



Challenger Investment Solutions Management Pty Limited

Principles of Internal Governance and Asset Stewardship

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1. Organisation and Investment Approach

The Principles of Internal Governance and Stewardship set out in the FSC (Financial Services Council) Standard 23: Principles of Internal Governance and Asset Stewardship (**the Standard**) have been adopted by Challenger Investment Solutions Management Pty Ltd (**Solutions**)¹, a subsidiary of Challenger Limited.

1.1 Investment Approach

Challenger Investment Solutions Management

Solutions provides advice to institutional clients and execution on derivative strategies across all liquid asset classes. The objective is to give asset owners greater flexibility and cost-effective solutions across the following areas:

- Dynamic asset allocation and rebalancing
- Enhanced index replication
- Portfolio protection
- Alternative risk premia

This allows asset owners to expand their investment toolkit through an innovative and independent approach.

1.2 Alignment of Purpose and Values with clients

Solutions is a funds management business which provides investment solutions, including advice and execution. The investment needs of its institutional client base are at the heart of what it does, with a focus on creating long term value for clients. For non-discretionary business, Solutions relies on collaborating with clients as a trusted advisor and implementing recommendations where clients believe they meet their needs and objectives.

Fee structures are adopted that appropriately align the remuneration of the manager with the investment strategy of the client and the delivery of superior investment performance.

In addition, Solutions adopts the Challenger Group's remuneration policies and practices that attract and retain employees, executives and directors who will create value for shareholders and investors.

1.3 Ownership, Management and Governance Structures

Solutions is a wholly owned subsidiary of Challenger Limited, an ASX listed company and forms part of Challenger's Life and Solutions division, overseen by the Chief Executive, Life and Solutions. Solutions has adopted the Challenger Group principles, frameworks, and policies.

The Solutions Board consists of Executive Directors appointed due to their relevant skills and expertise and meet quarterly.

1.4 Key Management

Josh Heller, Head of Solutions

Josh Heller joined Solutions in September 2015. Previously, he was a Director at Deutsche Bank Australia providing derivative solutions to superannuation and insurance clients. Before moving to Australia, Josh managed a cross-asset derivatives trading desk at Morgan Stanley in New York.

¹ Challenger Investment Solutions Management (Solutions) (ABN 63 130 035 353, AFSL 487354)

1.5 Investment Strategies and Conflicts of Interest

Solutions has appropriate arrangements in place to ensure that client assets are managed in accordance with their investment strategies, including pre-trade compliance restrictions within the trading system and post-trade compliance monitoring.

Solutions adopts a Conflicts of Interest Policy, which is designed to ensure that: it provides financial services in a manner consistent with the interests of clients whilst meeting fiduciary and regulatory obligations; and actual and potential conflicts of interest between the companies and clients are managed effectively in a timely and consistent manner.

2. Internal Governance

2.1 Ethical Conduct and Professional Practice

Solutions is committed to doing the right thing by all stakeholders and its customers. Solutions' approach incorporates the values and behaviours of its people, as well as its standards, policies, and procedures.

It is a requirement that all Solutions employees comply with the Challenger Limited code of conduct (Our Code). Our Code sets the expectations for how Solutions acts, solves problems, and makes fair and balanced decisions. It brings together our corporate I ACT values and our policies and statements. It sits across all areas of the Solutions business and applies to everyone irrespective of their role, seniority or whether they are permanent or temporary employees, contractors, or consultants. Everyone is encouraged to use Our Code to guide their actions and to speak-up if they see something that is not right or breaches Our Code.

2.2 Personal Trading

As a participant in the Financial Services Industry, Solutions is required to have robust processes in place to ensure that employees do not trade in Securities unlawfully or to the detriment of clients or the Challenger Group. A Staff Trading Policy is designed to establish principles and procedures for employees to conduct personal trading lawfully and in a manner that avoids insider trading, is in compliance with s1043A of the *Corporations Act 2001 (Cth)* (Corporations Act) and appropriately manages any conflicts of interest.

2.3 Management of Conflicts of Interest

Solutions has adopted processes to manage conflicts of interest and allow for the promotion of:

- Confident and informed decision making by clients;
- Fairness, honesty and professionalism in the financial services that Solutions provides; and
- A fair, orderly, and transparent financial product market in which they participate.

