

About Challenger

Retirement
Income
Specialists

Challenger Limited

- Established in 1985
- ASX 100 listed
- \$77.0 billion assets under management at 31 December 2017

Challenger Life

- Leading annuity provider in Australia
- APRA-regulated life company



Who we are

Challenger Limited is a publicly listed investment management firm. Established in 1985 and listed on the Australian Securities Exchange in 1987, Challenger manages \$77.0 billion¹ in assets, and is part of the S&P/ASX100 Index.

Challenger is focused on providing customers with financial security for retirement. We do this by providing customers in the savings (or accumulation) phase with investment strategies exhibiting consistently superior performance, and providing customers in the spending (or retirement) phase with safe and reliable income streams.

As Australia's largest annuity provider, we provide reliable guaranteed² incomes to over 60,000 Australian retirees. Annuity products appeal to retirees as they provide security and certainty of guaranteed income in retirement, whilst protecting against market and inflation risks. Our lifetime annuities also protect retirees from the risk of running out of money late in life.

The guaranteed retirement incomes we pay are backed by a high-quality investment portfolio, including fixed income and commercial property investments. These investments generate regular and predictable investment income, which we use to fund retirement incomes paid to our customers.

Challenger has commenced a new annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of Australian dollar annuity products in Japan. Challenger has commenced issuing Australian dollar fixed rate annuities with a 20 year term to support a reinsurance agreement with MS Primary.

What we do

We offer a range of products aimed at helping our clients during retirement. Our market-leading annuities provide regular payments for the chosen investment term, regardless of how investment markets perform.

Our product range includes:

- Lifetime annuities
- Fixed term annuities
- Aged care annuities
- Superannuation products
- Fixed income managed funds.

What is an annuity?

An annuity is a secure investment that provides a series of regular payments, either for a chosen term or for life, in return for a lump sum investment.

It can be used with other retirement investments, like account-based pensions, to set up a dependable income that can last through retirement.

Depending on the type of annuity, investors can receive:

- ✓ guaranteed regular payments for a fixed term, or for life
- ✓ protection from key risks like outliving savings and market volatility
- ✓ choice and flexibility of access to capital
- ✓ certainty and control over estate planning.

1. As at 31 December 2017.

2. The word 'guaranteed' means payments are guaranteed by Challenger Life Company from the assets of its relevant statutory fund.

Our guarantee and the statutory fund

When an investor buys a Challenger annuity, their money goes into the statutory fund with money from other investors. Their guaranteed regular payments are made from this fund.

Challenger is required by law to keep this money in the statutory fund and separate from other funds in the Challenger Group.

The money in the statutory fund is managed by our in-house and external investment managers.

The underlying investment objectives of the statutory fund include:

- achieving consistent returns on investments
- matching the cash flow in from investment returns with cash flow out to investors so that all present and future guaranteed payments can be made to all investors.

Assets matched to liabilities

Challenger Life's assets and liabilities are matched so the appropriate assets in the statutory fund create the cash flow to meet our annuity payment liabilities to investors.

Fixed income investments and cash are predominantly used to pay our shorter term liabilities.

Cash flows from longer term assets, such as property, infrastructure and equity, are matched to longer dated liabilities.

This allows us to take longer timeframes on investments with longer tenure liabilities. Our risk appetite does not allow for mismatched liabilities to assets held, as shown in the chart below.

Assets and liabilities cash flow matched

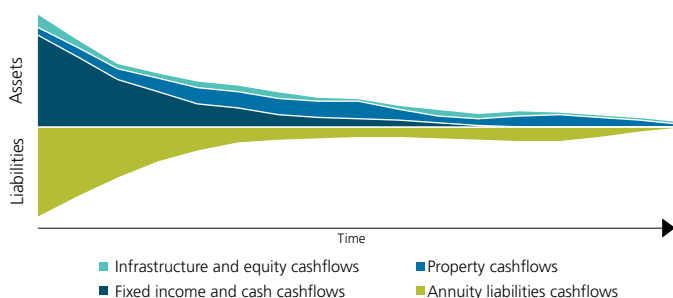
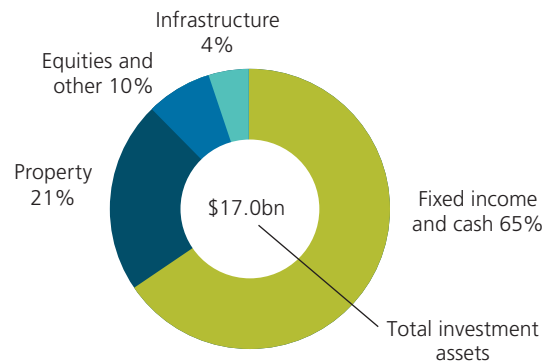


Diagram is illustrative and not to scale.

Asset allocation of the statutory fund (as at 31 December 2017)



How safe is the statutory fund?

