

# 1H18 financial results

Delivering on strategy for growth

13 February 2018



# Overview

## Delivering on strategy for growth

---

### **1H18 highlights**

#### **Strategic progress**

Brian Benari – Managing Director and Chief Executive Officer

---

### **Financial results**

Andrew Tobin – Chief Financial Officer

---

### **Outlook**

Brian Benari – Managing Director and Chief Executive Officer

---

# Highlights

## Delivering on strategy for growth

---

### **1H18 highlights**

Record normalised profit underpinned by AUM growth

---

### **Strategic progress**

A clear plan for sustainable long-term growth

---

### **Financial results**

Profit underpinned by record AUM and operating efficiency

---

### **Outlook**

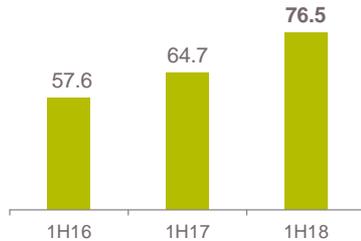
Delivering on strategy for growth

---

# 1H18 highlights

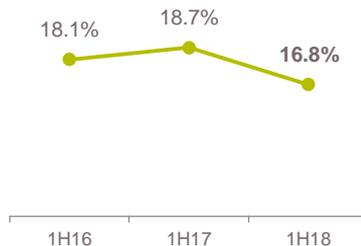
## Record normalised profit underpinned by AUM growth

### Group Assets Under Management (\$bn)



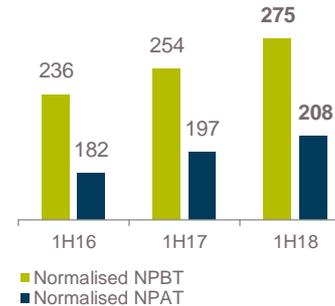
**Group AUM up 18%**  
 Life AUM up 17%  
 Funds Management FUM up 18%

### Normalised ROE<sup>2</sup> (%)



**Down 190 bps and below 18% target**  
 As expected due to higher levels of capital following MS&AD placement (August 2017)

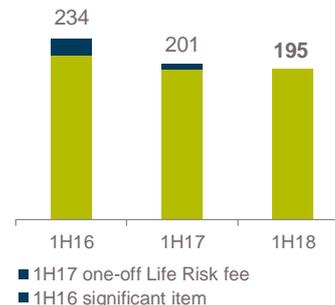
### Normalised NPBT and NPAT<sup>1</sup> (\$m)



**Normalised NPBT up 8%**  
 Up 13% excluding 1H17 one-off Life Risk fee

**Normalised NPAT up 6%**  
 Up 10% excluding 1H17 one-off Life Risk fee

### Statutory NPAT (\$m)<sup>3</sup>



**Down 3%**  
 Higher normalised NPAT (up \$11m) offset by lower investment experience (down \$17m)

1H18 – 31 December 2017

1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2018 Interim Financial Report - Operating and Financial Review section.  
 2. Normalised Return on Equity (ROE) pre-tax.  
 3. 1H16 includes a significant item (~\$22m after tax) in respect of the sale of Kapstream in July 2015 and 1H17 includes a one-off Life Risk fee (~\$8m after tax).

# 1H18 highlights

## Delivering across multiple business dimensions



### Diversifying products and distribution

- AMP annuities on platform
- Diversifying product – GIR, Japan, new boutiques and strategies



### Prudent capital management

- Equity placement to MS&AD
- Replaced subordinated debt
- CLC S&P 'A' rated<sup>1</sup> & outlook upgraded to positive



### ~\$1bn Life book growth

- Benefiting from focus on long-term annuities and lower maturities



### Record low cost ratio<sup>2</sup> (32.1%)

- Mid point of new lower cost guidance<sup>2</sup>
- 17 percentage points below industry average<sup>3</sup>



### \$4bn Funds Management flows

- Across range of managers
- Represents 6% of opening FUM



FTSE4Good

### Enhancing sustainable approach

- FTSE4Good score up 30%
- Highly engaged, diverse and inclusive workforce

1H18 – 31 December 2017

1. Challenger Life Company Limited rated 'A' (positive outlook) by S&P.

2. Normalised cost to income ratio, with medium term guidance of between 30% and 34%.

3. Includes Australian and New Zealand Banking Corporation, AMP, Bank of Queensland, Bendigo and Adelaide Bank, BT Investment Management, Commonwealth Bank of Australia, IOOF, Macquarie Bank, Magellan Financial Group, National Australia Bank, Perpetual and Westpac Banking Corporation.

# 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

# Strategic progress

## A clear plan for sustainable long-term growth



### Grow allocation to secure and stable retirement incomes

Strategic priority	1H18 progress
--------------------	---------------

Focus on MyRetirement reforms	<ul style="list-style-type: none"><li>• Industry submissions submitted to Government</li><li>• Government committed to establishing new retirement income framework</li></ul>
-------------------------------	---



Launch DLAs <sup>1</sup>	<ul style="list-style-type: none"><li>• Launched September 2017 – deferred option added to Liquid Lifetime</li><li>• DSS<sup>2</sup> seeking feedback on new means testing rules for lifetime incomes (closes Feb 2018)</li></ul>
--------------------------	---



Standard Life ARGBS <sup>3</sup> rollout	<ul style="list-style-type: none"><li>• Ratings process impacted by Standard Life / Aberdeen merger</li><li>• First research house rating received – included in 2 APLs<sup>4</sup>; 3 platforms; and 1 model portfolio</li></ul>
--	---



1H18 – 31 December 2017

1. Deferred Lifetime Annuity (DLA).

2. Australian Government Department of Social Services.

3. Absolute Return Global Bond Strategy.

4. Approved Product List (APL).

# Strategic progress

## A clear plan for sustainable long-term growth



### Be the market leader and partner of choice

Strategic priority	1H18 progress
Leading adviser and consumer ratings	<ul style="list-style-type: none"><li>• Maintained leading retirement income brand – recognised by 93% of advisers<sup>1</sup></li><li>• Retirement income thought leader – recognised by 77% of advisers<sup>1</sup></li></ul>
Leverage MS&AD strategic relationship	<ul style="list-style-type: none"><li>• MS Primary – 17% of 1H18 annuity sales</li><li>• Developing new Australian dollar lifetime annuity with MS Primary</li></ul>
AMP and BT operational	<ul style="list-style-type: none"><li>• AMP – launched (Sep 2017) and supported by Challenger tools and retirement education</li><li>• BT – launch targeted for June 2018 quarter</li></ul>

1H18 – 31 December 2017

1. Marketing Pulse Adviser Study December 2017.

# Strategic progress

## A clear plan for sustainable long-term growth



### Provide relevant and superior investments for customers

Strategic priority	1H18 progress
Add new boutiques and strategies	<ul style="list-style-type: none"><li>• Japanese asset management licencing underway (expected Q418)</li><li>• Four new strategies across four existing boutiques</li></ul>
Build-out Fidante Europe	<ul style="list-style-type: none"><li>• New international boutique partnership with Garelick Capital Partners</li><li>• Strong interest in boutique platform – expect additional boutique to join in early 2H18</li></ul>
New 3rd party CIP offerings	<ul style="list-style-type: none"><li>• CIP Credit Income Fund – launched October 2017<sup>1</sup> with \$120m funded</li><li>• New Japanese retail property mandate for Asian regional client</li></ul>








1H18 – 31 December 2017

1. Challenger Investment Partners (CIP) Credit Income Fund launched 3 October 2017 and targets a cash plus 3% return.

# Strategic progress

## A clear plan for sustainable long-term growth



### Sustainable business practices to deliver superior outcomes

Strategic priority	1H18 progress
Employee engagement above GHPN <sup>1</sup>	<ul style="list-style-type: none"><li>• Diversity targets achieved and on track to exceed FY20 targets</li><li>• Exceeded target for women in management roles – up 4% to 37%</li></ul>
Innovation and efficiency through agility	<ul style="list-style-type: none"><li>• Comprehensive agility program embedded across business</li><li>• 213 initiatives implemented to date<sup>2</sup> – 75% resulted in time savings and 60% reduced risk</li></ul>
Maintain superior cost to income ratio <sup>3</sup>	<ul style="list-style-type: none"><li>• Market leading cost to income ratio and down 13 percentage points over last decade</li><li>• Record low normalised cost to income ratio (32.1%)</li></ul>








1H18 – 31 December 2017

1. Willis Tower Watson Global High Performing Norm (GHPN).

2. Agility program commenced November 2016.

3. Normalised cost to income ratio.

# Financial results

**Andrew Tobin**  
Chief Financial Officer

# Group result

## Profit underpinned by record AUM and operating efficiency

### Normalised NPBT \$275m – up 8%

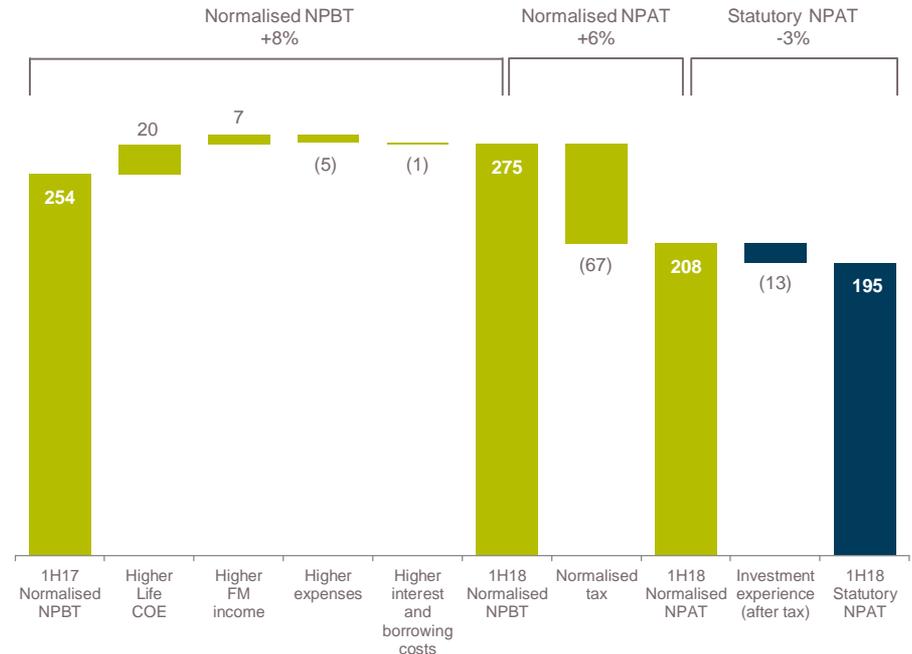
- Up 13% excluding 1H17 one-off Life Risk fee (~\$10m)
- Underpinned by strong asset growth with Group AUM +18%
- Margin impacted by product mix
- Expenses up 4%

### Normalised NPAT \$208m – up 6%

- Higher normalised effective tax rate

### Statutory NPAT \$195m – down 3%

- Investment Experience -\$13m



# Group result

## Highly scalable business with significant cost advantage

### Highly scalable business

- Cost to income ratio<sup>1</sup>
  - down 13 percentage points over last decade
  - 1H18 mid-point of new guidance range

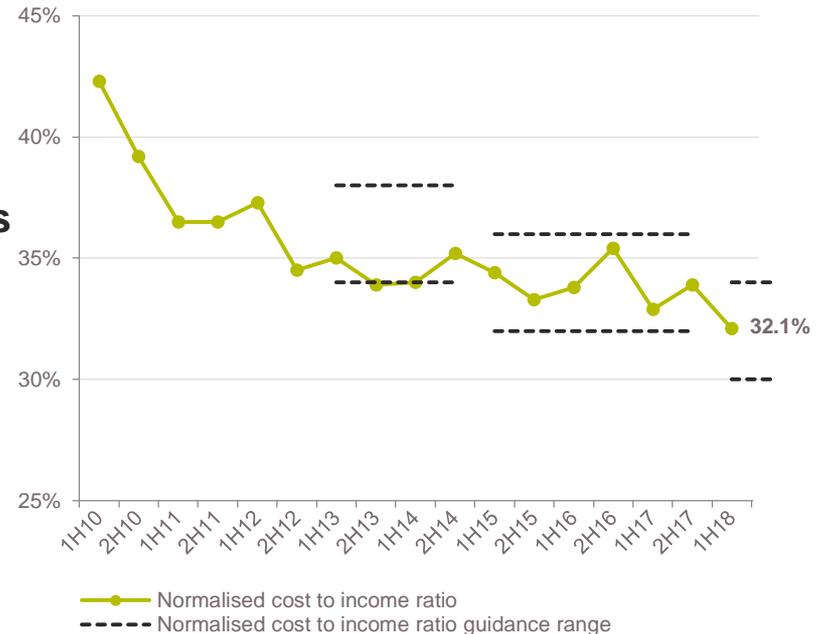
### 1H18 cost to income ratio<sup>1</sup> 32.1% – down 80 bps

- Life 15.8% – up 20 bps
- Funds Management 62.4% – down 590 bps

### Significant cost advantage

- 17 percentage points below industry average<sup>2</sup>

Normalised cost to income ratio



1H18 – 31 December 2017

1. Normalised cost to income ratio.

2. Includes Australian and New Zealand Banking Corporation, AMP, Bank of Queensland, Bendigo and Adelaide Bank, BT Investment Management, Commonwealth Bank of Australia, IOOF, Macquarie Bank, Magellan Financial Group, National Australia Bank, Perpetual and Westpac Banking Corporation.