All financial services transactions and activities undertaken by Solutions are required to be assessed for conflicts of interest by the appropriate member of the senior management team or their delegated accountable person. Areas for consideration include but are not limited to related party transactions, any individual gain or benefit by virtue of employment, licence authorisations and outsourced activities.

Solutions has also adopted the Challenger Limited Gifts, Benefits and Entertainment Policy, which provides employees with guidance on the types of gifts and entertainment they may accept or provide and the process for approving and recording the gifts, benefits or entertainment accepted or provided.

2.4 Risk Management and Compliance

Operational Risk

The objective of the Challenger Group's operational risk framework is to reduce unexpected performance or value variations due to operational risk events to the point where stakeholders are not materially impacted.

Operational Risk Management Responsibilities:

- The Challenger Limited Board and Directors – bear the ultimate responsibility for corporate governance and operational risk management. The Group Risk Committee (GRC) has been established to assist them discharge these responsibilities.
- Audit Function – Internal Audit perform targeted reviews on Operational Risk Management frameworks including the effectiveness of their implementation and the governance arrangements in place. Aspects of the overall effectiveness of Operational Risk Management may also be covered in the External Audit review cycle and recommendations included in the annual audit reports.
- The Risk & Compliance team – are responsible for the development of operational risk frameworks, procedures, and tools. The Risk & Compliance team ensure clear risk and control ownership and help risk owners define and manage a robust control set. They also coordinate regular reviews of the risk register and related controls, aggregate information, and report results to the GRC.
- Risk and Control Owners – are responsible for the ongoing identification and management of operational risks and to ensure that all the control activities are adequate. Risk Owners are also required to assess their risks through periodic Risk and Control Self Assessments (RCSA's).

Compliance

The objective of Solutions' compliance framework is to deliver and continually improve upon the organisation's commitment to maintaining a culture of integrity and compliance, ensuring that the overall strategy and the way it conducts its business accords with its obligations to meet relevant laws, regulatory requirements, industry codes and standards, as well as community and client expectations as to governance, ethics, and conduct.

2.5 Error Correction Policy

Solutions' approach to error correction is contained in the Challenger Limited Incident Management Policy, which is designed to provide a consistent process for the escalation, management, recording and reporting of Incidents and Near Misses.

The Risk & Compliance team will categorise incidents and near misses in accordance with the Incident Management Policy and create an incident database, which helps to identify control breakdowns and target improvement initiatives. An enhanced control environment significantly reduces the likelihood of incurring larger operational, financial, or reputational impacts in the future. Timely identification and reporting of incidents and near misses assists Solutions to:

- understand the underlying cause of an incident or near miss;
- implement appropriate actions to remedy the incident including consideration of measures designed to prevent, or reduce the likelihood of recurrence;
- identify potential risk management issues;
- meet commitments made to customers and mandate clients;
- continually improve the control environment and Solutions policies;
- manage and consider potential reputational issues;
- ensure an ongoing focus on 'doing it right' and meeting customer expectations; and
- ensure Solutions meets its regulatory obligations in relation to breach reporting.

For all incidents and near misses, an action plan must be documented. Action plans may include but are not limited to:

- refinement or development of controls, procedures and/or operating policies;
- training and/or coaching of employees;
- technology improvements (tactical and or strategic when commercially viable); and
- compensation to a scheme, fund, portfolio, client, adviser or third party which may include a refund or waiver of transaction costs such as brokerage, fees and/or interest to compensate for the time value of money.

2.6 Brokerage and Commissions

Solutions adopts Brokerage Arrangements and Alternative Brokerage Arrangement principles detailed in the Challenger Limited Market Trading Rules Policy and Practice Note. Investment managers have a fiduciary and statutory duty to act in the best interests of their investors in respect of investment decisions made on their investors' behalf. Therefore, no client should expect to be disadvantaged by brokerage arrangements or alternative brokerage arrangements and should be informed of material aspects of such arrangements. Further:

- Any decisions made by the business must be made independently, irrespective of any existing or potential brokerage arrangements.
- Arrangements must not contain additional conditions or limitations interfering with Solutions' ability to obtain best execution.
- In respect of all brokerage arrangements, brokerage derived from one group of investors must only result in the provision of research and/or other goods and services for the benefit of that group of investors.
- Consideration should be given as to whether the arrangement will result in a potential conflict of interest.

