

# Market Release

13 February 2024

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## Challenger announces 1H24 result<sup>1</sup>

Significant progress executing growth strategy

### Strong financial performance

- Normalised net profit before tax (NPBT)<sup>2</sup> \$290 million, up 16%<sup>3</sup>
- Statutory net profit after tax (NPAT) \$56 million, up 80%<sup>4</sup>
- Group assets under management (AUM) \$117 billion, up 18%
- Interim dividend 13.0 cents per share fully franked, up 8%
- FY24 expected to be in the top half of NPBT guidance range

### Continued momentum in driving longer duration, more profitable business

- Life sales \$5.3 billion with very strong Lifetime annuity sales of \$1.1 billion, up 190%
- Record new business annuity sales of \$1.9 billion, up 19%<sup>5</sup>
- New business annuity sales tenor 8.9 years (1H23 5.4 years)<sup>7</sup>
- 90% of new business annuity sales 2+ years (1H23 72%)<sup>5</sup>

### Significant progress executing growth strategy

- Expanded strategic partnerships
- Technology transformation program to improve customer experience, support growth and deliver efficiencies

**Challenger Limited (ASX:CGF)** today reported its financial results for the first half of FY24, with a 16% increase in normalised net profit before tax to \$290 million.

Managing Director and Chief Executive Officer, Nick Hamilton said:

“Challenger delivered a strong performance in the half, demonstrating our focus on executing our strategic priorities – broadening our customer reach, expanding our offering and making it easier to do business with us.

“Retirement is fundamentally different to the accumulation phase of superannuation, and the momentum across our Life business highlights our expertise in meeting Australians’ growing demand for secure, guaranteed income.

“This half, we delivered record new business annuity sales of \$1.9 billion which contributed to Life sales of \$5.3 billion. The result also demonstrates our focus on driving more profitable, longer duration business, with 90% of new business annuity sales for terms of two years or more. This in turn is extending the tenor of our Life book, which will support higher, longer term profitability.

“In Funds Management, our diverse offering and investment for growth helped deliver strong net flows of \$5.6 billion for the half and FUM of \$108 billion, up 9%.

“Reflecting Challenger’s strong half year performance, the Board determined a fully franked interim dividend of 13.0 cents per share, an increase of 8%.”

Mr Hamilton said that Challenger had made significant progress in delivering its strategy, with a number of key initiatives executed in the half:

“Over the last two years, we have positioned the business to take a broader stance in retirement – our achievements in the first half of 2024 demonstrate that we are now delivering on that opportunity.

“In Life, we are driving growth across a broader range of channels, including deepening our relationships with superannuation funds. Our retirement partnership with Commonwealth Super Corporation and the launch of TelstraSuper’s lifetime pension, designed in partnership with Challenger, demonstrate our expertise in developing retirement and longevity solutions that address the specific needs of members in retirement.

“In Funds Management, we have continued to innovate and expand our offering, adding new investment strategies, particularly in alternative assets, to meet growing client demand.

“At the same time as executing on our strategy today, we must also ensure that we are set up to capture the growth opportunity ahead. Our technology transformation partnership will enhance our customer experience, bring our innovative offering to a broader range of customers and clients and deliver ongoing efficiencies.

“We have an exciting year ahead. Our business is performing strongly, our strategic initiatives are on track and our transformation program will support further growth.

“More broadly, the opportunity in retirement is extraordinary. Australia is now firmly focused on strengthening the retirement phase of superannuation. As more Australians live longer and retire in ever greater numbers, there will be more demand, across more channels for a broader range of retirement income solutions. We will leverage our retirement and investment expertise to capture this opportunity and deliver on our purpose of providing customers with financial security in retirement.”

## Group financial performance

Normalised net profit before tax (NPBT) was up 16%<sup>3</sup> to \$290 million, driven by a strong performance in Life.

Statutory net profit after tax (NPAT) increased 80%<sup>4</sup> to \$56 million and includes unrealised investment market movements.

Group assets under management (AUM) increased 18% to \$117 billion, driven by Life book growth and strong Funds Management net flows.

Normalised pre-tax ROE increased 270 bps to 15.0%, benefiting from a 330 bps improvement in Life’s ROE.

## Life

Challenger Life is Australia’s leading retirement income brand<sup>6</sup>, leveraging almost 30 years of providing customers with financial security in retirement.

Life earnings before interest and tax (EBIT) increased 15% to \$302 million, reflecting the business’ focus on driving longer duration sales that in turn is delivering strong margin and ROE expansion. Normalised cash operating margin increased 28 bps to 3.04% and pre-tax ROE increased 330 bps to 18.1%.