# Life result

## Long-term sales driving book growth and earnings

### Total Life sales (\$bn)



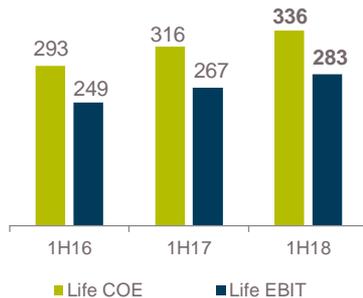
**Life sales up 21% to \$3.3bn**  
 Annuity sales \$2.3bn (+4%)  
 Other Life sales \$1.0bn (+84%)

### Life book growth (\$bn)



**Life book growth \$0.9bn up 12%**  
 7.9% growth in total liabilities  
**Annuity book growth \$0.8bn up 69%**  
 7.3% growth in annuity liabilities

### Life COE<sup>1</sup> and Life EBIT (\$m)



**Life COE up 6% to \$336m**  
**Life EBIT up 6% to \$283m**  
 Life COE and EBIT  
 up 10% excluding 1H17  
 one-off Life Risk fee

### Life normalised ROE<sup>2</sup> (pre-tax) (%)



**Down 250 bps to 19.0%**  
**Above 18% ROE target**  
 Due to higher levels of capital  
 following MS&AD placement  
 (August 2017)

1H18 – 31 December 2017

1. Life Cash Operating Earnings (COE).  
 2. Life normalised Return on Equity (RoE) pre-tax.

# Life sales

## Enhancing product diversification through long-term and other sales

**Total Life sales \$3.3bn – up 21%**

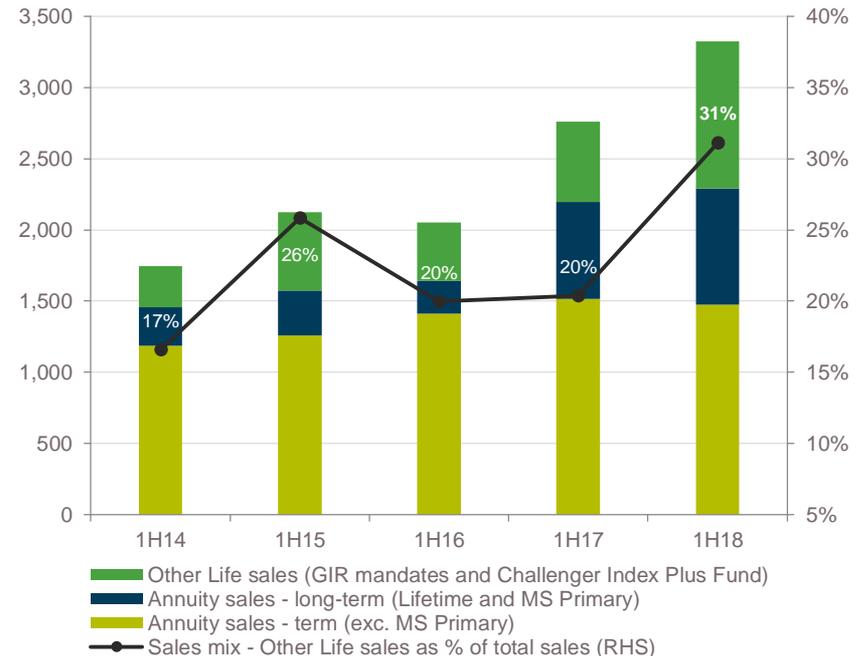
**Annuity sales \$2.3bn – up 4%**

- Actively reweighting to long-term<sup>1</sup> annuities
  - enhances quality and lengthens tenor
  - reduces maturity rate
  - embeds value for shareholders

**Other Life sales \$1.0bn – up 84%**

- 31% of 1H18 total sales (up from 20%)
- GIR mandates (maturity rollovers) \$0.8bn
- New Challenger Index Plus<sup>2</sup> \$0.2bn

Life sales (\$m)



1H18 – 31 December 2017

1. Long-term annuity sales represent Lifetime and MS Primary annuities.  
2. Challenger Index Plus Fund is a liquid GIR product launched in Q217.

# Life annuity sales

## Annuity sales up 4% with active reweighting to long-term annuities

### Long-term annuity sales<sup>1</sup> \$0.8bn (up 20%)

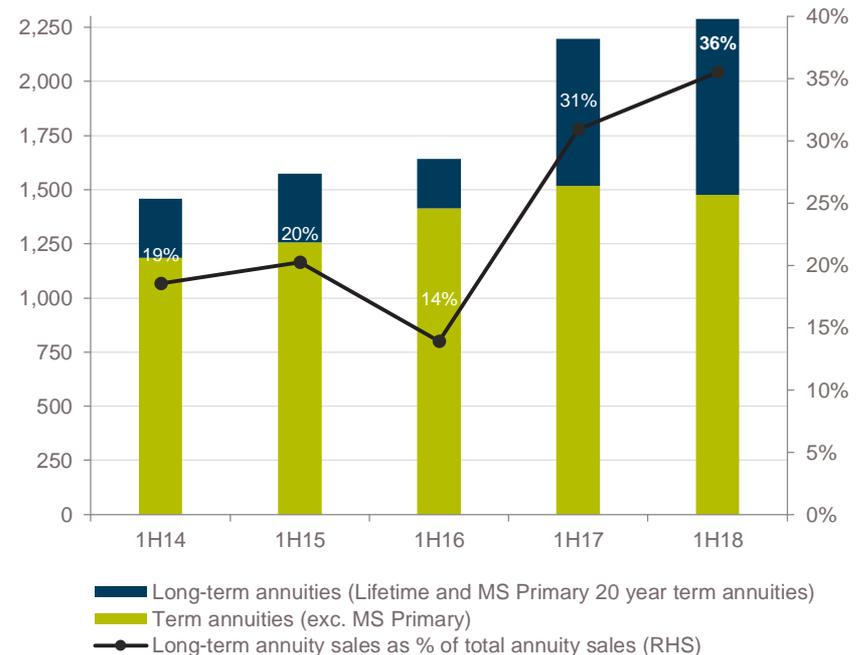
- 36% of total annuity sales
  - Lifetime 19%; MS Primary 17%
- Lifetime sales \$422m
  - \$210m to \$220m per quarter following 1H17 pension taper rate changes
  - expect further contribution from AMP and BT platforms<sup>2</sup>

### Term (exc. MS Primary) \$1.5bn (down 3%)

- actively reweighting to long-term annuities

### New business tenor<sup>3</sup> 9.3 years

Annuity sales (\$m)



1H18 – 31 December 2017

1. Long-term annuity sales represent Lifetime and MS Primary annuities.

2. Targeting launch on BT platform in the June 2018 quarter.

3. New business tenor represents the average of maximum product maturity of new business sales. These products may amortise over the period.

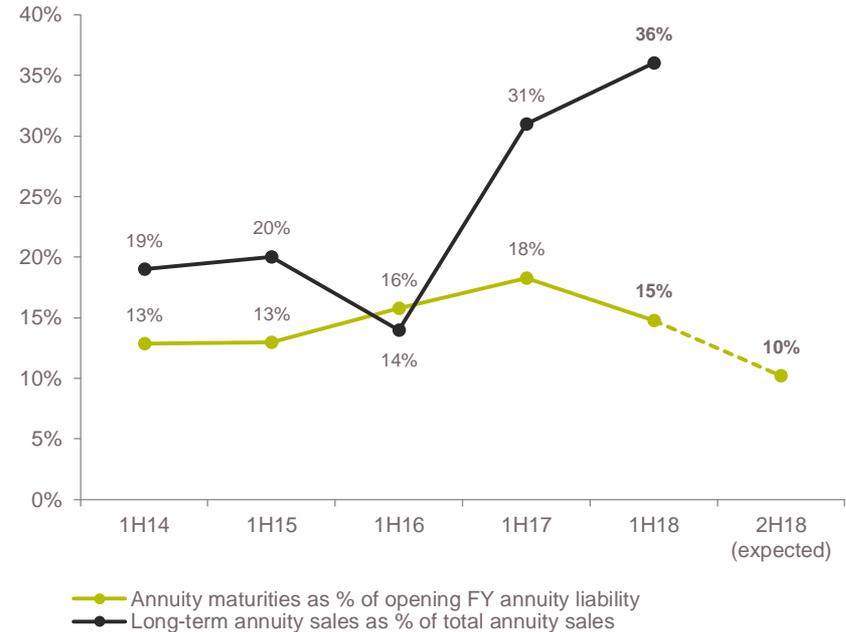
# Life annuity maturities

## Realising benefits from focus on long-term annuities

### Annuity maturity rate reducing

- 1H18 maturities \$0.2bn lower than 1H17
- On track to achieve FY18 maturity guidance of ~25%
  - 1H18 ~15% (actual)
  - 2H18 ~10% (expected)
    - ~\$0.5bn lower than 1H18
- Long-term sales focus expected to reduce maturity rate further

Long-term annuity sales and maturity rate<sup>1</sup>



1H18 – 31 December 2017

1. Maturity rate represents annuity maturities and repayments (excluding interest payments) divided by opening period annuity liability.

# Life book growth

Up ~\$1bn in 1H18 – strong growth across all products

## Life book growth \$948m (up 12%)

- 7.9% growth in total liabilities

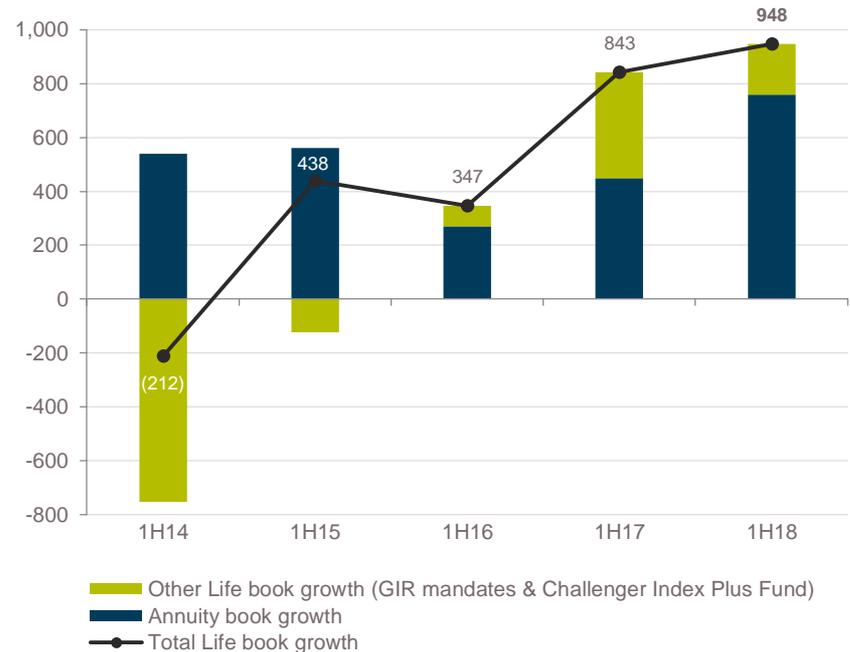
## Annuity book growth \$758m (up 69%)

- 7.3% growth in annuity liabilities
- Benefiting from
  - new distribution initiatives
  - MS Primary partnership
  - maturity rate reducing

## Other book growth \$192m (down 52%)

- New Challenger Index Plus Fund

Life book growth (\$m)



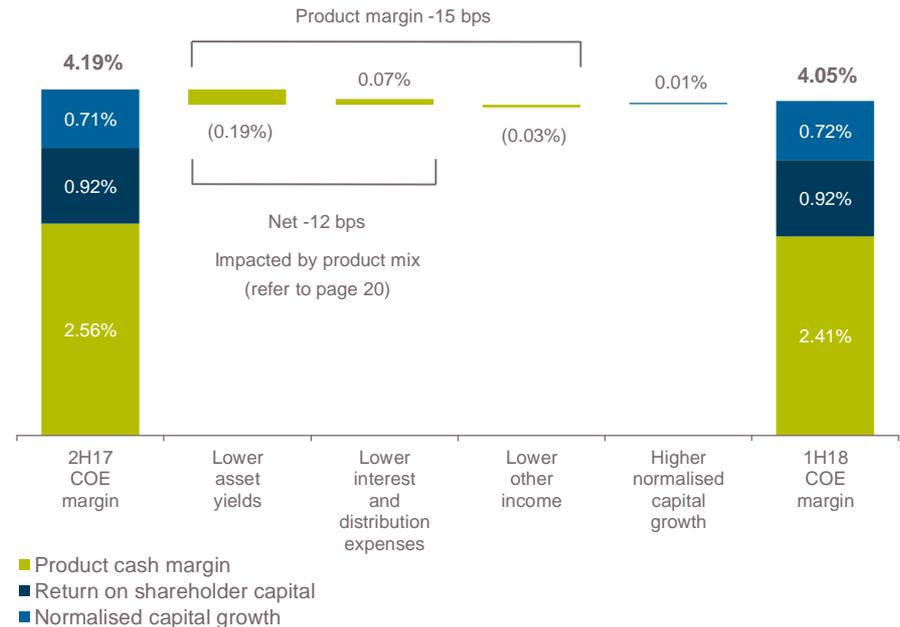
# Life margins

## Lower margin driven by change in product mix

### 1H18 Life COE margin -14 bps

- Product margin -15 bps
  - lower asset yields -19 bps
  - lower interest and distribution expenses +7 bps
  - lower other income -3bps
  - impacted by
    - change in product mix
    - lower GIR margin
- Higher normalised capital growth +1 bps
  - higher allocation to infrastructure, and equities & other

Life COE margin – 2H17 to 1H18

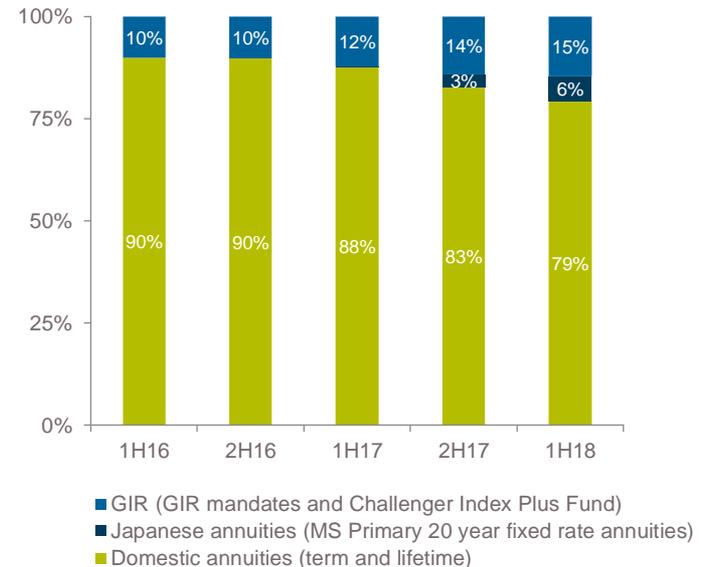


# Life margin

## Impacted by change in product mix

- COE margin varies by product due to
  - asset backing
  - funding cost incurred
  - treatment of distribution costs
- 1H18 COE margin impacted by product mix with higher portion of
  - GIR<sup>1</sup> (mandates & Challenger Index Plus Fund)
    - Index Plus (\$0.4bn) is callable GIR and backed by liquid assets generating a lower COE margin
  - Japanese – margin effectively includes Challenger's share of distribution costs
- All product categories target 18% ROE<sup>2</sup>

