

## CHALLENGER ANNOUNCES 1H22 RESULTS BUSINESS MOMENTUM DRIVING STRONG EARNINGS GROWTH

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Successful diversification strategy driving significant business momentum

- Group assets under management \$115 billion, up 20%
- Record Life sales \$4.9 billion, up 44%
- Life book growth \$1.4 billion, 8.4%
- Funds Management funds under management \$109 billion, up 20%
- Bank broadens customer reach and product offering

Strong performance supports increased shareholder returns

- Half year dividend 11.5 cents per share, up 21%
- Business remains strongly capitalised

On-track to meet full-year guidance and targets

- Normalised net profit before tax<sup>1</sup> \$238 million, up 21%
- Statutory net profit after tax \$282 million, with strong investment gains

Clear priorities

- Five key priorities to continue to drive growth

**Challenger (ASX: CGF)** today announced its financial results for the first half of 2022, with significant AUM growth, business momentum and a highly effective diversification strategy driving strong earnings growth.

Managing Director and Chief Executive Officer Nick Hamilton said:

“As the clear leader in retirement incomes, and one of the fastest growing active funds managers in the country, complemented by the strategic acquisition of our new digital bank, Challenger has a unique opportunity to meet the needs of more Australians entering and in retirement.

“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 of \$4.9 billion and Funds Management net flows of \$0.9 billion.

“More broadly, the Life business delivered an impressive performance, with record-breaking sales driving book growth of over 8% for the half.

“Funds Management produced another strong result, emphasising the business’ consistently strong performance in recent years. Funds under management was up 20% to \$109 billion, highlighting the benefits of our boutique business model, diversified range of managers and asset classes, as well as the initial gains from our expansion offshore.

“With the Bank integration well progressed, we are ideally placed to provide more customers with a broader range of solutions via the term deposit market.

“Reflecting confidence in our future business performance and strength of our capital position, the Board declared an interim dividend of 11.5 cents per share.

“I am excited by the opportunity to bring the best of Challenger to even more retirees than we do today. To help achieve this and support future growth, we will focus on executing key priorities that leverage the combined capabilities of the group to drive product innovation and expand our customer reach.

“Challenger has been an advocate of retirement income reform for many years and we welcome the landmark Retirement Income Covenant legislation. Over time, we look forward to partnering with super funds to deliver innovative retirement income solutions as Australians plan for and enter retirement.

“The announcement of our non-binding Memorandum of Understanding with Apollo Asset Management is an exciting step forward in continuing to develop our relationship, as well as being aligned to our strategy and focus on growth opportunities.

“We are 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 a highly capable and talented team who are committed to fulfilling our purpose of providing customers with financial security for a better retirement.”

## Group financial performance

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

Normalised net profit before tax (NPBT) was up 21% to \$238 million, supported by AUM growth and stable margins.

Normalised net profit after tax (NPAT) was up 21% to \$166 million, whilst statutory net profit after tax increased by 27% to \$282 million and included strong investment gains.

Challenger maintained a strong capital position, with \$2 billion of Group excess regulatory capital, representing a group regulatory capital ratio of 1.75 times the minimum regulatory requirement.

The Board declared an interim 2022 dividend of 11.5 cents per share, fully franked, up 21% and in-line with earnings growth.

## Life

As Australia’s leading provider of secure retirement incomes, Challenger plays a key role in helping customers as they prepare for and enter retirement.

Earnings before interest and tax (EBIT) was \$233 million, up 21%.

## Life sales

The business delivered a record-breaking half across both Life and annuity sales.

Life sales were up 44% to \$4.9 billion, whilst annuity sales increased by 15% to \$2.5 billion, reinforcing the effectiveness of Challenger's diversification strategy.

Reflecting a focus on building new and extending existing relationships, institutional sales increased by 91% to \$3.4 billion, with significant growth in term annuities of 146%, which are priced at similar economics to Challenger's retail offering.

Domestic retail sales remained stable despite the disruption caused by the COVID-19 pandemic and associated lockdowns.

Japanese (MS Primary) annuity sales were \$0.4 billion, already delivering over 70% of the agreed minimum annual sales target<sup>2</sup>.

Record sales drove Life book growth of 8.4%<sup>3</sup> in the first half of 2022.

### **Product innovation**

Challenger continued to drive product innovation to provide customers with a greater range of contemporary products. In October 2021, Challenger announced its new market-linked annuity (MLA) option within its award-winning Liquid Lifetime annuity. This option complements Challenger's existing lifetime annuity offering and responds to demand from clients and their advisers, many of whom seek the benefits of lifetime income while maintaining exposure to investment markets.

Challenger is working closely with rating agencies, as well as progressing through the approval process for the MLA to be added to the major advice hubs' approved product lists (APLs) to enable sales by advisers.

### **Funds Management**

Funds Management delivered another impressive performance and made significant progress in diversifying its client base and contemporary range of products and services, as well as expanding offshore.

Funds Management EBIT was up 28% to \$45 million.