Total Life sales of \$5.3 billion included exceptional growth in lifetime annuity sales and strong Index Plus sales.

Challenger delivered record new business annuity sales of \$1.9 billion, up 19%<sup>5</sup>. Reflecting the business' focus on growing longer duration and more profitable sales, 90% of new business annuity sales were for terms of 2-years or more<sup>5</sup>, up from 72%. The tenor of new business annuity sales increased to 8.9 years from 5.4 years<sup>7</sup>.

Lifetime annuity sales were outstanding, up 190% to \$1.1 billion. This was driven by strong retail lifetime annuity sales of \$469 million and institutional lifetime annuity sales of \$619 million, reflecting the Aware Super group lifetime policy that highlights the strength of Challenger's investment and longevity risk solutions.

Fixed term annuity sales of \$1.9 billion include lower shorter duration sales as Challenger maintained its disciplined approach to shorter duration business.

Challenger Index Plus sales remained strong at \$2.0 billion and included a new \$500 million 5-year investment from a significant insurance client. This transaction demonstrates the unique and compelling proposition that Challenger Index Plus provides to institutional clients and Challenger's ability to attract longer term business.

Japanese (MS Primary) annuity sales were \$346 million and represented ~67% of the annual minimum target<sup>8</sup>. In November 2023, Challenger Life commenced reinsuring Japanese yen-denominated annuities following the expansion of its successful reinsurance arrangement with MS Primary, with a promising start to the expanded arrangement.

Challenger Life Company Limited (Challenger Life) remained well capitalised with a PCA ratio of 1.50 times<sup>9</sup> the minimum regulatory requirement.

### **Retirement Income Partnerships**

Challenger is making significant progress in executing its strategy to build and deepen partnerships with superannuation funds to help meet their members' needs in retirement.

In 1H24, Challenger formed a new retirement partnership with Commonwealth Superannuation Corporation (CSC). Challenger's longevity solution will form part of CSC's broader Retirement Income Strategy and can be blended with the fund's existing account-based pension, providing retirees with the confidence to draw down their savings.

TelstraSuper also launched its RetireAccess Lifetime Pension, a retirement income product designed with Challenger as part of the retirement income partnership. It is the first profit-to-member guaranteed lifetime income stream following commencement of the Retirement Income Covenant and will provide TelstraSuper members with a guaranteed income for life.

### **Brand strategy and engagement**

In 1H24, Challenger undertook a range of initiatives to enhance its brand, deepen its relationships with advisers and help to position the business as the 'go to' for retirement.

Challenger hosted over 60 adviser roadshows, workshops and webinars across the country, attended by thousands of advisers, on how Challenger can help their clients in retirement.

Challenger launched its new brand sponsorship strategy to build brand awareness, showcase the business' credentials and engage with its target audience of those preparing for and in retirement. This included a brand sponsorship partnership with the Professional Golfers Association (PGA) Australia,

including Golf Australia, the Women's PGA and PGA Legends Tour and Golf Management Australia. Challenger has also entered into a three-year partnership with the Melbourne International Flower and Garden Show (MIFGS), the largest horticultural event in the southern hemisphere. MIFGS is expected to welcome over 100,000 gardening enthusiasts, with more than 60% aged over 45.

## Funds Management

Funds Management is one of Australia's largest active fund managers<sup>10</sup> with a diverse range of contemporary affiliate managers, products and services.

Funds Management EBIT was down 7% to \$29 million due to changes in business mix reducing net income by 1%, and higher expenses, which increased by 3%.

Funds Management FUM increased by 9% to \$108 billion in 1H24, benefiting from strong institutional net inflows of \$6.5 billion and positive investment markets.

### Expanding alternative offering

In 1H24 Funds Management continued to expand its offering, adding new alternative investment strategies to meet growing client demand.

Elanor joined Fidante's stable of affiliate managers. Under this arrangement, Fidante distributes Elanor's compelling real estate proposition. Fidante successfully completed a \$109 million capital raise for Elanor's acquisition of 55 Elizabeth Street, Brisbane.

Fidante also brought the Apollo Aligned Alternatives strategy to the Australian market, providing clients with access to a diversified portfolio of private market opportunities, in which Apollo has invested more than US\$10 billion of its own balance sheet capital.

## Strategic partnerships

In 1H24, Challenger extended its highly successful and collaborative reinsurance agreement with MS Primary, and commenced reinsurance of Japanese yen denominated annuities, in addition to Australian dollar and US dollar annuities issued in Japan.