Life product mix<sup>3</sup>



1H18 – 31 December 2017

1. Guaranteed Index Return (GIR) – refer to page 53 for more detail.

2. Normalised ROE pre-tax.

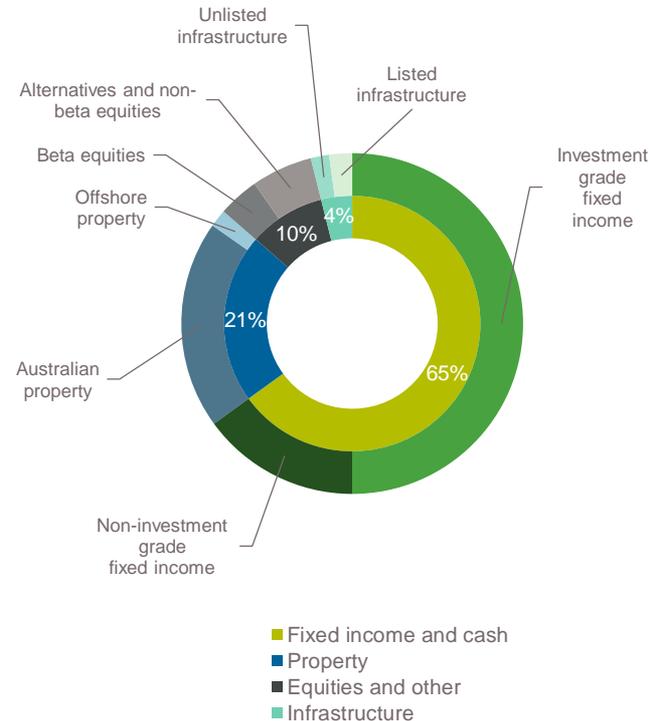
3. Average liability mix.

# Life investment portfolio

High quality portfolio providing reliable income and meeting 18% ROE

## Fixed income – \$11.1bn

- 77% investment grade
- Credit default experience
  - 1H18 +3 bps (recovery)
  - 5 year average -12 bps p.a.
- 1H18 Investment Experience +\$71m
  - credit spreads contracted ~25 bps



## Equities and other – \$1.6bn

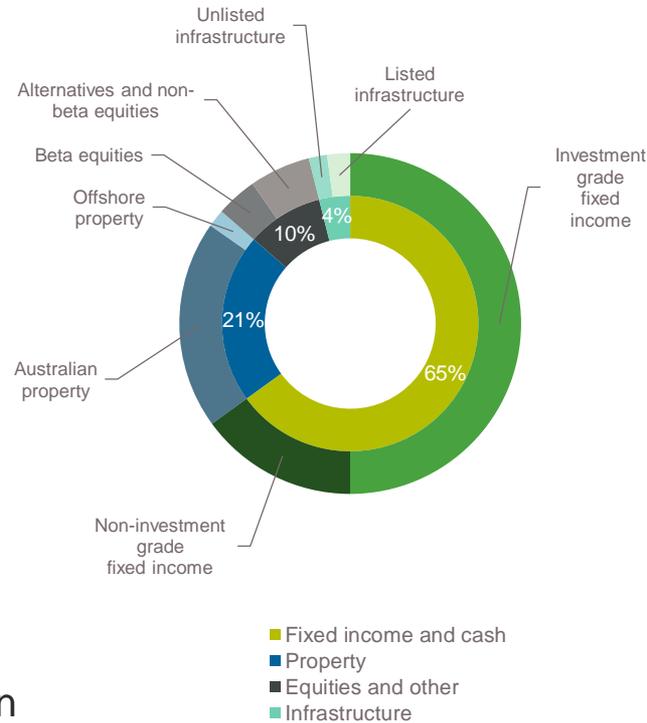
- Portfolio provides diversification with
  - listed beta
  - unlisted beta
  - alternatives and other
- Alternatives provide further diversification with lower correlation to equity markets
- 1H18 Investment Experience -\$43m
  - includes loss on insurance linked assets (~\$33m)

# Life investment portfolio

High quality portfolio providing reliable income and meeting 18% ROE

## Property – \$3.7bn

- Renewing long-term Government leases – WALE up 1 year to 5.2 years
- Direct property valuations +2% in 1H18
- 1H18 Investment Experience +\$33m
  - valuation gains exceeded 2% p.a. normalised assumption



## Infrastructure – \$0.7bn

- 60% of portfolio listed infrastructure (up from 40% in 2H17)
- 1H18 Investment Experience -\$37m, impacted by
  - redevelopment of long-term offshore asset
  - timing of distributions

# Life Investment Experience

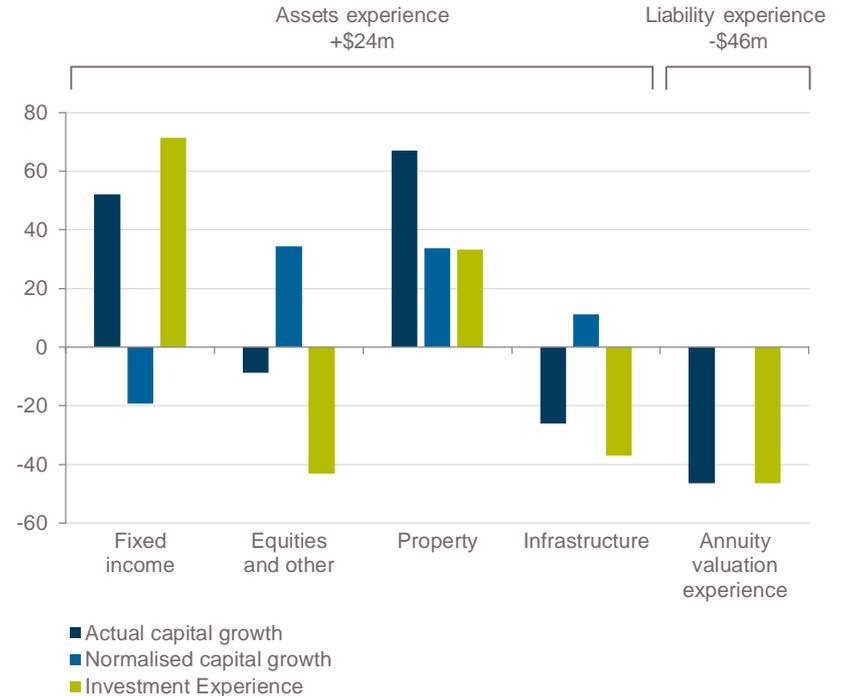
## Positive asset experience offset by liability valuation experience

### Asset Investment Experience +\$24m

- Fixed income +\$71m
- Equities and other -\$43m
- Property +\$33m
- Infrastructure -\$37m

### Liability valuation experience -\$46m

- New business strain -\$37m from annuity book growth
- Illiquidity premium and other assumption changes -\$9m



# CLC Regulatory capital

## Strongly capitalised to support growth

### CLC PCA ratio<sup>1</sup>

- PCA<sup>1</sup> ratio 1.49x; CET<sup>2</sup> ratio 1.02x

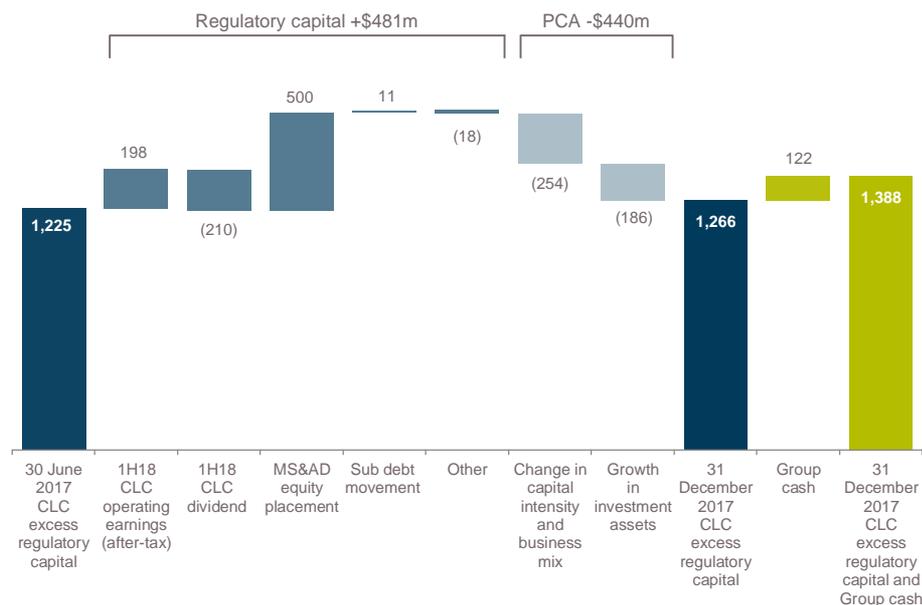
### Deployment of excess capital

- Actively deployed excess capital in listed investments maintaining PCA ratio above mid point of target range
- Capital intensity<sup>3</sup> expected to reduce as annuity book grows and investments transition

### CLC dividend

- Group cash up \$40m in 1H18
- 2H18 dividend reduces to ~\$95m

Movement in CLC's excess regulatory capital (\$m)



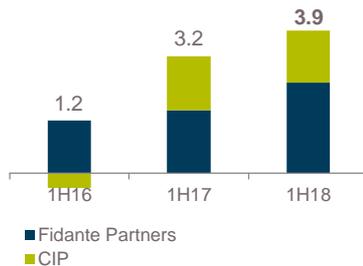
1H18 – 31 December 2017

1. Challenger Life Company Limited (CLC) total regulatory capital base divided by Prescribed Capital Amount (PCA).  
 2. Challenger Life Company Limited (CLC) Common Equity Tier 1 divided by Prescribed Capital Amount (PCA).  
 3. Capital intensity represents Prescribed Capital Amount (PCA) divided by investment assets.

# Funds Management result

Strong asset growth and scale benefits driving 31% increase in earnings

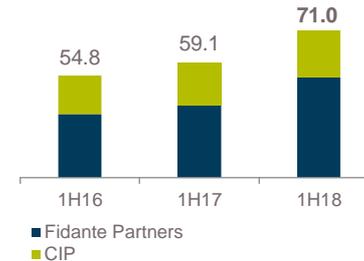
## Net flows<sup>1</sup> (\$bn)



### Net flows up 22%

Fidante Partners \$2.5bn (up 43%)  
CIP<sup>2</sup> \$1.4bn (down 3%)

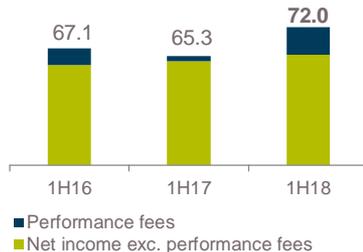
## Average FUM (\$bn)



### Funds Management up 20%

Fidante Partners up 21%  
CIP<sup>2</sup> up 18%

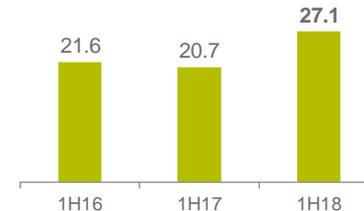
## Net income (\$m)



### Net income up 10%

Higher average FUM (+20%)  
Lower UK transaction activity  
Higher performance fees (up \$5m)

## EBIT (\$m)



### EBIT up 31%

Benefiting from scale benefits  
Net income up 10%; Expenses up 1%  
Cost to income ratio down 590 bps

1H18 – 31 December 2017

1. 1H16 represent organic net flows and exclude boutique acquisitions and disposals.  
2. Challenger Investment Partners (CIP).

# Funds Management performance

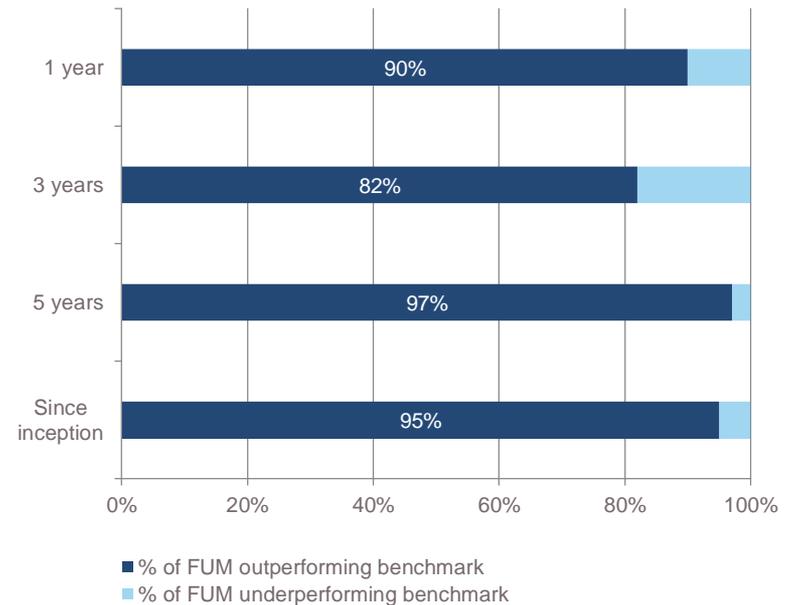
## Long-term investment performance attracting flows

### Strong investment performance track-record

- Over one year – 90% outperforming
- Over five years – 97% outperforming
- Fixed income
  - all managers outperforming
- Equities
  - value strategies – generally underperforming
  - growth strategies – strong outperformance

26% of Fidante Partners FUM eligible for performance fees

Fidante Partners' boutiques performance relative to benchmark<sup>1</sup>



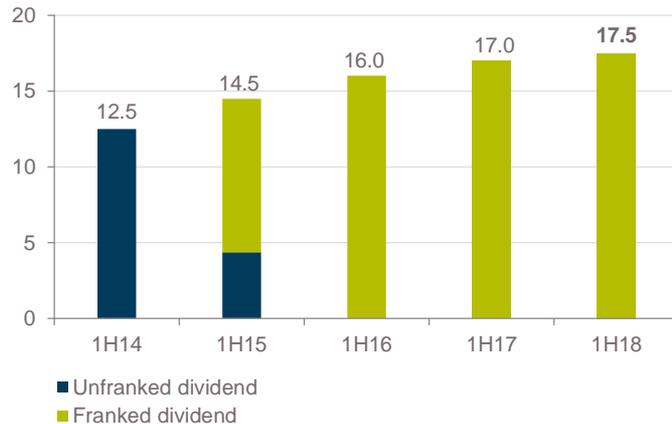
1H18 – 31 December 2017

1. Investment performance represents percentage of FUM meeting or exceeding benchmark as at 31 December 2017, weighted by FUM.

