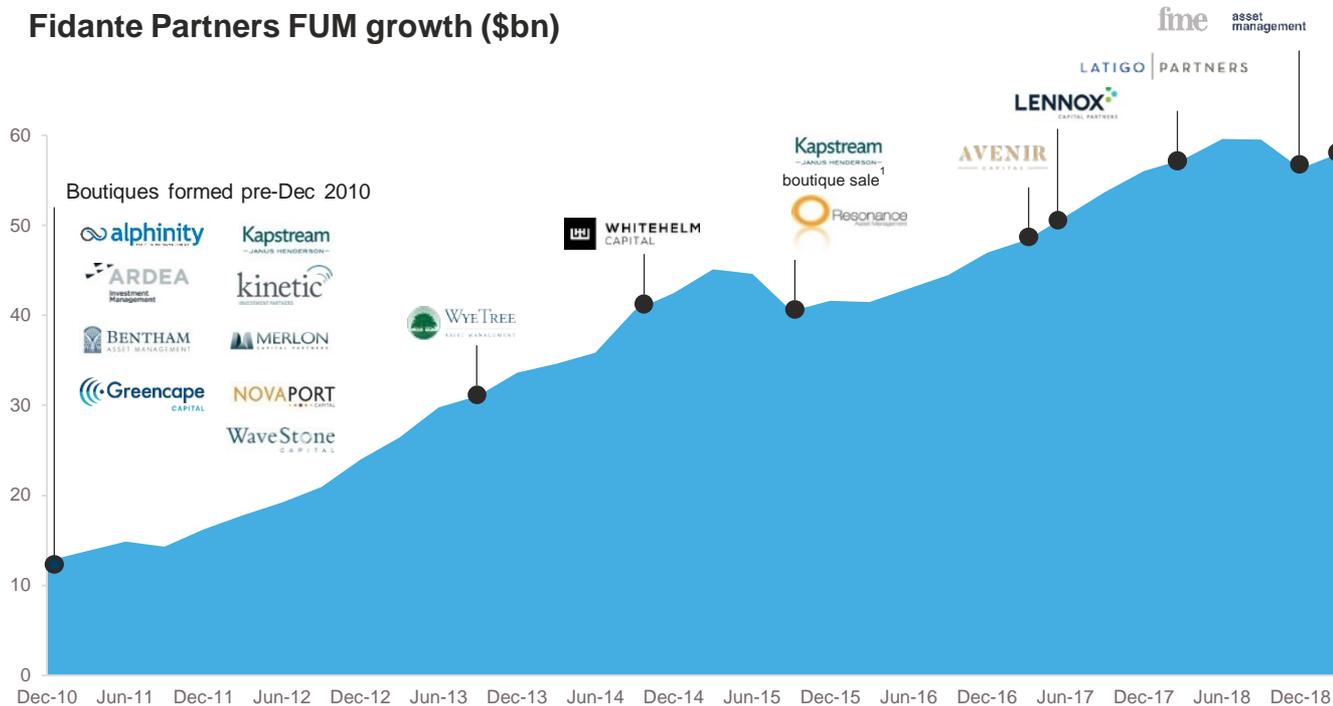
- Risk management entrenched in corporate culture
- Significant investment in risk infrastructure

Fidante Partners capability

Adding new managers and expanding distribution footprint



Fidante Partners FUM growth (\$bn)



Adding new managers

eiger capital

- Formed April 2019
- Specialist small cap manager
- Experienced and highly rated small cap team
- Proven investment process with long track record of outperformance

Expanding distribution

Active X

The future of Active ETFs has landed

www.fidanteactivex.com.au

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1. In July 2015 Kapstream was sold and \$5.4bn of institutional FUM was derecognised. Fidante Partners continues to distribute Kapstream products to retail clients.

Superannuation system

World class accumulation system with significant retirement savings
Not delivering retirees financial comfort



World class accumulation system



Contribution rate increasing to 12%¹



4th largest global pension market²



Assets to double over next 10 years³

Significant retirement savings



1 in 4 super dollars supporting retirement⁴



Wealth at retirement \$350k to \$500k⁵



~\$67bn transferring to retirement each year⁶

Not delivering retirees financial comfort

National Seniors Australia survey (April 2019)⁷



Financial comfort not defined by a \$ figure



53% worry about outliving their savings



Risk appetite conflicts with risk taking

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1. Increases to 10% on 1 July 2021 and increases by 0.5% p.a. until reaching 12% on 1 July 2025.
2. Willis Towers Watson Global Pension Study 2018.
3. Rice Warner superannuation projections.
4. Based on APRA and ATO data.