- Challenger Life is required by APRA to hold a minimum level of capital in the statutory fund.
- APRA requires capital levels to be maintained to withstand a 1 in 200 year shock event.³
- Challenger Life's excess capital above APRA's required amount was \$1.3 billion at 31 December 2017.

Challenger Life holds more assets in the statutory fund than the APRA minimum

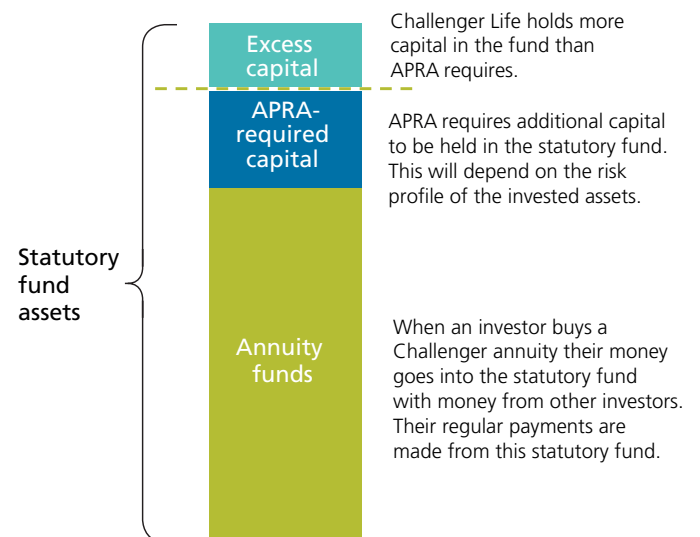


Diagram is illustrative and not to scale.

3. Source: APRA Prudential Standard LPS 110 Capital Adequacy (Section 30).

What happens if there's a market fall?

Challenger Life has strict policies and plans in place that require us to take actions to make sure the capital in the statutory fund stays above the APRA-required amount and able to meet current and future payments to investors.

These include (but are not limited to) reducing risk through reinsurance or selling assets, reducing new business and seeking further capital from Challenger Life shareholders.

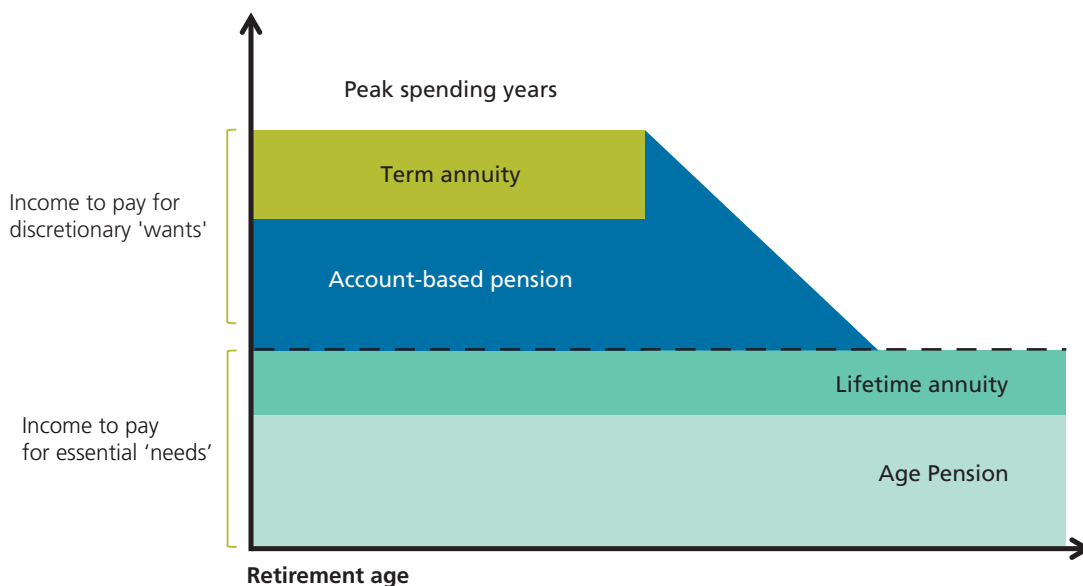
In the unlikely event that the value of the assets in the statutory fund falls below the required minimum, APRA's prudential standards are designed to ensure that there are safeguards in place so that payments to annuity investors are always met.

Annuities in a retirement portfolio

The cashflow from long term annuities, such as lifetime annuities, can be used as part of the essential income component in a retirement portfolio to supplement any Age Pension entitlements.

Remaining savings can then be invested in other market-linked assets, such as account-based pensions or term annuities, to pay for discretionary 'wants' or provide longer term growth.

Portfolio construction for retirement – Income layering



This diagram is illustrative only and not to scale. It is not a prediction or guarantee of any particular outcome.

Where can I get more information?

Visit challenger.com.au, speak to your financial adviser or call Challenger's Investor Services team on 13 35 66.

For financial advisers, call your Challenger Business Development Manager or Challenger's Adviser Services team on 1800 621 009.

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