# Dividends

## Increasing shareholder returns

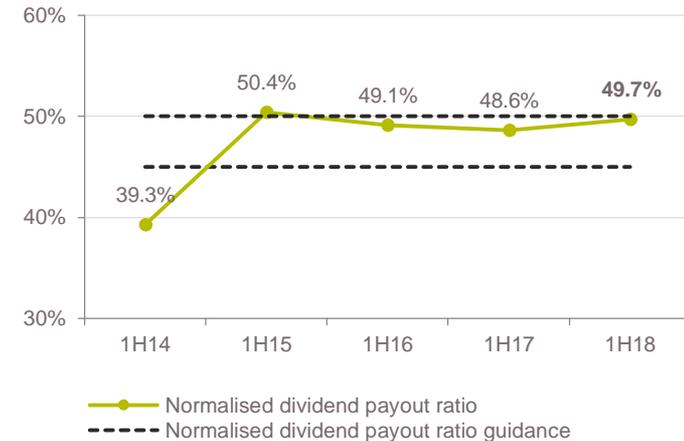
Dividend (cps)



### 1H18 dividend 17.5 cps

- 100% franked
- up 3% on 1H17

Dividend payout ratio<sup>1</sup>



### 1H18 dividend payout ratio 49.7%

- DRP in place with no discount applied
  - expected to reduce cash payout by ~2%<sup>2</sup>

1H18 – 31 December 2017

1. Normalised dividend payout ratio based on normalised EPS.

2. For the final FY17 dividend, the Dividend Reinvestment Plan (DRP) reduced the effective cash dividend payout ratio by ~2%.

# Outlook

**Brian Benari**  
Managing Director and  
Chief Executive Officer

# A clear plan for long-term growth

## Delivering on strategy for growth – 2H18 priorities



### Grow allocation to secure and stable retirement incomes

- Focus on superannuation reforms
- Maintain thought leadership position



### Be the market leader and partner of choice

- Leading adviser and consumer ratings
- AMP platform ramp up and BT launch
- Progress MS&AD strategic relationship



### Provide relevant and superior investments for customers

- Add new boutiques / strategies (inc. Europe)
- Secure Japanese asset management licences
- Grow CIP credit and property offerings



### Sustainable business practices to deliver superior outcomes

- Innovation and efficiency through agility
- Maintain superior cost to income ratio<sup>1</sup>
- Prudent approach to investing

1H18 – 31 December 2017

1. Medium term normalised cost to income ratio guidance of 30% to 34%.

# Outlook

## Delivering on strategy for growth

---

### **FY18 profit guidance**

Normalised NPBT between \$545m to \$565m – growth between 8% to 12%

On track to achieve guidance – \$275m for 1H18 and FY18 guidance reaffirmed

---

### **Target 18% ROE<sup>1</sup> over medium term**

FY18 impacted by higher levels of capital until fully deployed

Below 18% due to August 2017 equity placement

---

### **Maintain normalised dividend payout ratio**

45% to 50% of normalised NPAT<sup>2</sup>

1H18 payout ratio of 49.7% with cash payout ratio expected ~48%<sup>3</sup>

---

1H18 – 31 December 2017

1. Return on Equity (pre-tax) target.

2. Normalised dividend payout ratio guidance based on normalised EPS and subject to market conditions and capital allocation priorities.

3. 1H18 expected cash payout ratio based on DRP participation rate for final FY17 dividend.

# Highlights

## Delivering on strategy for growth

---

### **1H18 highlights**

Record normalised profit underpinned by AUM growth

---

### **Strategic progress**

A clear plan for sustainable long-term growth

---

### **Financial results**

Profit underpinned by record AUM and operating efficiency

---

### **Outlook**

Delivering on strategy for growth

---

# Appendix

**Additional background  
information**

# 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

# Business overview

## Two core businesses benefiting from superannuation system growth

### Challenger Limited (ASX:CGF)

#### Life

**#1 market share in annuities<sup>1</sup>**

#### Life

Leading provider of annuities and guaranteed retirement income solutions in Australia. Partnering with the leading provider of Australian dollar annuities in Japan. Products offer certainty of guaranteed cash flows with protection against market, inflation and longevity risks

#### Funds Management

**One of the fastest growing fund managers<sup>2</sup>**

#### Fidante Partners

Co-owned, separately branded, active fixed income, equity and alternative boutique investment managers, including Fidante Partners Europe.

#### Challenger Investment Partners

Originates and manages assets for Life and 3rd party investors

#### Distribution, Product and Marketing (DPM)

#### Central functions

Operations, Finance, IT, Risk Management, HR, Treasury, Legal and Strategy

1H18 – 31 December 2017

1. Annuity market share – Strategic Insights.

2. Consolidated FUM for Australian Fund Managers – Rainmaker Roundup September 2017.

# Appendix

**Australian  
superannuation system  
overview**

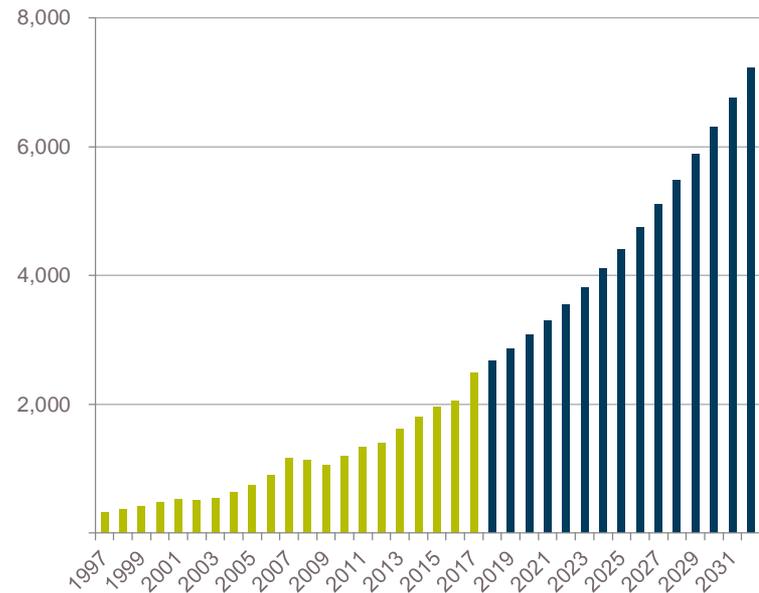
# Strategy targeting Australian superannuation system

## Attractive market with long-term structural drivers

### Superannuation system growth

- 4th largest global pension market<sup>1</sup>
- Growing twice speed of global pension markets<sup>1</sup>
  - 8% CAGR over last 10 years
- Superannuation assets expected to double over next 10 years<sup>2</sup>
- System growth supported by
  - ageing demographics
  - mandatory and increasing contribution rate
  - Government enhancing retirement phase

Australian superannuation system forecast<sup>3</sup> (\$bn)



1H18 – 31 December 2017

1. Towers Watson Global Pension Study 2017.

2. Rice Warner 2017 superannuation projections.

3. 1997 to 2017: APRA data. 2018 – 2032: Based on Rice Warner 2017 superannuation projections applied to 2017 APRA superannuation assets.

# Targeting Australian superannuation system

## Attractive market with long-term structural drivers

### Demographics

- Supportive demographics from ageing population
- Australians have one of world's longest life expectancies
- Medical and mortality improvements increasing longevity

Australians over 65 increasing<sup>2</sup>



**+40% over next 10 years**  
**+70% over next 20 years**

### Contribution rate

- Increasing from 9.5% to 12%<sup>1</sup> (of wages)

### Superannuation Guarantee contribution rate<sup>1</sup>



1H18 – 31 December 2017

1. Percentage of gross wages required to be contributed to superannuation. Contribution rate increases to 10% on 1 July 2021 and increases by 0.5% per annum until reaching 12% on 1 July 2025.

2. Australian Bureau of Statistics population projections.

# Australian superannuation system

## Attractive market with long-term structural drivers

### Pre-retirement

#### *Super savings phase*

- Funds management target market
- Supported by mandated and increasing contributions

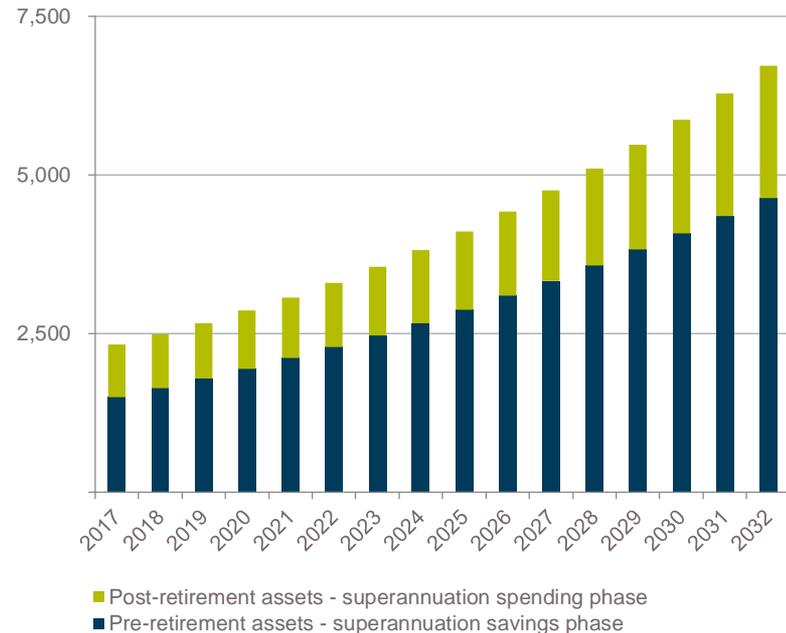
### Post-retirement

#### *Super spending phase*

- Life target market
- Supported by ageing demographics, rising savings and Government enhancing retirement phase

Annual transfer from pre to post retirement phase ~\$60bn<sup>1</sup> in 2018

Projected superannuation assets<sup>2</sup> (\$bn)

