

Challenger Capital Notes

Newsletter February 2022



Peter Polson
Chair

\$115_{bn}

Group assets under management

Value of assets up 20% on last year

\$238_m

Normalised NPBT¹

Up 21% on last year

\$282_m

Statutory NPAT¹

Includes significant investment gains

+8.4%

Life book growth

Benefiting from successful diversification strategy

\$109_{bn}

Funds Management Funds Under Management (FUM)

One of the Australia's largest and fastest growing active managers²

11.5_{cps}

Interim dividend

Up 21% on last year

Dear Noteholder,

On behalf of the Board and management team, I'm pleased to provide you with an update on Challenger's performance over the first half of the 2022 financial year.

Challenger is a unique business with an extraordinary opportunity to meet the needs of more Australians as they prepare for and enter retirement. We have a powerful brand in Challenger, one that is regarded as a leader in retirement income, we have one of the fastest growing active fund managers in the country², and a scalable digital bank that further expands our potential to reach more customers and provide them with relevant products.

In the first half of 2022, we delivered a strong result, driving growth right across our business, diversifying revenue and focusing on the disciplined execution of our strategy.

Expanding our customer reach, broadening our distribution channels and product innovation helped deliver record Life sales and Funds Management net flows that outperformed the market.

Nick Hamilton was appointed as our new Chief Executive Officer, succeeding Richard Howes whose retirement was announced in August 2021. Mr Hamilton was previously Chief Executive of Funds Management. With a deep understanding of our business and clear vision for the future, he is ideally placed to lead the group.

Challenger is well positioned to benefit from the greatest thematic opportunity of our time, retirement; we have a strong earnings base for growth in 2022 and beyond; and we have a highly capable and talented team who are committed to fulfilling our purpose of providing customers with financial security for a better retirement.

Financial update

Challenger's financial performance in the first half of the 2022 financial year demonstrates the success of our focus on driving growth and building momentum across our business.

Group assets under management (AUM) increased by 20% to \$115 billion, driven by strong growth across Life and Funds Management.

Normalised net profit before tax (NPBT)¹ was up 21% to \$238 million and reflects strong growth in AUM and stable margins across both Life and Funds Management.

Statutory net profit after tax was significantly higher than normalised profit after tax at \$282 million and includes significant gains on Challenger's investment portfolio.

The Life business delivered a record-breaking half across Life and annuity sales, with total sales of \$4.9 billion. Life sales continue to benefit from our successful diversification strategy. The institutional business achieved exceptionally strong sales growth, reflecting our focus on building new and extending relationships with a wider range of institutional clients.

Funds Management produced another strong result, outperforming the broader market, with net flows of \$0.9 billion and FUM increasing 20% to \$109 billion. Fidante Partners' distribution capability continues to be externally recognised, winning Zenith Investment Partners' Distributor of the Year for the second consecutive year. Fidante Partners was also ranked as Australia's number one active manager for retail net flows².

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 2022 Interim Financial Report.

² Based on Rainmaker Roundup, September 2021 and September 2016 – 5-year CAGR for active managers.

Priorities

In the second half of 2022, Challenger will focus on five key short-term priorities to drive growth:

- Bring Challenger together to meet more needs of retirees;
- Maintain business momentum;
- Continue to drive product innovation across the business;
- Rebrand and develop our retirement Bank; and
- Strategic opportunities with Apollo including joint venture.

Challenger and Apollo explore expanded strategic relationship

Challenger and Apollo (NYSE:APO) have entered into a non-binding Memorandum of Understanding with the intention to establish a joint venture to build a leading non-bank lending business in Australia and New Zealand. Apollo and Athene acquired an 18% minority interest in Challenger over the course of 2021, and Challenger and Apollo have since been engaged in confidential discussions over a number of months to explore additional opportunities to work together.

The strategic dialogue is part of a broader focus on building upon and enhancing the parties' retirement services offering in Australia. The proposed initiative is strongly aligned to Challenger's strategy and focus on pursuing growth opportunities, as well as further diversifying its business and providing important origination capability to support the growth of both the Life and Bank businesses. For Apollo and Athene, leading global providers of both guaranteed and non-guaranteed yield solutions, the proposed initiative is designed to enhance their ability to offer retirement services in scale in the region.

Challenger's relationships in Australian lending markets and its operating platform, coupled with Apollo's extensive global credit investing capabilities and range of retirement services products, provides significant opportunities and potential value for both parties over the medium term.

Further detail will be provided in due course as negotiations progress.

Strongly capitalised

Challenger remains strongly capitalised and continues to maintain a high-quality investment portfolio.

Challenger has \$2 billion of group excess regulatory capital, which is 1.75 times the minimum regulatory requirement.

The Challenger Board declared a 11.5 cent fully franked interim dividend (up 21%) representing a normalised dividend payout ratio of 47%, which is within our target of between 45% and 50%.

Outlook

For FY22, Challenger expects strong profit growth to continue, with normalised net profit before tax guidance of between \$430 million and \$480 million, with the mid-point representing 15% growth on FY21.

More broadly, Challenger is well positioned to achieve its FY22 guidance and targets.

Challenger is strongly positioned for the future – our diversification strategy is delivering impressive results and there is significant business momentum across the Group.

Thank you for your ongoing support and commitment to Challenger.



Peter Polson
Independent Chair
Challenger Limited

Additional information section

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Challenger Capital Notes distribution history

Distribution payment date	Cash distribution	Total return p.a.
25 February 2022	\$0.61	3.45%
25 November 2021	\$0.60	3.41%
25 August 2021	\$0.61	3.44%
25 February 2021	\$0.58	3.42%

Challenger Capital Notes 2 distribution history

Distribution payment date	Cash distribution	Total return p.a.
22 February 2022	\$0.78	4.45%
22 November 2021	\$0.77	4.41%
23 August 2021	\$0.77	4.44%
24 May 2021	\$0.77	4.41%

Challenger Capital Notes 3 distribution history

Distribution payment date	Cash distribution	Total return p.a.
25 February 2022	\$0.82	4.65%
25 November 2021	\$0.81	4.61%
25 August 2021	\$0.82	4.64%
25 February 2021	\$0.79	4.62%