The following types of brokerage arrangements and alternative brokerage arrangements are generally considered to be acceptable. In all cases, the terms, conditions, and circumstances of the arrangement should be considered in accordance with the principles and obligations outlined in the Market Trading Rules Policy and Practice Note.

- Broker purchased and supplied goods and services directly linked with trades and trade advice. For example, arrangements that involve the allocation of brokerage towards the purchase of third-party research and software that assists in pre-trade analysis.
- Prime brokerage arrangements that provide investment managers with the ability to borrow securities for long-short strategies.
- In certain circumstances, directed brokerage and commission recapture arrangements, whereby an investor directs that the trades for its account be executed through a specific broker.

2.7 Equitable Asset Valuation and Pricing

Solutions adopts the Challenger Limited Securities Pricing Policy. The objective of this policy is to ensure that the valuations of all assets and liabilities recorded in the portfolio administration system appropriately and accurately reflect the purpose for which those valuations are determined, considering relevant accounting standards, industry standards and other applicable requirements. The policy considers timing, valuation sources, valuation type and the process for determining the valuation for all non-third-party priced securities. The team responsible for maintaining these valuations is independent of the investment teams.

2.8 Best Execution and Trade Allocation

Best Execution

Solutions has an obligation to seek best execution of client transactions. All reasonable steps are taken to obtain, when executing orders, the best, most timely and fairest possible result for clients, considering the execution factors, in addition to price of the trade. These factors may include the characteristics of the client, the client order, the financial products that are the subject of the order, and the execution venues to which the order can be directed.

Trade Allocations

The Solutions Allocation of Investment Opportunity Practice Note provide guidelines as to how investment opportunities will be allocated to one or more mandates run by the Solutions team, inclusive of both discretionary and non-discretionary mandates. It describes the process to allocate an investment opportunity between clients if the investment meets the Investment Guidelines of more than one client and, for non-discretionary mandates,

a Portfolio Manager within the Solutions team determines the Investment Opportunity to be suitable for any given client. The practice note aims to ensure fair and equal treatment across mandates.

2.9 Remuneration Policy

Challenger Group has established a groupwide Remuneration Committee to assist the Challenger Board discharge its responsibilities by ensuring the Group:

- has coherent remuneration policies and practices that attract and retain employees, executives and directors who will create value for shareholders;
- fairly and responsibly rewards employees and executives having regard to the performance of the Group, performance of the employees and executives, the company's long-term financial soundness and risk management framework, the general pay environment and in a way that is aligned with prudent risk-taking and rewards long term sustainable growth.

Remuneration components comprise fixed and variable remuneration as summarised in the following table:

Component	Overview	Link to remuneration strategy
Fixed remuneration	Base salary, employer superannuation contributions, salary-sacrificed benefits and applicable fringe benefits tax.	Positioned at market-competitive level, reflecting size and complexity of role, responsibilities, experience and skills.
Cash Short Term Incentive (STI)	Annual 'at risk' remuneration, rewarding Challenger, division and individual performance.	STI outcomes determined based on performance and contribution against annual KPIs which include financial measures, strategic objectives and application of and adherence to the risk management framework.
Deferred STI	For Challenger Leadership Team members, including the Chief Executive Funds management, 50% of STI awards are deferred and vest 30% after year 1, 30% after year 2, 20% after year 3 and 20% after year 4. For all other employees 50% of any STI in excess of \$100k is deferred 50% for one year and 50% for two years. Deferral is into Restricted Shares under the Challenger Performance Plan (CPP) and are subject to forfeiture and malus provisions.	Balances risk management and governance considerations along with supporting shareholder alignment through the deferral of a significant portion of STI into shares.
Long Term Incentive (LTI)	Long-term 'at-risk' remuneration. Awarded as Hurdled Performance Share Rights (HSPRs) made under the CPP. The awards are tested and can vest after four years. The awards are subject to continued employment and satisfying the absolute TSR performance target. To the extent that the awards do not vest in full at year four, any unvested rights are tested again at year five. Any unvested awards lapse at the end of the fifth anniversary following grant. Awards are subject to forfeiture and malus provisions under the CPP.	Balances risk management and governance considerations along with supporting shareholder alignment over the longer term. Aligns executives' interests with Challengers' long-term success and sustained shareholder returns.