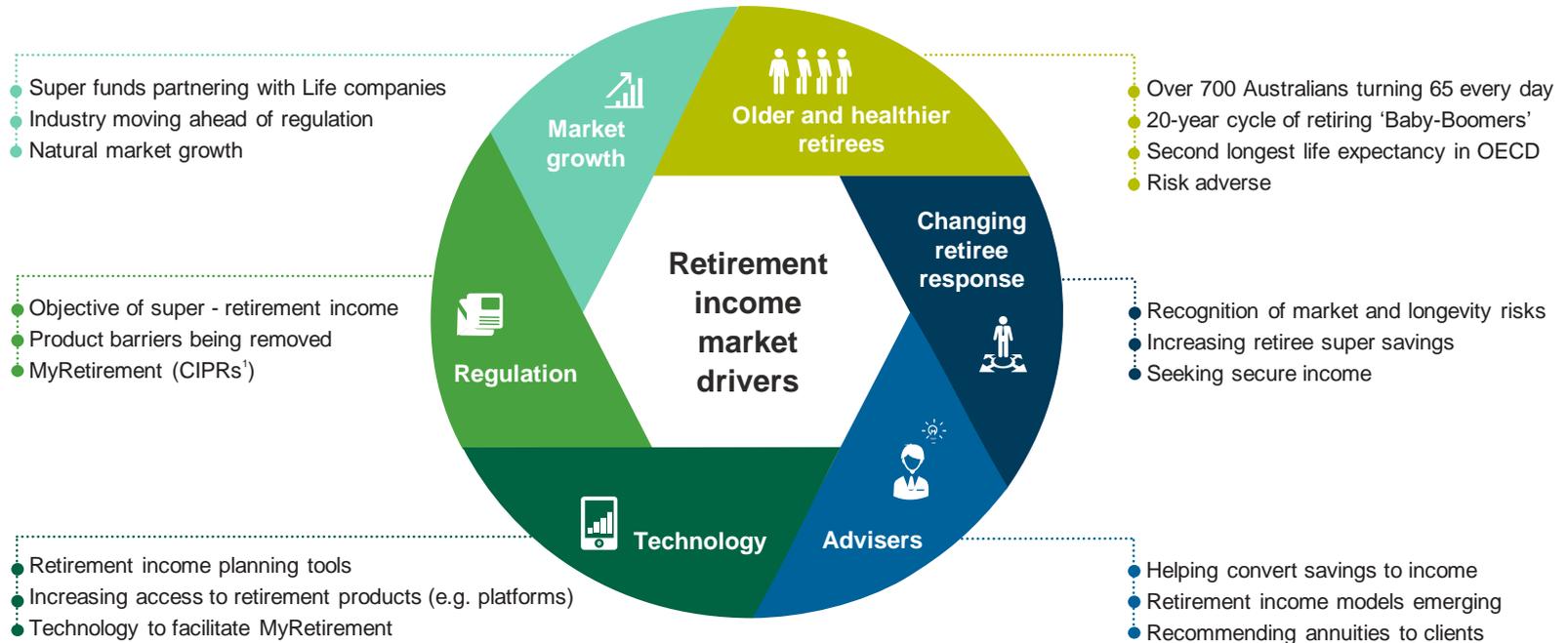


1. Australian Taxation Office.

2. Rice Warner 2017 superannuation projections.

# Retirement phase market drivers

## Market leader well positioned in high growth market



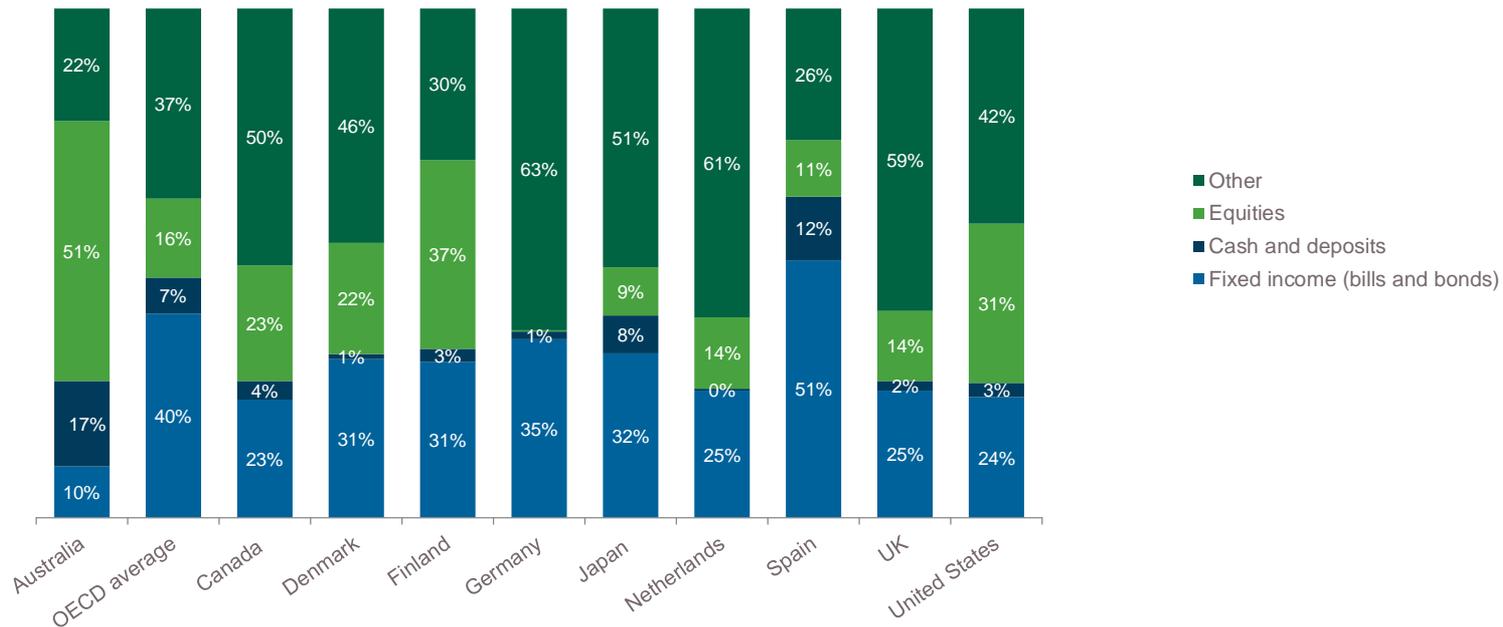
1H18 – 31 December 2017

1. Comprehensive Income Products for Retirement (CIPR) – as recommended by the Financial System Inquiry and supported by Government.

# Australian superannuation system

## High allocation to equities and low allocation to fixed income

Australia has low fixed income and high equity allocations<sup>1</sup>



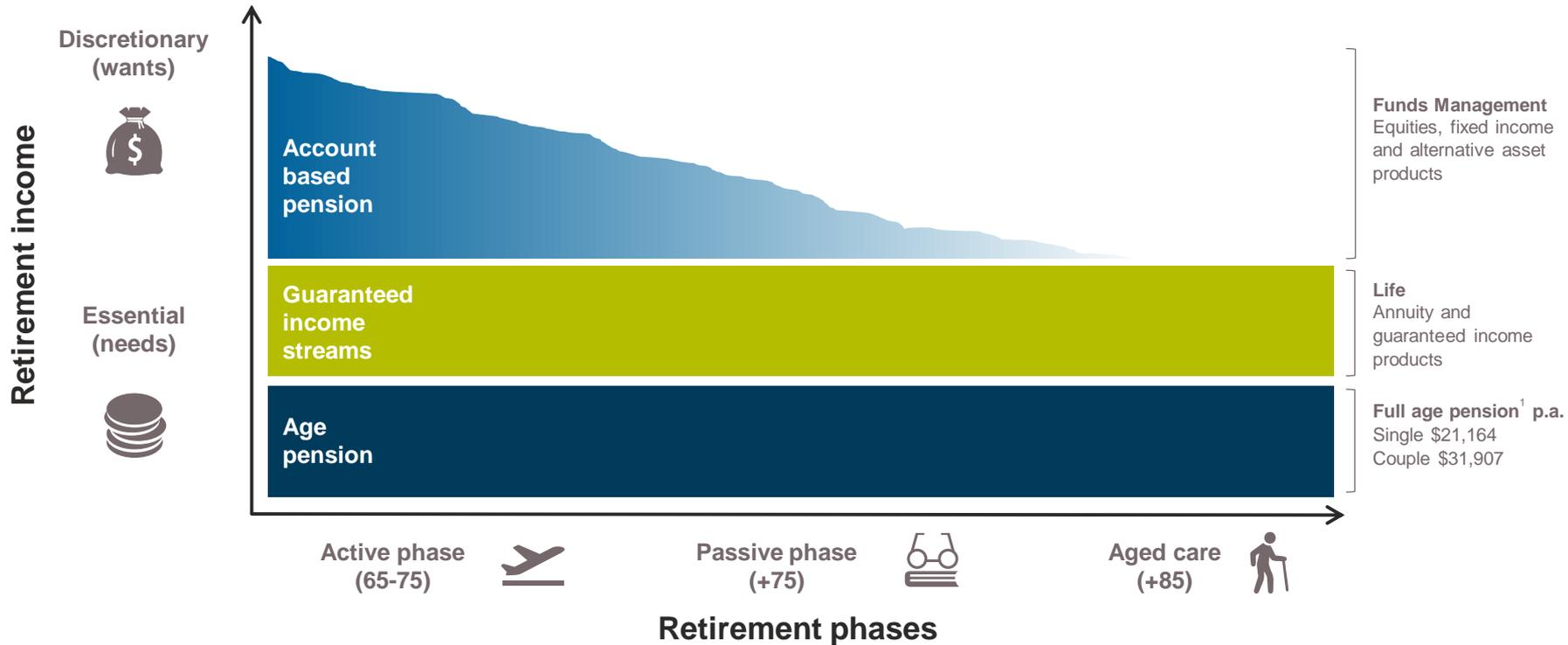
1H18 – 31 December 2017

1. OECD Pension Markets in Focus – 2017.

2. Public Pension Institute, Briefing Paper 66: Freedom and Choice in Pensions. Australia source: Wealth Insights 2016.

# Portfolio construction

## Retiree needs addressed through income layering



1H18 – 31 December 2017

1. Payment rates for Age Pension sourced from [www.humanservices.gov.au](http://www.humanservices.gov.au).

# Government enhancing retirement phase

## Reforms setting overall industry direction

### Objective of superannuation

- To provide income in retirement to substitute or supplement the Age Pension (as recommended by FSI<sup>1</sup>)
- Superannuation policy to be assessed against objective

### New retirement income rules

- New framework to enable product innovation, including DLAs
- Provides building block for MyRetirement products
- Key legislation enacted, effective 1 July 2017
- Awaiting social security means testing

### MyRetirement (CIPR)

- Reform to lift living standards and choices for retirees
- To help guide retirement income decision-making
- MyRetirement – combined income product offered by trustees to members on retirement
- Minimum product requirements including stable income for life
- Industry submissions to Government discussion paper closed July 2017

# Government enhancing retirement phase

## Reforms setting overall industry direction

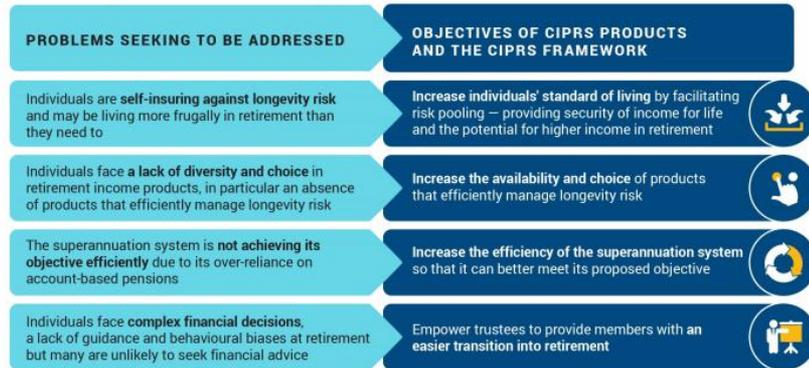
Progress	Objective of superannuation	New retirement income rules	MyRetirement (CIPRs)
Financial System Inquiry (FSI) recommendation	Dec 2014	Dec 2014	Dec 2014
Industry consultation	Apr 2016	Review – Sep 2014 Social Security – Feb 2018	Closed Jul 2017
Legislation released by Government	Oct 2016	Oct 2016	
Legislation passed House of Representatives	Nov 2016	Nov 2016	
Legislation passed Senate	Currently being debated	Nov 2016	
Regulations	Consultation closed Feb 2017	Jun 2017	
Implementation date	Following royal assent	1 July 2017 (awaiting social security treatment)	Not before mid-2018

1H18 – 31 December 2017

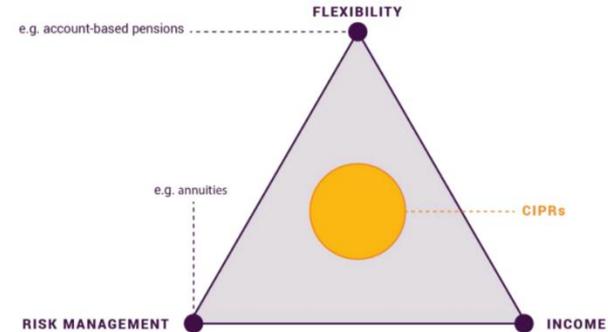
# Government enhancing retirement phase

## MyRetirement (CIPRs) overview<sup>1</sup>

### Problems and objectives of proposed framework for CIPRs



### CIPRs to provide stream of broadly consistent real income for life



1H18 – 31 December 2017

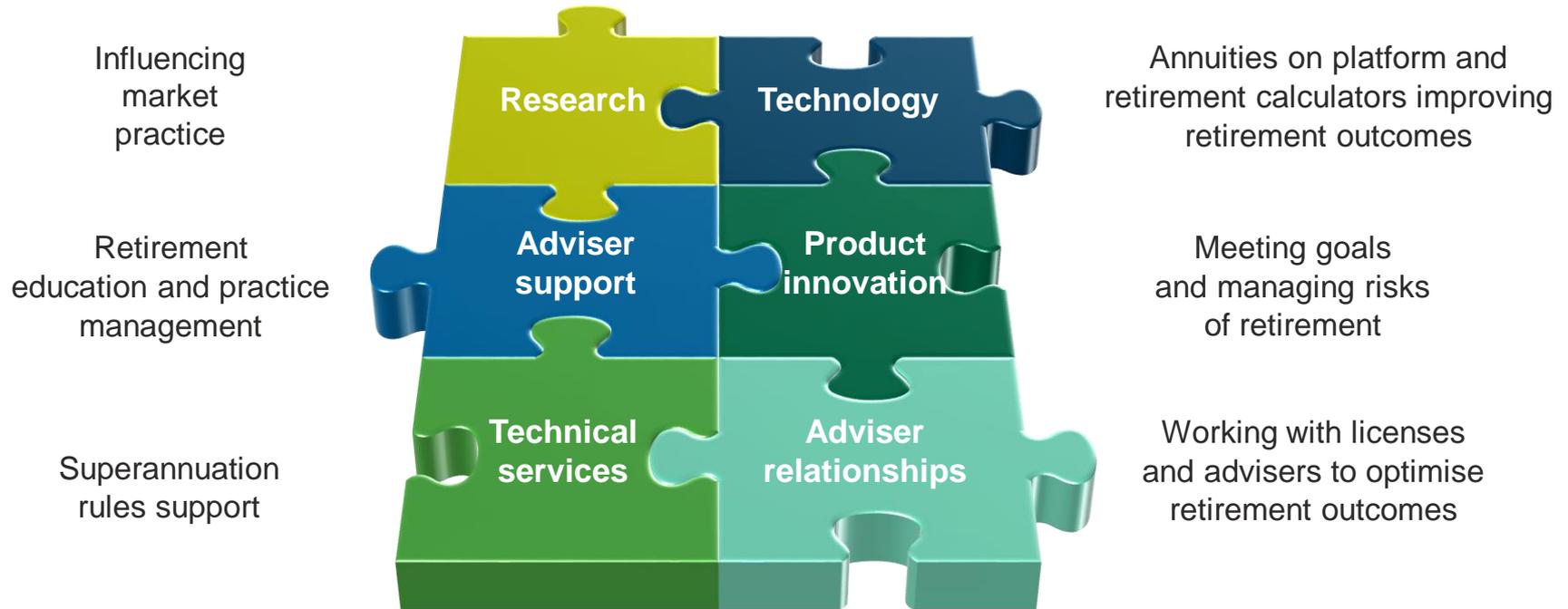
1. Extract from the discussion paper issued by the Australian Government on 15 December 2016 - Development of the framework for Comprehensive Income Products. Available at [www.consult.treasury.gov.au](http://www.consult.treasury.gov.au).

