

Challenger Capital Notes

Newsletter
August 2022



Peter Polson
Chair

\$472m

NORMALISED NPBT¹

Towards upper end of
guidance range

\$254m

STATUTORY NPAT¹

Includes impact of
investment markets

\$9.7bn

LIFE SALES

Diversification strategy
delivering record Life sales

\$99bn

GROUP AUM

Includes market impact on
Funds Management

23.0cps

FY22 DIVIDEND

Up 15% on last year

11.9%

GROUP ROE²

Driven by earnings growth

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 2022 financial year.

Challenger finished the year in great shape, strongly capitalised and well positioned for future growth. Our net profit was toward the upper end of our guidance range and drove stronger returns.

The result reflects the strength of Challenger's franchise and was achieved against a backdrop of ongoing economic uncertainty, volatile investment markets, and the global pandemic which continues to bring challenges for the economy, the community and our business.

As Australia's leading provider of annuities, and one of the largest active fund managers in the country, Challenger has a unique opportunity to play a more meaningful role by meeting the needs of more Australians as they prepare for and enter retirement.

This year we detailed our plans to build a more diversified business that will bring the best of Challenger to more customers than we do today. We have refreshed our strategy, renewed our Leadership Team and reorganised our business as we execute our platform for growth.

A new Customer Division has been formed to support this ambition, bringing together skills and expertise from across the Group. This approach puts the customer at the centre of our business, reflecting our plans to broaden our customer reach.

We have launched two significant joint venture opportunities with SimCorp and Apollo that will generate new revenue streams and support long-term growth.

As we look ahead, Challenger is well positioned to leverage and benefit from our unique competitive advantages as we seek to deliver for our customers, our investors and our people.

Financial update

Challenger's financial performance in 2022 demonstrates the success of our businesses and focus on building a more diversified business to meet a wider range of customer needs.

Normalised net profit before tax (NPBT) of \$472 million was up 19% and towards the upper end of Challenger's guidance range (\$430 million to \$480 million).

Statutory net profit after tax was \$254 million, reflecting wider credit spreads and lower equity markets driving unrealised mark-to-market investment experience.

The Life business recorded book growth of 14%, driven by strong sales of \$9.7 billion. The Life business continues to leverage favourable retirement and demographic trends while higher interest rates are supportive for both annuity sales and investment returns.

Funds Management grew earnings by 17%, benefiting from average FUM growth of 13% and higher margins. Funds Management continues to grow, welcoming new affiliates and launching new investment products for our existing managers.

Group assets under management (AUM) was down 10% to \$99 billion with strong Life book growth and AUM (up 13%) offset by lower Funds Management FUM.

Group expense management remained disciplined, increasing by 2% excluding the contribution from the recently acquired Bank.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Operating and Financial Review in the Challenger 2022 Annual Financial Report.

² Normalised ROE (pre-tax).

Strategic partnerships

Challenger announced two new joint venture partnerships in FY22, which further diversify its revenue streams and support long-term growth.

We are forming a joint venture with global software provider SimCorp (CSE:SIM), which will create a leading technology-led investment administration business servicing Australian and Asia-Pacific investment managers and superannuation funds.

Challenger also formed a joint venture partnership with Apollo (NYSE:APO) to build a leading lending business in Australia and New Zealand.

Strongly capitalised

Challenger continues to maintain a strong capital position with financial flexibility.

At the end of FY22, Challenger had \$1.8 billion of Group excess regulatory capital, representing a Group regulatory capital ratio of 1.68 times the minimum regulatory requirement.

Challenger Life finished the year with a Prescribed Capital Amount ratio of 1.60 times, which is toward the top end of Life's target operating level.

The Challenger Board declared a fully franked final dividend of 11.5 cents per share, taking Challenger's full year dividend to 23.0 cents per share, up 15%.

Outlook

In FY22, Challenger detailed plans to refresh its strategy and further diversify the business through leveraging core capabilities and expertise in order to play a more meaningful role in customers' lives.

To support this, Challenger implemented a new organisational design and renewed its Leadership Team. This included the establishment of a new Customer Division, to bring together product, sales and marketing capabilities across the business.

In FY23, Challenger is targeting normalised net profit before tax guidance between \$485 million and \$535 million.

As we look to the new year, our business is in great shape. We remain strongly capitalised and well positioned to leverage and benefit from our unique competitive advantages.

Upon my retirement in October, it will be my great pleasure to hand over the position as chair of this very special company to Duncan West who along with our talented group of Directors and senior executives will continue to steer the business to an even greater contribution in service of all of our stakeholders.

I strongly believe I am leaving the business in great hands. This year, the Board was pleased to appoint Nick Hamilton as Challenger's new CEO. Prior to this Nick was CEO of Challenger's Funds Management business and has played a key role in developing Challenger's growth strategy. He has a deep understanding of our business and has a clear vision and plan for the future. Importantly, Nick moved quickly to execute his plans by simplifying the organisational structure and bringing new executives onto the leadership team.

It has been an honour to serve as your Chair and a Member of the Board for the past 19 years. It's no accident Challenger is Australia's leading retirement income brand and one of Australia's largest active fund managers with such unwavering support from our customers, our people and our investors.



Peter Polson

Independent Chair
Challenger Limited

Additional information section

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Challenger Capital Notes 2 distribution history

Distribution payment date	Cash distribution	Total return p.a.
22 August 2022	\$0.95	5.45%
23 May 2022	\$0.77	4.48%
22 February 2022	\$0.78	4.45%
22 November 2021	\$0.77	4.41%

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Challenger Capital Notes 3 distribution history

Distribution payment date	Cash distribution	Total return p.a.
25 August 2022	\$1.00	5.66%
25 May 2022	\$0.80	4.68%
25 February 2022	\$0.82	4.65%
25 November 2021	\$0.81	4.61%