



Sustainability

Driven by our purpose of providing customers with financial security for a better retirement, Challenger is committed to creating a sustainable future for our customers, people, shareholders and wider stakeholders.

Challenger is a unique business with an opportunity to improve the financial outcomes of Australians in retirement. Our Life business is Australia's leading provider of guaranteed income, and our Funds Management business is one of the country's largest active funds managers, offering a diverse range of products and managers. We manage approximately \$100 billion¹ on behalf of our clients across a range of asset classes, including fixed income, equities, commercial real estate, private assets and alternatives.

Key points

Significant improvement to Challenger's ESG approach

Enhanced ESG governance and Board oversight

Commitment to evolving ESG practices in line with stakeholder expectations

Over the last year, Challenger has undertaken a comprehensive review of our sustainability approach and ESG performance to ensure we remain aligned to current and future international and domestic standards, regulation and legislation.

This year's Sustainability Report has been restructured to align with the Task Force on Climate-Related Financial Disclosures' (TCFD) four thematic areas. These represent the core elements of how organisations such as Challenger operate, and includes a focus on risk management, strategy, governance, and metrics and targets. We recognise that the TCFD focuses on climate; however, this report covers a wider range of sustainability initiatives and our ESG performance.

Challenger's sustainability strategy reflects our most material environmental, social and governance opportunities. Activity across our four pillars – responsible investment, financially resilient customers and communities, doing things right and constructive policy settings – is outlined in the Strategy section of the report.

Progressing our ESG journey

Over the last year, Challenger has taken significant steps to better understand our current ESG performance against our purpose, operating model and core business activities.

This included the completion of a comprehensive ESG review (the review) covering technology systems, data maturity, governance practices, risk identification and ESG-related decision-making processes. The review benchmarked our current state against a range of stakeholder perspectives, including institutional clients, regulators, the Australian Government and proxy advisers. This provided a comprehensive understanding of areas where Challenger could improve its ESG practices over time. Following this review, we commenced a range of initiatives which are outlined in this year's Sustainability Report.

The road ahead

The review has informed focus areas that Challenger will progress, including:

- **Carbon neutrality** – we will develop a plan to reduce Scope 1 and 2 emissions in FY24, with a view to becoming carbon neutral certified.
- **Data and insights** – We will continue to improve the quality and expand the coverage of ESG data, particularly relating to climate and financed greenhouse gas emissions across our asset portfolio. This will enable a stronger understanding of Challenger's ESG risks and opportunities to improve investment processes and enhance better decision-making across the business.
- **Reporting and disclosure** – We will evolve our ESG reporting and align it with international frameworks such as the International Sustainability Standards Board (ISSB), Task Force on Climate-Related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB) and Partnership for Carbon Accounting Financials (PCAF). This will also provide a more comprehensive view of our progress.
- **Scenario testing** – We aim to develop a range of future climate scenarios and assess and quantify the impact of those scenarios on the investment portfolios and wider business operations. The insights gained will ensure Challenger can proactively manage ESG risks and opportunities that arise from these scenarios.
- **Integration into strategy and operations** – We will continue to embed ESG considerations into our strategy, decision-making and risk management approach. Uplifting our investment management systems will play a critical role in integrating ESG considerations into the day-to-day decision-making of our investment teams.



1. As at 30 June 2023.

Our sustainability strategy

Challenger's sustainability strategy reflects our most material social, environmental and governance opportunities.

Activity across our four pillars is outlined in the Strategy section of the report.



Risk management and material topics

In this report, we have assessed and disclosed the risks associated with material ESG topics and described the measures taken to manage and mitigate these risks.

Key points

Clearer ESG material topics that better reflect stakeholder views and business requirements

Material ESG topics and risks linked

Expanded governance topic in this year's report

Challenger's approach to materiality

Challenger undertakes a process to identify and prioritise the most significant ESG issues for our business. A broad range of stakeholders are considered throughout the materiality process, including customers, shareholders and investors, government, regulators, industry groups, financial advisers, media, community groups and employees.

As our material issues are not expected to significantly change year to year, a full materiality assessment is conducted every three years. The full materiality assessment includes interviews and surveys with external stakeholders and quantitative and qualitative analysis of material topics. A full materiality assessment will next be undertaken in 2024. In the interim periods, including this year, we focus on qualitative analysis and engagement with key internal stakeholders such as Challenger's Leadership Team and Board Group Risk Committee.

In the 2023 materiality review we undertook the following steps:

- **Identify and define** – Our list of material topics was drawn from the nine material topics identified in the 2021 full materiality assessment. Those topics were ranked across a materiality matrix (as previously disclosed in the 2021 Sustainability Report) according to their 'importance to our business' and 'importance to our stakeholders'. This year, analysis was supplemented with inputs from the Sustainability Accounting Standards Board (SASB) material topics framework and the MSCI materiality matrix (for asset management).
- **Prioritise** – We reviewed the ranking of our material topics and assessed whether the topics were still relevant or if new topics should be included. Our analysis was informed by insights from customer and adviser surveys, proxy advisory firm guidance notes and peer group analysis.
- **Validate and disclose** – Topics were validated through forums, including the Group ESG Steering Committee, Leadership Team and individual sessions with key stakeholders including investor and client-facing teams. The final assessment was approved by the Challenger Board.