# Appendix

**Life – Distribution,  
Product and Marketing  
(DPM)**

# Distribution

A competitive advantage driving long-term growth



# New relationships

## Industry moving ahead of regulation – using annuities for MyRetirement

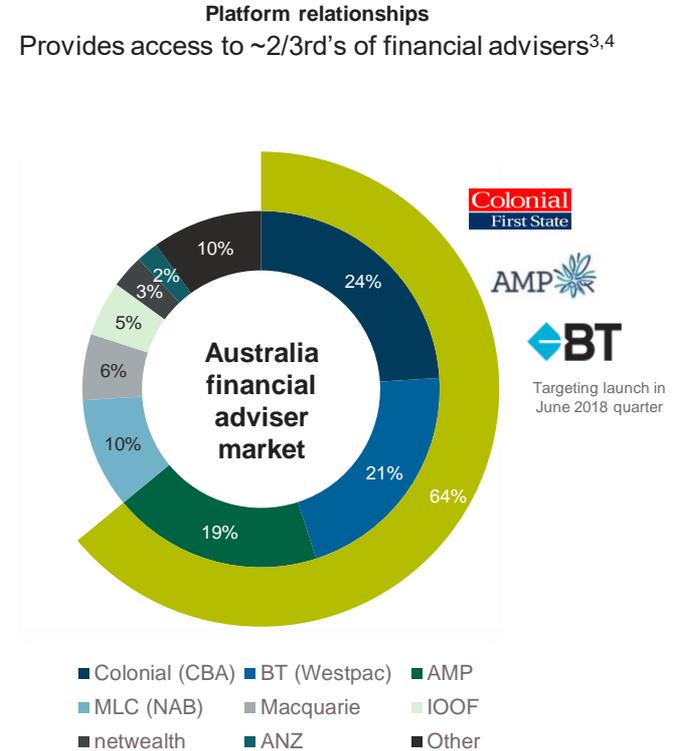
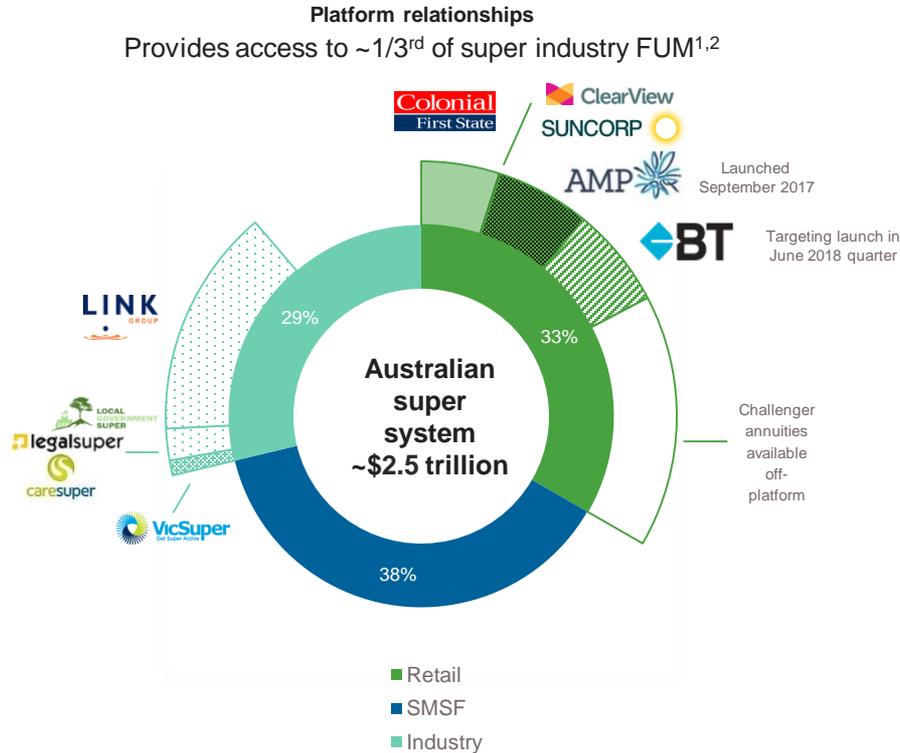
2016	2017	2018
 <p>Australia's largest retail platform offering Challenger annuities</p>	 <p>ClearView Wealth Solutions platform offering Challenger annuities</p>	
	 <p>Suncorp branded annuities backed by Challenger</p>	 <p>Challenger annuities via investment and administration platforms (launched September 2017)</p>
 <p>Leading provider of services to Australian superannuation industry providing access to Challenger annuities</p>	   <p>Three Link Group clients offering Challenger annuities</p>	
 <p>Profit for members fund providing access to Challenger annuities</p>	<p><b>Mitsui Sumitomo Primary Life Insurance</b> MS&amp;AD INSURANCE GROUP</p> <p>Annuity relationship with leading Japanese annuity provider</p>	 <p>Challenger annuities available on BT platforms (launch targeted for June 2018 quarter)</p>
	 <p>Low risk absolute return bond product<sup>1</sup> for Australian market</p>	

1H18 – 31 December 2017

1. Standard Life Absolute Return Global Bond Strategy (ARGBS) and aims to provide positive investment returns in the form of income and capital growth in all market conditions over the medium to long term.

# New relationships

## Platforms broadening access to Challenger annuities



1H18 – 31 December 2017

1. Following launch of BT, new platform relationships will provide access to one third of Australian superannuation industry FUM.
2. Australian super system size based on APRA annual superannuation bulletin and market share based on Strategic Insights analysis of retail managed funds.
3. Following launch of BT, new platform relationships will provide access to two thirds of Australian financial advisers.
4. Primary platform used by advisers - Wealth Insights 2016 Adviser Market Trends Report - provider footprint.

# Colonial First State (CFS) relationship

## Annuities on platform case study

### Ernst & Young stochastic model<sup>1</sup>

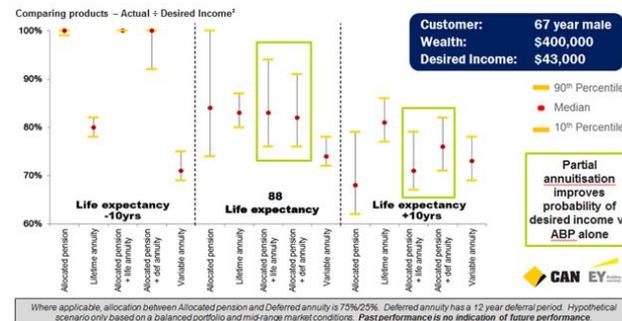
- To determine better outcomes for clients
  - combining lifetime annuity with account based pension often provides superior outcomes

### CFS retirement income model

- Supported by independent actuarial research<sup>1</sup>
- Layering annuities part of retirement solution

### Annuities on platform – positive adviser feedback

- More likely to use annuities – simple to use, easy origination process, advisers and clients can view portfolio in one place
- Significant increase in Colonial sales following annuities on platform – sales up ~40% on 1H17



- ✓ Annuity + Age Pension meets desired income floor.
- ✗ Market-linked portfolio meets client risk tolerance expectations
- ✓ Combined portfolio meets expectations for desired income/capital longevity.

Why annuities may be Australia's missing piece.

*"annuities need to be one tool in the financial adviser's toolbox"  
"we believe that an account based pension with a lifetime annuity or some sort of deferred lifetime annuity will be a good solution for Australian retirees"*

1H18 – 31 December 2017

1. 'Optimal solution to the retirement riddle', Actuaries Summit, May 2015.

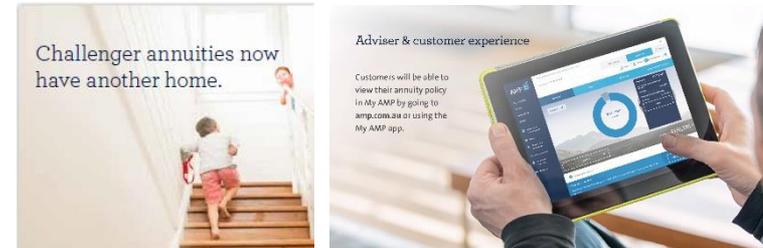
# AMP relationship

## Strong start with focus on long-term annuities

- Annuities available via AMP's adviser portal
- Supported by Challenger retirement tools and calculators

### AMP annuities on platform

- >80% of sales Lifetime annuities<sup>1</sup>
- ~25% of writers new to Challenger<sup>2</sup>
- ~40% increase in advisers using Challenger's Retirement Illustrator and Aged Based Pension calculators
- Longevity and aged care adviser education underway
  - ~1,645 advisers at AMP's 2018 Advice Summit
  - ~2,400 advisers at AMP National PD Series<sup>3</sup>
  - Challenger/AMP digital learning rolled out to AMP network

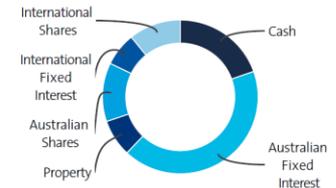


Superannuation		
North - Personal Pension	Y00811513	\$210,810.44
Retirement		
Challenger Guaranteed Annuity (Liquid Lifetime)	501281814	\$69,749.33

For Challenger products, the balance is an illustrative amount and it is not the amount you would receive if you withdraw. Please contact us for more information on this amount.

### Asset allocation as at 13 Jun 2017

Asset class	%	\$
Cash	19.62%	\$55,059.68
Australian Fixed Interest	42.39%	\$118,933.86
Property	7.81%	\$21,907.56
Australian Shares	12.34%	\$34,627.39
International Fixed Interest	7.01%	\$19,669.79
International Shares	10.82%	\$30,361.48
<b>Total</b>	<b>100%</b>	<b>\$280,559.77</b>



1. Lifetime includes Liquid Lifetime and CarePlus.  
 2. Defined as having not written a Challenger annuity in the past three years.  
 3. AMP National Professional Development Series.

# MS&AD strategic relationship

## Broadening relationship and funding future growth

### Strategic relationship with MS&AD Group

- Increases access to Japanese market through MS&AD
- Opportunities for both Challenger and MS&AD
- Broadens Challenger's existing Japanese footprint
- Challenger Tokyo office opened in 2H17

### Equity placement to MS&AD

- \$500m or 6.3% of issued capital (August 2017)
- Shareholding subsequently increased to 10% via market
- MS&AD intends to be a supportive Challenger shareholder<sup>1</sup>

MS&AD

#### MS&AD Insurance Group

~A\$24bn market cap      41,400 employees  
Total assets ~A\$252bn      5 business domains

(as at 30 September 2017)

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

MS&AD amlin

A Member of MS&AD INSURANCE GROUP



Box Innovation

1H18 – 31 December 2017

1. Subject to market conditions, any necessary or desirable regulatory approvals and Challenger's circumstances. MS&AD reserves the right to change its intentions and to acquire, dispose and vote Challenger shares as it sees fit.

# MS Primary annuity relationship

## Partnering with leading provider of AUD annuities in Japan

### MS Primary

- MS&AD subsidiary
  - leading provider of foreign currency life products
  - extensive distribution footprint via bancassurance channel
- MS Primary attracted to Challenger's
  - long term asset, liability and risk management capability
  - product innovation capability
  - longevity risk experience

### Japanese annuity market

- AUD annuities market multiple times the size of Australia's

### Challenger issuing

- 20 year AUD fixed rate annuity to support reinsurance agreement with MS Primary

### Mitsui Sumitomo Primary Life Insurance

MS&AD INSURANCE GROUP

#### Product overview

- Single premium product
- Whole-of life product with annuity payment period of 5, 10 or 20 years plus benefit payable on death
- Product provides insurance (whole-of life) – provided by MS Primary at end of 20 year fixed annuity term
- Challenger providing 20 year fixed rate amortising annuity – MS Primary assumes residual policy value at end of 20 year period
- Challenger assumes no currency risk as product AUD denominated
- Invested in same key asset classes as existing Challenger Life investment portfolio
- Guaranteed rate for new business can be revised for changes in markets (e.g. interest rates)
- Challenger commenced reinsuring a portion of each policy sold from 1 November 2016

# Life Australian product overview

## Providing guaranteed income and peace of mind

Fixed term	Lifetime (long term annuities)	Other
<p><b>49% of total book</b></p> <p><i>Provides regular guaranteed payments for a fixed rate, fixed term</i></p> <p>Average policy size ~\$200,000</p> <p>Guaranteed Annuity</p> <ul style="list-style-type: none"> <li>• Guaranteed rate</li> <li>• Payment frequency options</li> <li>• Inflation protection options</li> <li>• Ability to draw capital as part of regular payment</li> <li>• Tax free income<sup>1</sup></li> </ul>	<p><b>36% of total book</b></p> <p><i>Provides guaranteed regular payments for life</i></p> <p>Average policy size ~\$100,000</p> <p>Liquid Lifetime</p> <ul style="list-style-type: none"> <li>• Inflation protection options</li> <li>• Liquidity options</li> <li>• Tax free income<sup>1</sup></li> </ul> <p>CarePlus</p> <ul style="list-style-type: none"> <li>• Designed for aged care</li> <li>• Up to 100% death benefit</li> </ul> <p>MS Primary (prefer page 52)</p>	<p><b>15% of total book</b></p> <p><i>Institutional product providing guaranteed fixed income returns</i></p> <p>Guaranteed Index Return (GIR)</p> <ul style="list-style-type: none"> <li>• Institutional mandates targeting large Australian superannuation funds</li> </ul> <p>Challenger Index Plus Fund</p> <ul style="list-style-type: none"> <li>• Liquid version of GIR backed by high grade liquid fixed income</li> </ul>

1H18 – 31 December 2017

1. If bought with superannuation money and in retirement phase.

# Brand strength

## Strong consumer and adviser brand

2011  
'Real Stories'



2013  
'On Paper'



2016  
'Lifestyle Expectancy'



Brand Strength<sup>1,2,3</sup>



■ Consumers

■ Advisers

'Prompted brand awareness'

'Leaders in retirement income'

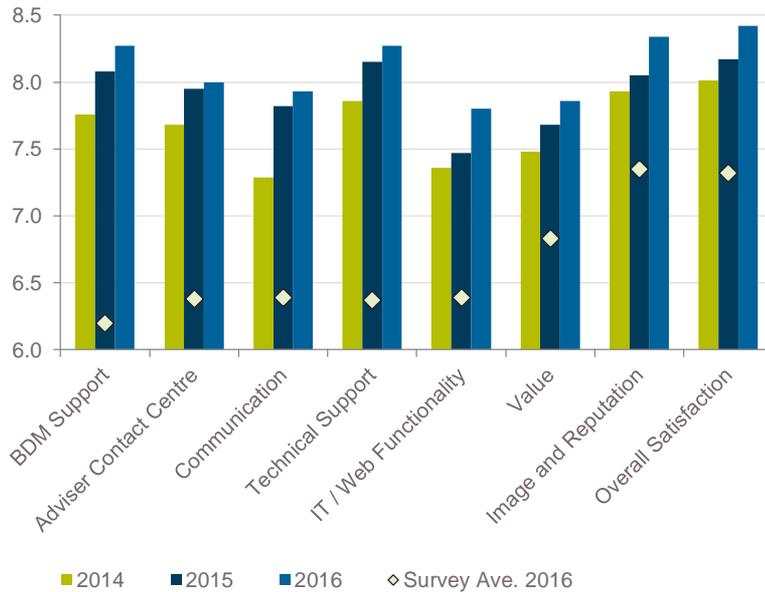
1H18 – 31 December 2017

1. Consumer - Newpoll Consumer study (2011).  
 2. Consumer - Hall & Partners Open Mind Consumer Study (2013 to 2017) – people aged 55 to 64 years old.  
 3. Adviser - Marketing Pulse Adviser study.

