

Challenger Shareholder

Newsletter February 2020



Peter Polson
Chair

Group assets under management

\$86bn

Normalised return on equity (pre-tax)

15%

Regulatory capital above APRA's minimum requirement and Group cash

\$1.5bn

Dear Shareholder

On behalf of the Board and management team, I'm pleased to provide you with an update on the performance of Challenger for the first half of the 2020 financial year.

In a disrupted financial services environment, Challenger continues to prove to be resilient. Our business model, leading brand and diversified distribution have ensured we can continue to deliver solid business outcomes despite the significant and ongoing challenges in our operating environment.

2020 half year result

Group assets under management were \$86 billion, up 10% on the prior period. Normalised net profit before tax¹ was up \$9 million or 3% to \$279 million, including the impact of the investment in future growth initiatives. Normalised net profit after tax was down \$8 million (4%) to \$191 million due to a higher effective tax rate.

Statutory net profit after tax was up \$214 million to \$220 million. This includes positive investment experience of \$38 million, which is the valuation movements on Life's assets and liabilities and significant item of negative \$9 million.

Capital position

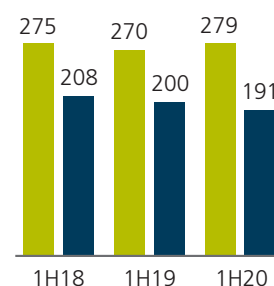
Challenger has maintained a strong capital position with \$1.5 billion in Challenger Life Company Limited excess regulatory capital above APRA's minimum requirement and Group cash. This reflects a ratio of 1.54 times² the prescribed capital amount and is toward the top-end of the target range of 1.3 to 1.6 times.

Dividend

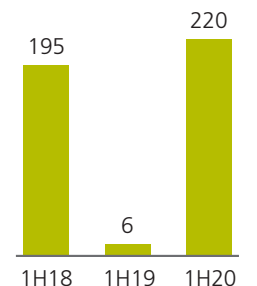
Reflecting Challenger's strong market position and confidence in future growth, the Board has declared a fully franked interim dividend of 17.5 cents per share, which remains unchanged on last year.

The full year dividend is also expected to remain unchanged from last year at 35.5 cents per share.

Normalised net profit after tax (\$m)¹



Statutory net profit after tax (\$m)¹



■ Normalised net profit before tax
■ Normalised net profit after tax

Life performance

Life focuses on the retirement spending phase of superannuation by providing products that convert retirement savings into safe and secure income.

Life's earnings before interest and tax of \$286 million was up 3% and includes \$6 million of investment in distribution, product and marketing initiatives.

Challenger is responding to the ongoing financial adviser disruption by investing in a range of growth initiatives to reshape the business for the evolving domestic wealth management market. This includes a focus on supporting more direct engagement with prospective customers and increasing support for advisers to better meet changing customer needs.

Total Life sales were up 15% to \$3.1 billion, reflecting a strong contribution from Challenger's Japanese partnership and Australian institutional sales. This was offset by lower domestic sales, which continue to be impacted by ongoing adviser disruption.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in Section 8 of the Operating and Financial Review in the Challenger 2020 Interim Financial Report.

² The Prescribed Capital Amount (PCA) ratio is the ratio of Challenger Life Company Limited's regulatory capital base divided by the PCA.

The strong Japanese and Australian institutional sales contributed to Life book growth of \$0.9 billion, with the total Life book¹ increasing by 6.2% for the half. The annuity book continues to shift toward long-term annuities, being Australian lifetime and MS Primary. Long term annuities represented over one third of all annuity sales, which pushed the tenor of new business sales to over nine years. The long-term annuity book is now the same size as the fixed term annuity book, which will underpin future earnings.

While disruption in the retail advice market is expected to be ongoing, Challenger's strong brand and reputation, and diversified distribution networks has supported the resilience seen in the business across the half.

Funds Management performance

Funds Management focuses on building savings for retirement by providing investment strategies that seek to deliver superior investment returns.

Funds Management earnings were supported by strong growth in retail and institutional flows during the half, including \$1.9 billion of net flows by Fidante Partners.

Earnings before interest and tax of \$28 million was up 7%, driven by an increase in funds under management.

Fidante Partners continues to evolve its successful multi-boutique model, expanding partnerships and launching new high active boutique manager products. In October, Fidante announced a strategic joint venture with Ares Management Corporation, launching Ares Australia Management (AAM). AAM will bring high quality credit and other alternative investments from one of the largest global alternative asset managers to the Australian market.

Long-term investment performance remains strong across Fidante Partners' stable of boutiques with 89% of funds achieving either first or second quartile investment performance since inception.

Outlook

Challenger remains well positioned to optimise performance while also positioning for future growth. FY20 normalised net profit before tax is expected to be around the top end of Challenger's guidance range of \$500 million to \$550 million.

Challenger is also on track to achieve its normalised return on equity target of the RBA cash rate plus a margin of 14%.

Your business is well managed and will continue to seek opportunities to benefit from growth in Australia's superannuation system and an increased focus on income in retirement.

Thank you for your ongoing support and commitment to Challenger.



Peter Polson

Independent Chair
Challenger Limited

Additional information section

Manage your holding

For administrative matters in respect of your Challenger Capital Notes holding, please contact Computershare Investor Services.

T: 1800 780 782

› computershare.com.au

Dividend Reinvestment Plan

Challenger operates a Dividend Reinvestment Plan (DRP) to enable you to receive some or all of your dividends as Challenger shares instead of cash. If you would like to participate in the DRP, you will need to make an election with Challenger's share register, Computershare Investor Services, at computershare.com/investor.

Go electronic

Challenger can deliver your shareholder communications electronically. Please update your communication preferences via Computershare Investor Services.

Key dates

Ex-dividend date	25 February 2020
Record date for interim 2020 dividend	26 February 2020
DRP election date for interim 2020 dividend	27 February 2020
Payment due date for interim 2020 dividend	24 March 2020
Q3 20 Sales and AUM	16 April 2020
2020 Investor Day	18 June 2020
2020 Full-year financial results	11 August 2020
Ex-dividend date	31 August 2020
Record date for final 2020 dividend	1 September 2020
DRP election date for final 2020 dividend	2 September 2020
Payment due date for final 2020 dividend	23 September 2020
Q1 21 Sales and AUM	14 October 2020
2020 Annual General Meeting	29 October 2020

¹ Total Life book growth percentage represents Life annuity net flows and Other Life net flows over the period divided by the opening Life annuity book, Guaranteed Index Return and Challenger Index Plus Fund liabilities.