Net flows continued to outperform the market, reaching \$0.9 billion, reflecting a strong contribution from retail clients. This momentum continued into the start of the second half of 2022, with the business securing a €1 billion (A\$1.6 billion) UK fixed income mandate.

Funds under management (FUM) increased by 20% to \$109 billion. Fidante Partners was ranked as Australia's number one active manager for retail flows, and impressively, second overall, including passive managers<sup>4</sup>. Fidante Partners' distribution capability also continues to be externally recognised and, for the second consecutive year, won Zenith Investment Partners' Distributor of the Year.

In the first half of 2022, the business progressed its offshore expansion, launching a UK base for Ardea, winning a significant mandate from a US-based investor and establishing its presence in Singapore.

With a focus on expanding its product range, Fidante Partners welcomed new emerging markets equity boutique Ox Capital and launched a new global sustainable equity fund via Alphinity Investment Management.

Fidante Partners maintained its reputation for delivering a superior investment performance, with 97% of FUM outperforming the benchmarks over three years.

CIP Asset Management also upheld its position as a market leader in domestic private lending with the roll out of a new offering for sophisticated and wholesale clients.

## Bank

In the first half of 2022, Challenger completed the acquisition of its digital bank, MyLife MyFinance Limited (MLMF), and the integration is progressing well.

To ensure speed to market, term deposits are initially being marketed under the MLMF brand and will transition to the Challenger brand in the second half of FY22. Guaranteed term deposits are an important part of many retirees' and pre-retirees' portfolios and MLMF term deposits are now available on the most widely used bank-specific comparator sites and will become available via the retail broker channel in the second half of 2022.

Reinforcing Challenger's commitment to supporting customers as they prepare for retirement, 75% of 1H22 term deposit sales were to customers over the age of 50 years.

## Priorities

Going into the second half of 2022, Challenger will focus on five key priorities to drive growth in pursuit of its purpose to provide customers with financial security for a better retirement:

- Bring Challenger together to meet more needs of retirees;
- Maintain business momentum;
- Continue to drive product innovation across the business;
- Rebrand and develop 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.

## **Outlook**

For FY22, Challenger expects strong profit growth to continue and reaffirms its guidance, with normalised net profit before tax guidance of between \$430 million and \$480 million, and a mid-point of \$455 million representing 15% growth on FY21.

More broadly, Challenger is well positioned to achieve its FY22 guidance and targets, including return on equity, and remains well capitalised.

## **Investor presentation webcast**

Challenger's Managing Director and Chief Executive Officer, Nick Hamilton, and Chief Financial Officer, Rachel Grimes will provide an investor update at 10.30am (Sydney time) on 17 February 2022. The presentation will be streamed live via webcast which can be accessed at [www.challenger.com.au/shareholder](http://www.challenger.com.au/shareholder)

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This release had been authorised by Challenger's Continuous Disclosure Committee.

## Key metrics

	1H22	1H21	Change
Normalised NPBT (\$m)	238	196	21%
Normalised NPAT (\$m)	166	137	21%
Statutory NPAT (\$m)	282	223	27%
Normalised EPS (cps)	24.5	20.4	20%
Statutory EPS (cps)	41.8	33.2	26%
Normalised ROE pre-tax (%)	12.1	11.5	60 bps
Interim dividend (cps)	11.5	9.5	21%
Total Group AUM (\$bn)	114.9	96.1	20%
Total Life sales (\$bn)	4.9	3.4	44%
Annuity sales (\$bn)	2.5	2.2	15%
Life net book growth (%)	8.4	4.7	370 bps
Funds Management net flows (\$bn)	0.9	6.4	(86%)
Group excess regulatory capital over Minimum Regulatory Requirement (\$bn)	2.0	-	n.a

All growth rates compare the half year ended 31 December 2021 against the half year ended 31 December 2020 unless otherwise stated.

<sup>1</sup> The normalised profit figures are non-statutory amounts and in Challenger's view better reflect the underlying operating performance of the business. The normalised profit figures exclude investment experience and significant items. Investment experience includes both assets and policy liability experience and net new business strain. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets, plus any economic and actuarial assumption changes in relation to policy liabilities for the period. New business strain results from using the risk-free rate plus an illiquidity premium to value term and lifetime annuities. New business strain is a non-cash item and subsequently reverses over the future period of the contract. The normalised profit also excludes any significant items which represent non-recurring income and expense items for the period. The normalised profit framework and reconciliation to statutory profit have been discussed in Section 8 of the Operating and Financial Review in the 2022 Interim Report. The normalised profit is not audited but is subject to a review performed by Ernst & Young.

<sup>2</sup> Reinsurance across both Australian and US dollar annuities, of at least ¥50 billion (A\$600m based on the exchange rate as at 30 June 2021) per year for a minimum of five years, commencing 1 July 2019.

<sup>3</sup> Book growth percentage represents net flows for the period divided by opening book value for the financial year.

<sup>4</sup> Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, September 2021.

**About Challenger**

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for a better retirement.

Challenger operates three core investment businesses – a fiduciary Funds Management division, an APRA-regulated Life division and an APRA regulated authorised deposit-taking institution. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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