# Highly rated by advisers

## Challenger No.1 in overall adviser satisfaction

Challenger adviser satisfaction<sup>1</sup>



- Clear leadership in retirement incomes<sup>2</sup>

Wealth Insights net promoter score<sup>3</sup>



### Challenger ranked No.1<sup>1</sup>

- BDM Team (5th consecutive year)
- Technical Services (first time)
- Client Services (first time)
- Image and Reputation (first time)
- Overall Satisfaction (first time)

1H18 – 31 December 2017

1. Challenger annuities service level analysis conducted by Wealth Insights and compared to the broader market.

2. Marketing Pulse Adviser study.

3. Wealth Insights Adviser Trends 2016.

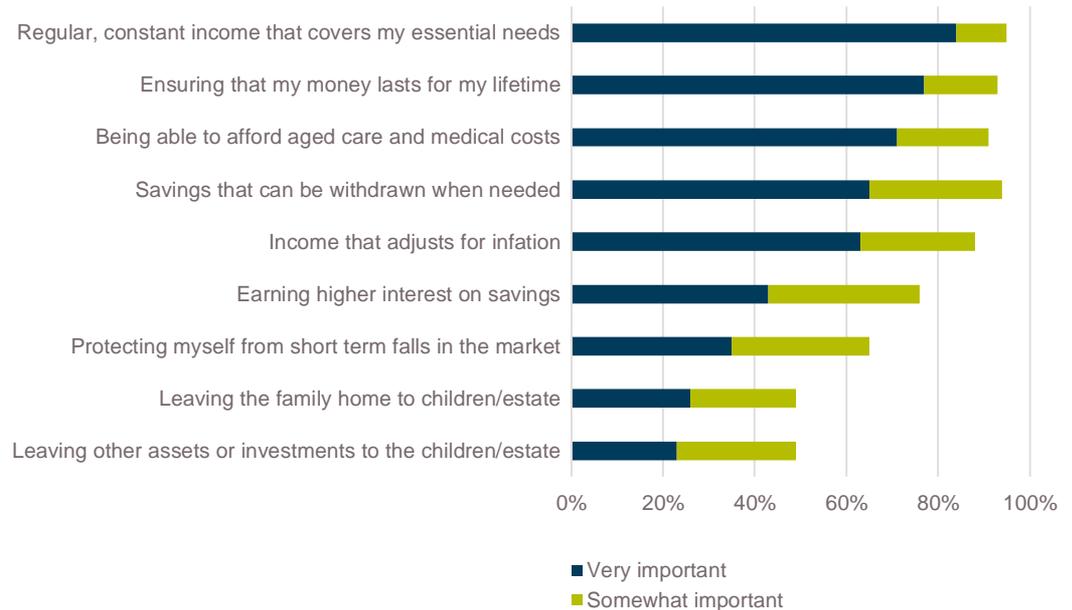
# Seniors more savvy about retirement income

## Priorities change as we live longer

### 2017 National Seniors Survey<sup>1</sup>

- What matters most
  - 84% – regular, constant income very important
  - 77% – want their money to last a lifetime
  - 48% – concerned they will outlive their savings
- Better informed about retirement
  - 59% use a financial adviser

### Rate the importance of these attributes about your savings and finances



1H18 – 31 December 2017

1. Conducted by National Seniors Australia and includes responses from 5,770 Australians over the age of 50.

# Appendix

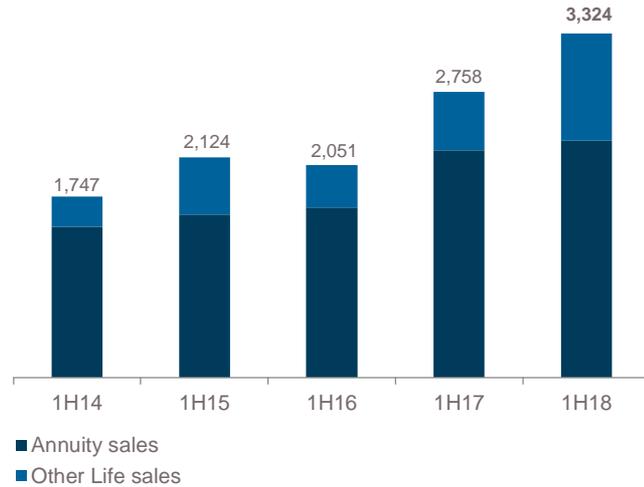
Life – Financials

# Life

## Sales and AUM benefiting from diversity of products and distribution

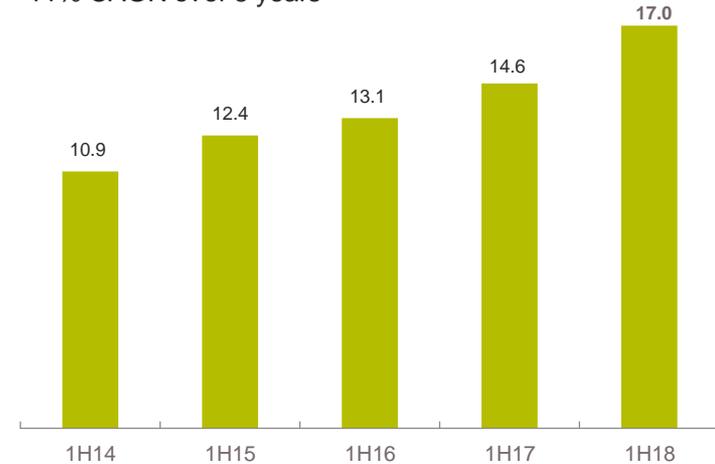
### Total Life sales (\$m)

11% CAGR over 5 years



### Life AUM (\$bn)

11% CAGR over 5 years

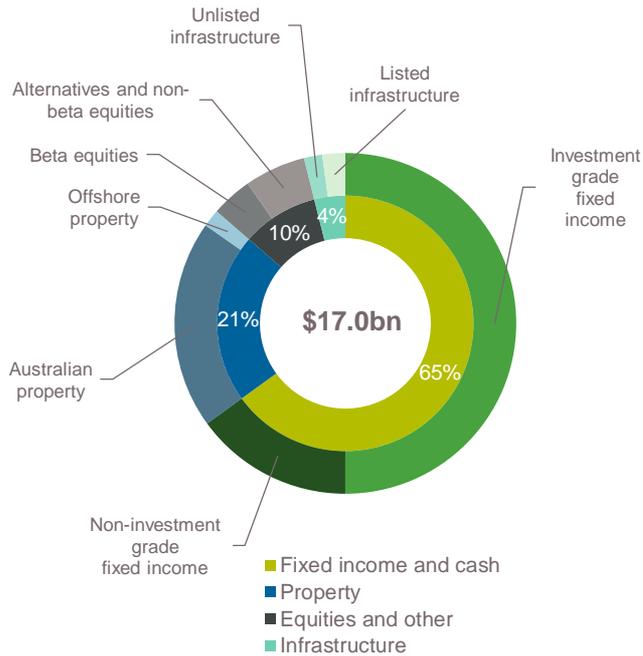


1H18 – 31 December 2017

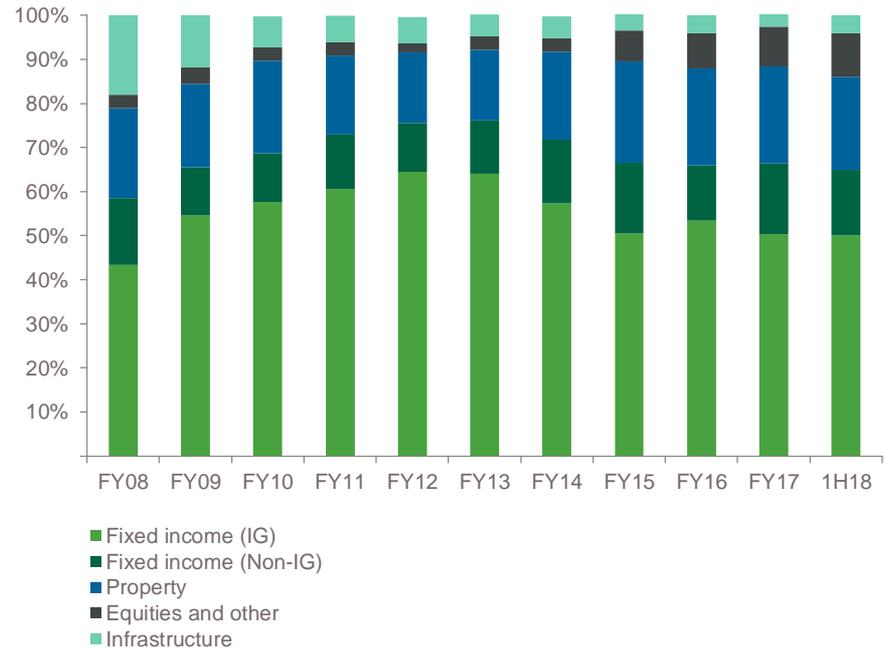
# Life investment portfolio

## High quality portfolio providing reliable income

Life investment portfolio – 31 December 2017



Life investment portfolio – last 10 years

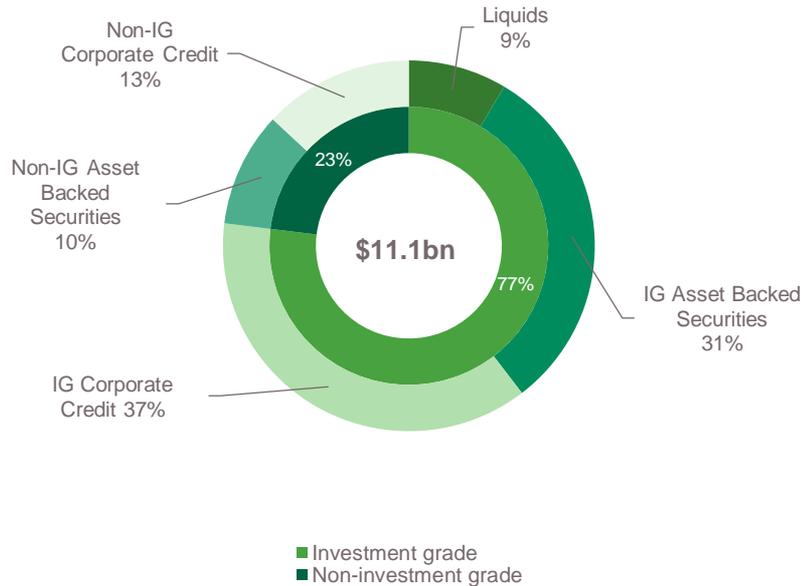


1H18 – 31 December 2017

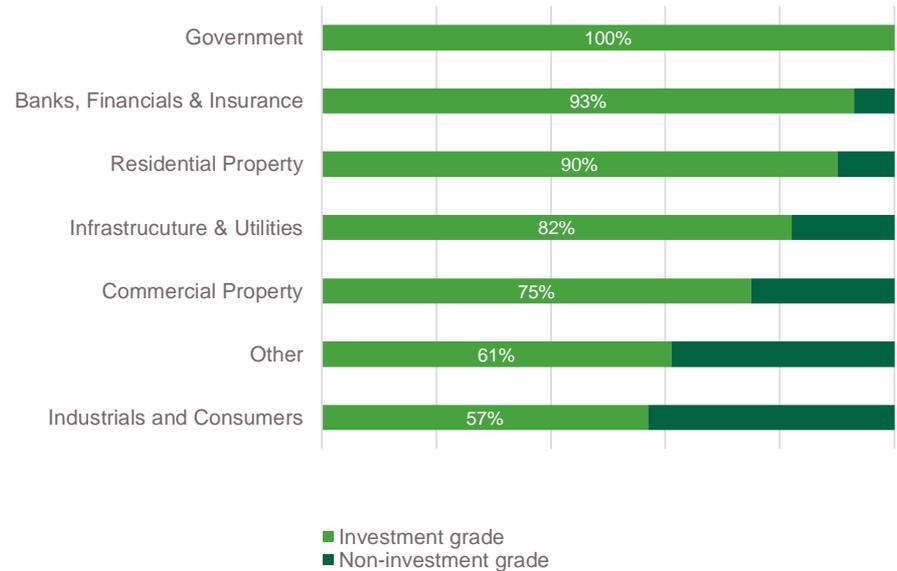
# Life investment portfolio

Fixed income 65% of portfolio

Fixed income portfolio<sup>1</sup>



Fixed income portfolio by industry<sup>1</sup>

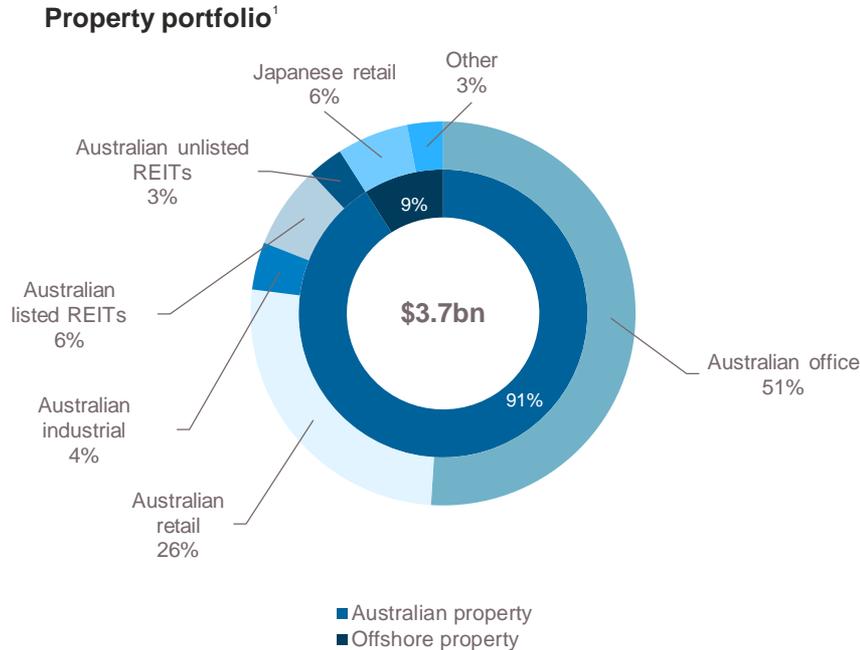


1H18 – 31 December 2017

1. As at 31 December 2017.

# Life investment portfolio

## Property 21% of portfolio



## Life's property portfolio

- 54% of tenants investment grade
- Australian Government is a major tenant
  - representing 33% of rental income<sup>2</sup>
- Average cap rate 6.3%
- WALE 5.2 years<sup>3</sup>
- 60% of lease expiries after FY22
- 95% occupancy rate