5. Average household wealth includes superannuation and non-superannuation assets and excludes the family home.

6. Australian Taxation Office.

7. <https://nationalseniors.com.au/research/retirement/feeling-financially-comfortablequestion>

Ongoing public policy enhancing retirement

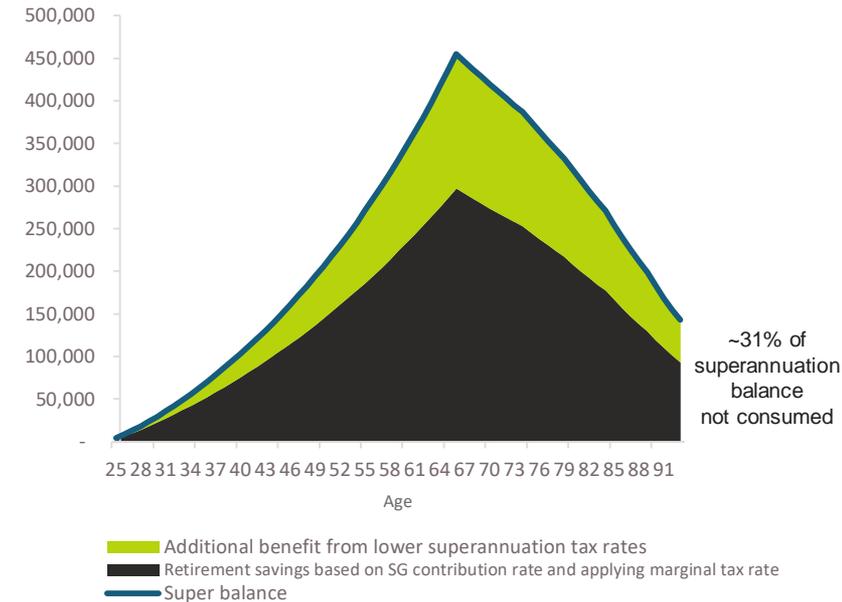
Currently underdeveloped – longevity pooling part of the solution



- Retirees self insuring longevity risk
 - under consuming capital
 - ~31%¹ of super balance not consumed
 - inefficient application of tax concessions
- Successive governments reforming retirement phase
 - reforms to improve retiree outcomes
 - encouraging take up of longevity protection
 - making retirement system more sustainable
- New lifetime income means test rules²
 - simplified means test from 1 July 2019
 - support lifetime income streams

Average superannuation balance and drawdown³

For illustrative purposes only



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1. Australian Government Actuary 2014, *Towards more efficient retirement income products*: Paper prepared for the Financial System Inquiry, November 2014. On average 31% of initial balance at retirement will be left at death (in NPV terms).

2. Refer to Appendix for more information on new means test rules for lifetime income products.

3. Based on a 25-year-old in 2019 earning \$50k with 1.0% wage inflation above CPI and a pre-tax investment return of 3% above inflation. Drawdown based on minimum drawdown rates.

Lifetime annuity is a compelling product

Simple and good value product



- Provides regular and reliable retirement income addressing the needs of retirees
- Provides protection from retirement risks
 - longevity
 - market
 - sequencing
 - inflation
- Lifetime annuity IRR ~120 bps¹ above Australian government bond
 - return includes mortality credits
 - better the longer you live
 - sharing risk premiums with customers
 - compares well to bond fund index²
- Works alongside other retirement income

The screenshot displays the Challenger website's 'Guaranteed Lifetime Income tool'. The main heading is 'Lifetime annuities work alongside your other retirement income'. It is divided into two columns. The left column, titled 'Most of your retirement income is made up of', lists 'Payments from super', 'Bank interest', and 'Share dividends'. Below this, a text box states: 'Your investments go up and down depending on markets and may one day run out.' The right column, titled 'Your safety net is made up of', lists 'Lifetime annuity' and 'Age pension (if you're eligible)'. Below this, a text box states: 'These payments are consistent and help you to afford essential expenses, like food, gas and electricity, for the rest of your life.' Navigation buttons for 'BACK' and 'NEXT' are visible. At the bottom, there is a footer with 'Conditions of use | Disclaimer | Financial Services Guide | Privacy | © Challenger 2019' and a graphic with an umbrella and dollar signs, accompanied by the text: 'Combining the age pension with other income sources provides a sense of financial security'.

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1. Challenger Flexible Liquid Lifetime. Annuity pricing and Australian government bond rate as at 29 April 2019 and IRR based on Challenger's assumed life expectancy. IRR increases the longer you live.
2. Running yield on Bloomberg Credit Index is 97 bps above Australian government bond (as at 29 April 2019).

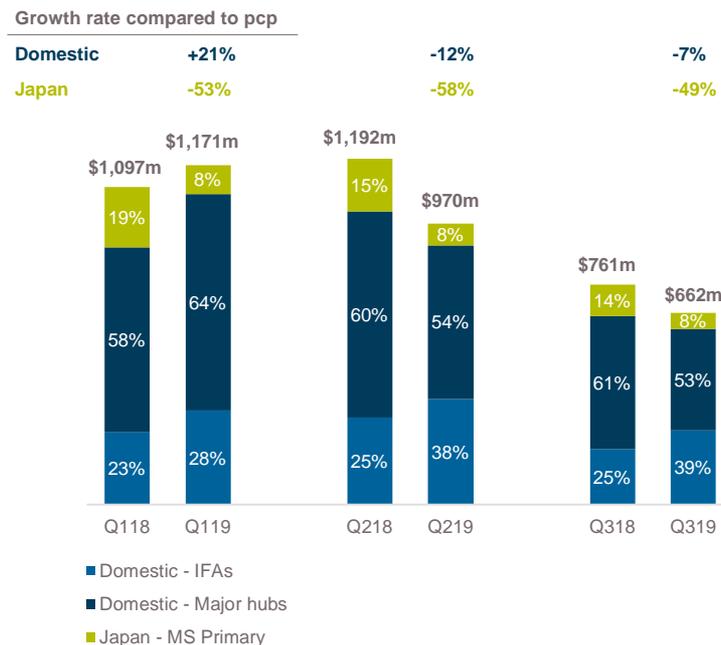
Significant financial advice market disruption