Challenger also announced the expansion of its strategic relationship with Apollo to support its broader growth strategy. Under the agreement, an origination partnership has been formed and an Apollo representative has been appointed as a Non-Executive Director of the Challenger Board. The origination partnership provides Challenger Life with access to Apollo's high quality, privately originated global credit and alternative opportunities, supporting customer annuity rates and returns for Challenger shareholders.

## Transformation partnership

Challenger today announced a technology transformation partnership that will enable its growth strategy – making it easier to do business with us, broadening the customer base and delivering an innovative offering.

Professional services firm Accenture, which has a track record in delivering technological transformation programs for international insurance companies, will become Challenger's long-term technology partner.

Under the arrangement, Accenture will run Challenger's technology platform and modernise Life's customer technology. The initial agreement is expected to commence by the start of the 2025 financial year for a seven-year term.

The partnership will provide Challenger with access to Accenture's world class technology and capability in a rapidly evolving technology landscape. Customers, advisers and institutional clients will receive a seamless digital experience – customers will be able to fully originate services online, advisers will be able to write new business more efficiently, and the business' interfaces and touchpoints with institutional clients will be upgraded.

Importantly, as Challenger focuses on broadening its customer reach, the transformation partnership will enable Challenger to improve how it integrates its offering with superannuation funds and platforms, helping to position the business as the retirement partner of choice.

With an improved service, the speed with which Challenger can bring its innovative offering to market will be significantly improved.

By leveraging automation, the program will also generate productivity gains and operating efficiencies.

A key priority of the transformation partnership will be to replace Challenger Life's core annuity registry system with global insurance system ALIP (Accenture Life Insurance and Annuity Platform) and to provide new customer portals.

The transformation partnership is expected to deliver \$90 million of operating savings over seven years, commencing in FY25.

## Outlook

Challenger reaffirms its FY24 normalised net profit before tax guidance, and now expects to be in the top half of the \$555 million to \$605 million guidance range.

The FY24 guidance range excludes Challenger Bank. The Bank sale continues to progress and is expected to complete in 2H24, subject to regulatory approvals in Australia and New Zealand, with Heartland responsible for the Bank's operating losses from November 2023.

## Key metrics<sup>3,4</sup>

	1H24	1H23	Change
Total Group AUM (\$bn)	117.1	99.4	18%
CLC PCA ratio (times)	1.50	1.59	(0.09)
Life net book growth (%)	1.7	5.5	(380 bps)
Total Life sales (\$bn)	5.3	5.5	(4%)
Annuity sales (\$bn)	3.3	3.5	(7%)
Funds Management net flows (\$bn)	5.6	(1.8)	n.a
Normalised NPBT (\$m)	290	250	16%
Normalised NPAT (\$m)	201	167	20%
Statutory NPAT (\$m)	56	31	80%
Normalised EPS (cps)	29.3	24.5	20%
Statutory EPS (cps)	8.2	4.6	78%
Normalised ROE pre-tax (%)	15.0	12.3	270 bps
Normalised ROE post-tax (%)	10.4%	8.2%	220 bps
Normalised cost to income ratio (%)	34.6%	38.5%	(390 bps)
Interim dividend (cps)	13.0	12.0	8%

ENDS

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

## About Challenger

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

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

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- <sup>1</sup> All growth rates compare the half year ended 31 December 2023 against the half year ended 31 December 2022 unless otherwise stated.
- <sup>2</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 has been disclosed in Note 4 Segment Information of the 2024 Interim Financial Report. The normalised profit is not audited but is subject to a review performed by Ernst & Young.
- <sup>3</sup> Normalised metrics including Normalised profit before tax, Normalised profit after tax, Normalised EPS, Normalised cost to income ratio, Normalised tax rate, Normalised ROE exclude Discontinued Operations (Bank) in 1H24. Prior periods are not restated to exclude Discontinued Operations (Bank).
- <sup>4</sup> Prior periods 1H23 and 2H23 Statutory net profit after tax, Statutory EPS and Statutory Return on Equity have been restated to reflect the application impact of AASB 17.
- <sup>5</sup> Based on new business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments and Japanese sales.
- <sup>6</sup> Plan For Life – September 2023 – based on annuities under administration.
- <sup>7</sup> Based on new business annuity sales, including term annuities and Lifetime sales, excluding reinvestments.
- <sup>8</sup> Reinsurance across Australian dollar, US dollar and Japanese yen annuities of at least ¥50 billion (~A\$520m based on the exchange rate as at 30 June 2023) per year for a minimum of five years, commencing 1 July 2019. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.
- <sup>9</sup> PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 30 June 2023.
- <sup>10</sup> Calculated from Rainmaker Roundup, September 2023 data.