

Shareholder Newsletter

March 2015

Dear Shareholder,



On behalf of Challenger's Board and management team, I'm pleased to provide you with an update on our latest financial results, which cover the first half of the 2015 financial year.

The year has started strongly and should be another successful year for Challenger.

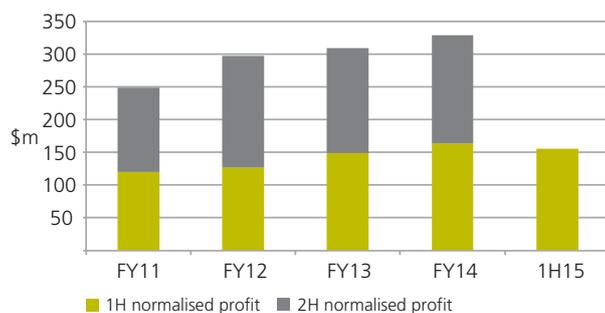
Growth in earnings

With ongoing inflows, total funds and assets under management rose by 17% and now exceed \$57 billion.

These inflows helped drive a 7% increase in normalised profit¹ before tax to \$206 million for the six months. Normalised profit after tax was \$155 million, and was down \$9m on last year, which included a \$15 million tax benefit that was not repeated in the first half of 2015. Excluding last year's tax benefit, normalised profit after tax increased by 4%.

Statutory profit after tax was lower than normalised profit at \$130 million, and includes the impact of accounting valuation changes on our assets and liabilities. The Board continues to believe normalised profit is a better indicator of our underlying operating performance than statutory profit, and for this reason dividends are based on normalised profit.

Normalised net profit after tax



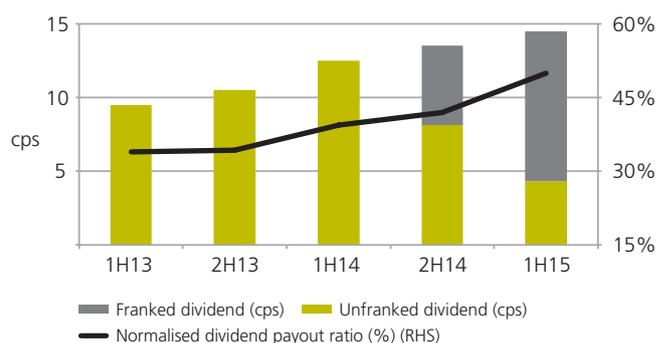
Increase in interim dividend

The Board is focused on increasing dividends over time and regularly reviews the Group's dividend policy to ensure there is an appropriate balance between dividends and retaining capital to grow our business.

Your Board declared an interim dividend of 14.5 cents per share, which was 70% franked, for the six months ending 31 December 2014. The dividend was paid on 31 March 2015 and is 16% higher than last year. The percentage of normalised profit paid out as dividends (the payout ratio) was 50%, up from 39% last year.

Challenger has a long history of increasing shareholder returns through higher dividends. Over the past five years, the interim dividend has almost doubled and franking has recommenced and is now up to 70%. Based on current forecasts, the Board expects the final 2015 dividend (paid September 2015) to be 100% franked.

Dividend and payout ratio



Life business update

Our annuities, or Life business continues to benefit from Australia's ageing population and retirees seeking safe and secure incomes. Total annuity sales for the six months were \$2.1 billion, comprising record retail sales of \$1.6 billion and institutional sales of \$0.5 billion.

As a result of strong sales and the benefit of selling longer tenor products, the size of our annuities portfolio grew by 7% for the six months. With the annuity sales growth and

1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed on page 6 of the Challenger Limited 31 December 2014 half year financial report.

momentum across our Life business, we are well on-track to achieve our full year annuity portfolio growth target of 11% to 13%.

Since 2009, Challenger has been seeking to establish itself as a leading retirement incomes brand among both consumers and their advisers. Through initiatives such as product innovation, adviser education, and our leading retirement income simulators, our leadership and adviser service are now both ranked number one by advisers. Our brand is now well recognised by consumers, with seven out of ten people associating Challenger with retirement incomes².

To leverage our leadership position in retirement incomes we are forming partnerships that will see our guaranteed income solutions available via the third party platforms that dominate the wealth management market.

Over the past six months we have formed a partnership with Colonial First State, which will see our annuities available on their market leading wrap platforms used by half of Australian financial advice businesses. We also formed a partnership with VicSuper, a leading industry fund to provide guaranteed income streams and longevity solutions to their members.

Funds Management update

Our Funds Management business attracted net flows of \$6.8 billion for the six months, including \$2.1 billion of organic flows and \$4.7 billion following the formation of Whitehelm Capital and transfer of Life's asset-backed securities fixed income team to Funds Management.

The growth in our Funds Management business is being supported by strong investment performance across our boutique investment managers, with 97% of funds and mandates meeting or exceeding their benchmarks since inception.

As Australia's seventh largest asset manager, with FUM of \$55 billion, and Australia's largest fixed income manager³, we continue to attract high quality investment teams and are developing and implementing new investment strategies for our range of active boutique fund managers.

Outlook

During the six months Challenger completed a range of capital management initiatives to ensure we have the capital base to capture future organic growth opportunities. This included a \$250 million equity institutional placement and a \$40m retail share purchase plan. Following these initiatives our business is strongly capitalised and positioned to continue to grow.

Our retirement incomes brand is entrenched amongst both advisers and consumers. With the flow of superannuation money moving into the retirement phase expected to triple

to \$190 billion per year over the next decade, Challenger is extremely well-positioned to capture its fair share of this growth.

Our Funds Management business is a high returning business with significant operating leverage. The superior investment performance track record should help support future organic flows. We are also evaluating new opportunities for the Fidante Partners boutiques business in both Australia and potentially offshore.

The senior management team and Board have never been more dedicated to pursuing Challenger's vision to 'provide Australians with financial security in retirement' and be recognised as a leader in Australian retirement incomes.

Key dates

18 August 2015	Release of 2015 financial results and dividend announcement
31 August 2015	Ex-date for 2015 final dividend
2 September 2015	Record date for 2015 final dividend
30 September 2015	Payment date for 2015 final dividend
27 October 2015	2015 Annual General Meeting (to be held in Sydney)

Shareholder information

For administrative matters in respect of your shareholding, please contact Challenger's share register, Computershare Investor Services Pty Ltd.

T: 1800 780 782

W: www.computershare.com.au

To assist with all enquiries please quote your unique Security Reference Number (SRN) and your current address when dealing with Computershare.

Additional information

You can find additional shareholder information, including full details of our latest financial results on Challenger's shareholder website at www.challenger.com.au/share.



Peter Polson
Chairman, Challenger Limited

2. Hall & Partners Open Mind consumer study – September 2014.
3. Consolidated FUM for Australian fund managers – Rainmaker Roundup September 2014.