Impacting Challenger annuity sales



- Challenger sales impacted by
 - lower third-party adviser new client acquisitions
 - adviser churn
- FY19 Q2 and Q3 domestic annuity sales
 - major hub sales -25%¹ on pcp
 - IFA sales +26%¹ on pcp
- Connecting to new platforms
 - Hub24 and Netwealth go live Q4²

Quarterly annuity sales by channel (\$m)



Challenger well positioned

Market leader – long term fundamentals remain strong

- Strong systemic tailwinds including super system growth and ageing demographics
- Two complementary businesses both with leading market positions
- Leading retirement incomes brand and recognised as industry thought leader
- Strong track record in developing high quality products across both businesses
- Highly scalable business and operating platform
- Strong risk management culture and capability

Challenger well positioned to meet customer needs

Appendix

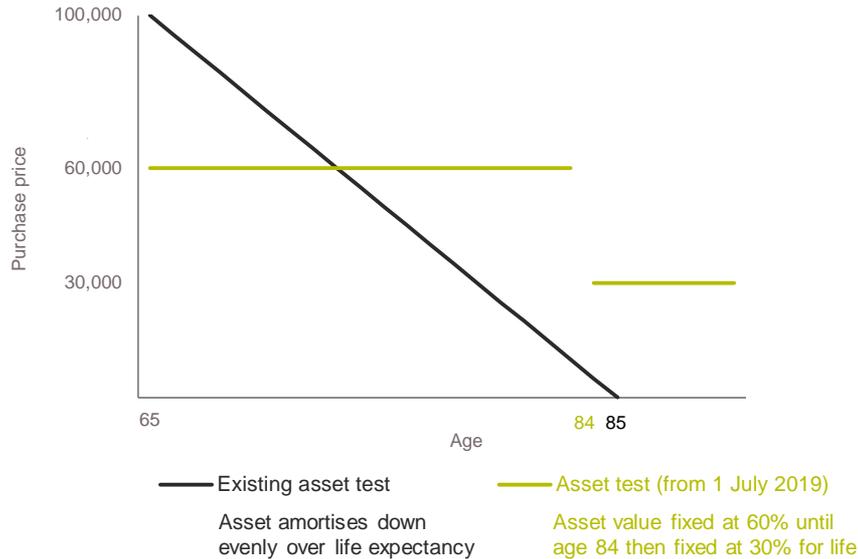
**Additional background
information**

Government enhancing post-retirement phase

New means test rules for lifetime income products from 1 July 2019

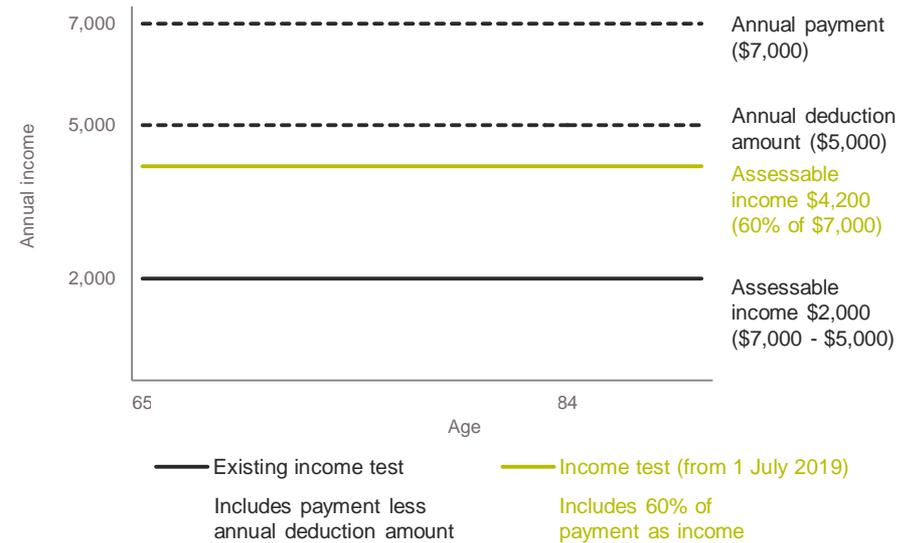
Assets pension test

Example - \$100,000 lifetime income stream purchase price at age 65



Income pension test

Example - \$100,000 lifetime income stream paying \$7,000 per year



Important note

This presentation was prepared for the purpose of a briefing to equity analysts and certain wholesale investors on 2 May 2019.

The material in this presentation is general background information about Challenger Limited activities and is current at the date of this presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Past performance is not an indication of future performance.

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