2.10 Whistleblower Policy

The Challenger Limited Whistleblower Policy outlines the process and governance arrangements for ensuring employees and other eligible persons can raise issues or concerns regarding any unethical, illegal, corrupt, or

other inappropriate conduct without being subject to victimisation, harassment, or discriminatory treatment. Challenger's whistleblowing program utilises a third-party service provider to facilitate anonymous reporting.

2.11 Training and Development

Solutions is committed to supporting the career aspirations and ongoing development of employees.

Solutions believes the development of employees underpins the development of the organisation as a whole, and that continual learning is crucial to maintain market competitiveness. On the-job-training, coaching and approved external training are provided during the normal course of employment. In addition, Solutions provides assistance to employees for education they undertake which is relevant to their position and/or potential career path and which contributes to the ongoing success of the business.

Solutions supports employees undertaking work-related studies by providing a range of benefits that:

- make study more feasible;
- reduce the financial burden of study;
- provide time off to study for and sit exams; and
- meet the business needs as defined in the employee's development plan.

Solutions' Responsible Managers have ongoing training obligations.

2.12 Complaints and Dispute Resolution

Solutions is committed to maintaining an effective complaint handling and dispute resolution system that meets the expectations of the Board, its customers, and its regulatory obligations.

Effective management of complaints is key to ensuring that disputes are handled fairly, promptly, and consistently and the financial services offered by Solutions are provided efficiently, honestly, and fairly.

A complaint is defined as: 'an expression of dissatisfaction made to an organisation, related to its products, or the complaints-handling process itself, where a response or resolution is explicitly or implicitly expected.' Solutions has substantially adopted the AS/NZS 10002-2014 as the standard to apply to its business.

Solutions accepts all complaints made orally or in writing, formally or informally. Irrespective of the method by which a complaint is made, complaints are required to be treated in accordance with the Challenger Limited Complaint and Dispute Resolution Policy and Practice Note.

3. Asset Stewardship

3.1 Monitoring of Company Performance on financial and non-financial matters

The Solutions team specialises in derivative solutions therefore this section is not applicable.

3.2 Engagement with company management and the board and escalation of issues

Solutions adopts Challenger Group's governance framework, which is designed to assist it to meet its responsibilities under various laws, regulations, and industry standards in taking an active role in the corporate governance process in relation to those companies in whom they invest on behalf of investors. Solutions acknowledges it may be in a position to influence the corporate governance of companies through discussions with management and / or the Board of directors.

Where appropriate, Solutions believes in having direct communication with directors and senior management of clients. This allows Solutions to have a better appreciation of the company's objectives, its potential problems, and the quality of its management. It also allows the clients to understand the team's expectations and concerns.

3.3 Approach to considering Environmental, Social and Governance factors

Solutions recognises the responsibilities it has as a business in relation to sustainability and the environment, its people, and the community in which it operates.

Solutions adheres to the environmental, social and governance (**ESG**) principles outlined in its client investment management agreements to deliver responsible investment outcomes and believes there are links between long-term sustainable returns and the quality of an organisation's ESG practices.

3.4 Proxy voting

As investors in derivatives strategies, Solutions does not hold voting rights over their investee companies and is therefore unable to participate in proxy voting activities.

3.5 Collaborative engagement with other investors including involvement with industry groups and associations

Given the nature of the asset classes in which the Solutions team invests in, collaborative engagement with other investors is not applicable.

Challenger Limited is a member of the UN Principles for Responsible Investment (UNPRI), the Financial Services Council and the Property Council of Australia.

3.6 Principles used for policy advocacy including participation with industry groups and associations

Solutions engages with industry organisations and other asset management firms to discuss and share insights on relevant market developments and corporate governance. When desired outcomes can be more readily achieved through wider collaboration with other investors, Solutions will engage with such groups in order to improve client outcomes.

3.7 Client engagement, education and communication regarding asset stewardship

Asset stewardship activities are not relevant to the derivative strategies managed by the Solutions team.