1H18 – 31 December 2017

1. As at 31 December 2017.

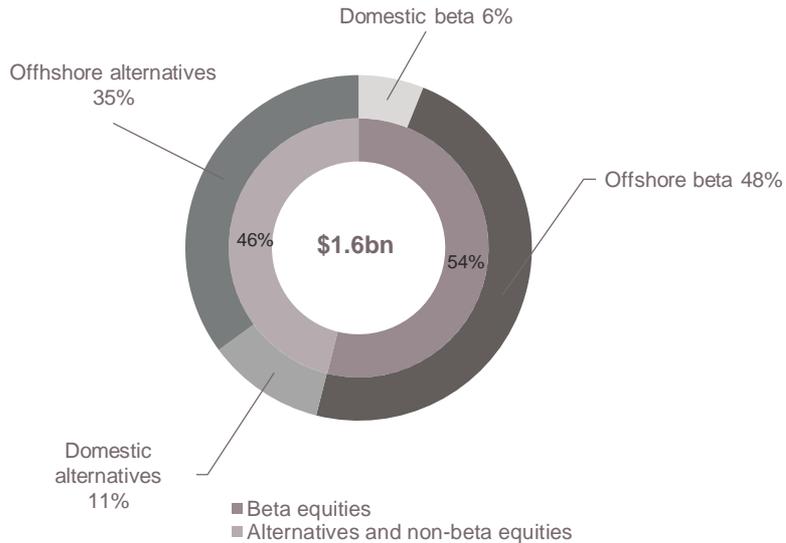
2. Total gross passing income attributable to the direct property portfolio.

3. Based on weighted average lease expiry.

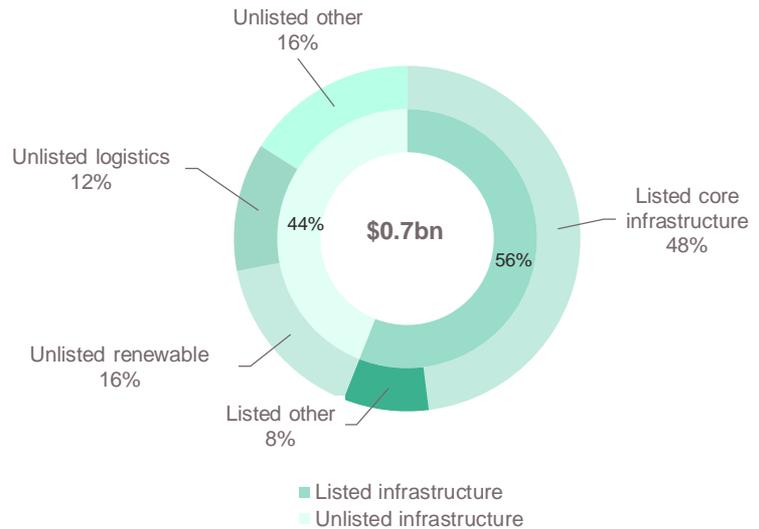
# Life investment portfolio

## Equities and infrastructure – 14% of portfolio

Equity portfolio<sup>1</sup>



Infrastructure portfolio<sup>1</sup>



1H18 – 31 December 2017

1. As at 31 December 2017.

# Normalised profit framework

## Reflects underlying performance of Life business

### Investment Experience overview

Asset and liability valuation movements are generally non-cash movements reported as investment experience

### Asset experience

Difference between expected capital growth<sup>1</sup> for each asset class compared to actual investment returns

### Liability experience

Impact of changes in macroeconomic variables<sup>2</sup> on the valuation of Life's liabilities

### New business strain

New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the risk free rate<sup>3</sup> used to fair value annuities (unwinds over the annuity contract)

Cumulative Investment Experience (\$m)



Normalised assumptions	per annum
Fixed income (allowance for credit default)	-35 bps
Property	2.0%
Infrastructure	4.0%
Equities and other	4.5%

1H18 – 31 December 2017

1. Based on normalised assumptions.

2. Macroeconomic variables include changes to bond yields, inflation factors, expense assumptions, new business strain and other factors.

3. Lifetime annuities are fair valued using a risk-free discount rate, based on the Australian Commonwealth Government bond curve plus an illiquidity premium.

# Appendix

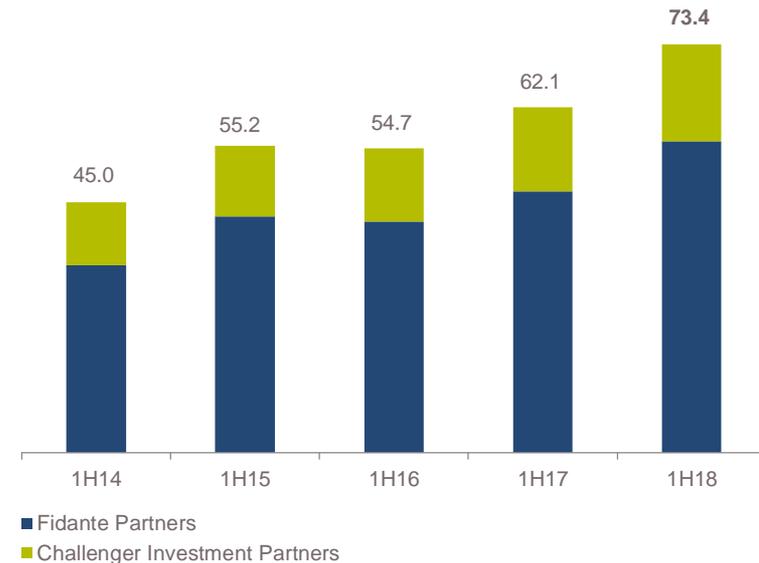
Funds Management

# Funds Management

## Strong FUM growth track record

- Fidante Partners
  - 16 boutique brands
  - located in Australia, UK and US
  - asset class diversification
  - replicating model in Europe
- Challenger Investment Partners (CIP)
  - proven track record in asset origination
  - strong investment performance
  - growing 3<sup>rd</sup> party credit and property offerings

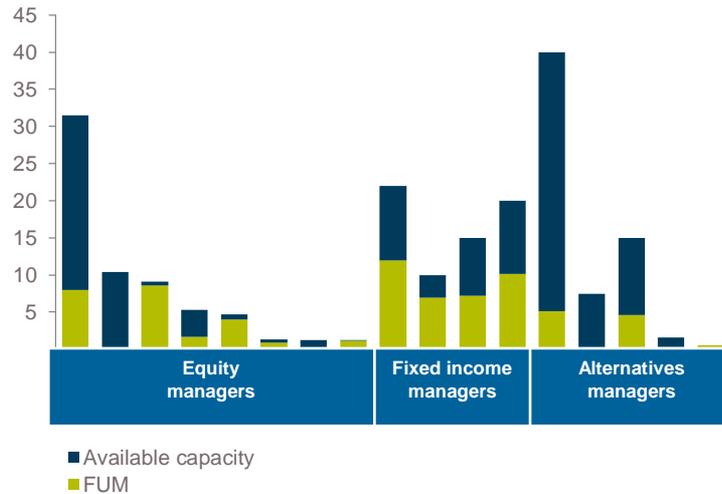
**Funds Under Management (FUM) (\$bn)**  
16% over 5 years



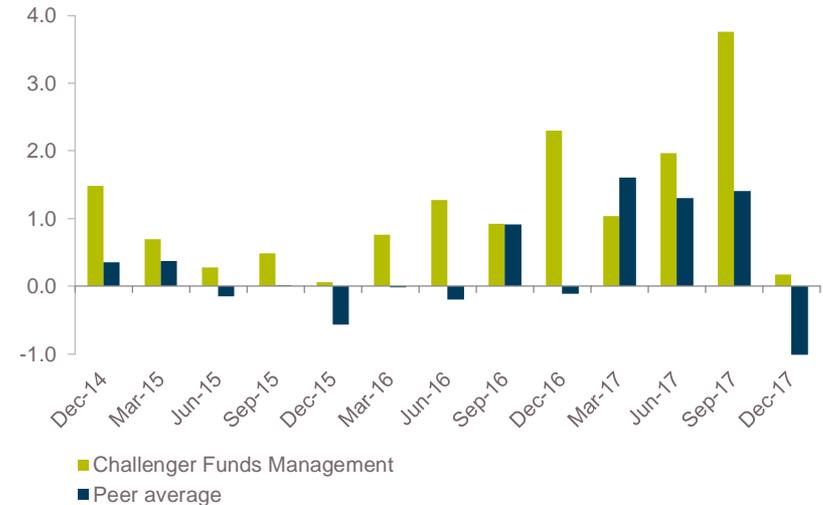
# Funds Management

## Growth supported by available capacity and superior flows

Manager capacity (\$bn)



Quarterly net flows vs peers<sup>1</sup> (\$bn)



- ~\$125bn of available capacity
- Capacity provides platform for growth

- Net flows benefiting from superior long-term investment performance

1H18 – 31 December 2017

1. Quarterly net flows for peers, including AMP Capital Investors, BTIM, Magellan, Pacific Current Group, Perpetual, and Platinum. December 2017 peer net flows includes only those that have reported December 2017 data by 13 February 2018.

# Funds Management – multiple brands and strategies

Scalable and diversified ~\$73bn of FUM



1H18 – 31 December 2017

1. Funds Under Management (FUM) as at 31 December 2017.

# Fidante Partners

## Contemporary model with strong alignment of interests

### Administration services (Fidante Partners provided)

- Investment operations
- Client operations
- Compliance
- IT infrastructure
- Finance
- Human Resources
- Company secretarial
- Facilities



### Distribution services (Fidante Partners provided)

- Asset consultant & research
- Strategic positioning
- Product development
- Brand & marketing
- Sales planning & execution
- Investor relationships
- Client service
- Responsible entity

### Partnership (Fidante Partners and Boutique)

- Equity participation (Fidante non-controlling interest)
- Business planning, budgeting, strategic development, succession planning

# Fidante Partners boutique managers

## Diversified managers and investment strategies

Boutique	Partnership commenced	Asset class	
 Alphinity	Aug 2010	Australian equities	
 ARDEA Investment Management	Nov 2008	Australian fixed income	
 AVENIR CAPITAL	Feb 2017	Global equities	
 BENTHAM ASSET MANAGEMENT	Jun 2010	Global credit portfolios	
 G C P	Garelick Capital Partners, L.P.	Feb 2018	Global equities
 Greencape CAPITAL	Sep 2006	Mid and large cap Australian equities	
 Kapstream — JAMES HENDERSON —	Feb 2007	Global fixed income	
 kinetic — JAMES HENDERSON —	Oct 2005	Australian small cap equities	
 LENNOX CAPITAL PARTNERS	Mar 2017	Australian small cap equities	

Boutique	Partnership commenced	Asset class
 MERLON	May 2010	Australian equities (income focus)
 NOVA PORT	Aug 2010	Australian small and micro cap equities
 Resonance	Jul 2015	Renewable energy and water infrastructure
 TEMPO — JAMES HENDERSON —	Feb 2014	Global smart beta strategies
 WaveStone CAPITAL	Nov 2008	Australian equities (long only & long/short)
 WHITEHELM CAPITAL	Jul 2014	Global core infrastructure
 WYE TREE ASSET MANAGEMENT	Jul 2013	US and European RMBS

1H18 – 31 December 2017

# Challenger Investment Partners' (CIP)

## Proven long-term investment track record and capability

- \$17 billion of FUM<sup>1</sup>
- Investment manager for Challenger Life and 3rd party institutions
- Clients benefit from experience and market insights through breadth and scale of mandates

Trusted partner	Asset specialisation	Institutional clients
<ul style="list-style-type: none"><li>• Local relationships</li><li>• Asset origination capability</li><li>• Proven track record</li><li>• Strong execution</li><li>• Risk management expertise</li><li>• Excellent client service</li><li>• Strong compliance culture</li></ul>	<p>Property 29%</p>  <p>Fixed income 71%</p>	<ul style="list-style-type: none"><li>• Sovereign wealth funds</li><li>• Australian superannuation funds</li><li>• International funds</li><li>• International insurance companies</li><li>• Pension funds</li><li>• Large family offices</li><li>• Manage ~80% of CLC portfolio</li></ul>

1H18 – 31 December 2017

1. Funds Under Management (FUM) as at 31 December 2017.

# Important note

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.

Challenger also provides statutory reporting as prescribed under the Corporations Act 2001. The half year financial report is available from Challenger's website at [www.challenger.com.au](http://www.challenger.com.au). This presentation is not audited. The statutory net profit after tax has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have reviewed the statutory net profit after tax. Normalised net profit after tax has been prepared in accordance with a normalised profit framework. The normalised profit framework has been disclosed in the Operating and Financial Review section of the Directors' Report in the Challenger Limited 2018 Interim Financial Report. The normalised profit after tax has been subject to a review performed by Ernst & Young. Any additional financial information in this presentation which is not included in Challenger Limited 2018 Interim Financial Report was not subject to independent audit or review by Ernst & Young.

This document may contain certain 'forward-looking statements'. The words 'forecast', 'expect', 'guidance', 'intend', 'will' and other similar expressions are intended to identify forward-looking statements. Forecasts or indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Challenger. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Challenger disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

Past performance is not an indication of future performance.

While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty as to the accuracy or completeness of any information or statement in this document.

Unless otherwise indicated, all numerical comparisons are to the prior corresponding period.