What's changed

We have taken the opportunity to make our material topics clearer, more specific and relevant to Challenger's business, and created stronger alignment to international frameworks.

The substance of Challenger's material topics has not changed significantly; however, two topics from the 2022 materiality assessment have been removed – operating environment and social equality, and community resilience. These were assessed as overlapping with other materiality topics (including business ethics and sustainable retirement income system and adequacy) and have been incorporated elsewhere in the 2023 material topic definitions.

The material topics outlined in this report will inform our ESG work program and initiatives in FY24.



Challenger's FY23 material topics

FY22 MATERIAL TOPICS	FY23 MATERIAL TOPICS	DESCRIPTION	RATIONALE
BETTER CUSTOMER OUTCOMES	SUSTAINABLE RETIREMENT INCOME SYSTEM AND ADEQUACY	Includes designing products with the wellbeing of individuals in mind and contributing to discussions and debates that improve the sustainability of Australia's retirement income system.	<ul style="list-style-type: none"> – Reflects Challenger's commitment to building a customer-centric business – Stronger alignment to Challenger's purpose – More specific to the impact of Challenger's products on its customers – Better aligns with Challenger's client objectives – Alignment to SASB
	REPRESENTATION OF PRODUCTS AND INVESTMENT STRATEGIES	Addresses issues including the transparency, accuracy, and comprehensibility of marketing statements, advertising, and labelling of products and investment strategies.	<ul style="list-style-type: none"> – Clearer alignment to Challenger's commitment to acting in customers' best interests – Incorporates regulator feedback and focus on product transparency – Alignment to SASB
GREAT PLACE TO WORK	EMPLOYEE WELLBEING, DIVERSITY AND INCLUSION	Addresses hiring and promotion practices, inclusion, diversity on the basis of race, gender, ethnicity, religion, sexual orientation, and other factors. Also includes the safety and wellbeing of our workforce and expectation that our people act in line with our IACT values.	<ul style="list-style-type: none"> – Specific to the people outcomes that Challenger is striving to achieve – More measurable – SASB alignment
PRIVACY AND SECURITY	DATA PRIVACY AND CYBER SECURITY	Addresses the management of risks related to the collection, retention, and use of sensitive, confidential and/or proprietary customer or user data. It includes social issues that may arise from incidents such as data breaches in which personally identifiable information and other user or customer data may be exposed.	<ul style="list-style-type: none"> – Reflects Challenger's focus on strengthening its cyber security capabilities – Addresses feedback provided by proxy advisors – More specific to changes in the cyber security landscape – Alignment to SASB
TRUST AND CONFIDENCE	BUSINESS ETHICS	Addresses the company's approach to managing risks surrounding ethical conduct of business, including fraud, corruption, bribery and facilitation payments, fiduciary responsibilities, conflicts of interest and misrepresentation.	<ul style="list-style-type: none"> – Stronger connection to business practices and regulatory settings – Alignment to SASB
	GOOD CORPORATE GOVERNANCE AND COMPLIANCE	Describes the way we act in the best interests of stakeholders through the provision of accurate and timely information, ensuring individuals are accountable for their actions, the appropriate composition and focus of the Board, preservation of shareholder rights and contemporary remuneration policies. This also describes the way we oversee and comply with regulations relevant to our business.	<ul style="list-style-type: none"> – Highly relevant to Challenger's business – Key focus area for stakeholders
CLIMATE CHANGE	CLIMATE CHANGE	Describes Challenger's commitment to supporting progress in transitioning to a low-carbon economy. This includes working with stakeholders to find ways to reduce risks and create a more resilient economy. Also covers the business' recognition that the physical and transition risks related to climate change, if not considered, will have financial impacts on our business and the wider economy.	<ul style="list-style-type: none"> – Climate change is incorporated into our investment decisions and overall risk management frameworks – remains a material topic
PARTNERSHIPS AND COLLABORATION	PARTNERSHIPS AND COLLABORATION	Describes Challenger's ability to work with governments, strategic partners, not for profits and academia to address complex ESG challenges and build consensus on important ESG issues for our business and stakeholders. It also concerns Challenger's relationships with its investors, proxy advisory firms and ability to engage with them in the interest of enhancing ESG performance.	<ul style="list-style-type: none"> – Highlights that collaboration and successful partnerships support our business to deliver high quality outcomes for our stakeholders – remains a material topic
INVESTING RESPONSIBLY	INVESTING RESPONSIBLY	Addresses the integration of ESG considerations in the management of Challenger's assets and assets managed on behalf of others, alongside pure financial considerations. This includes incorporating ESG criteria into investment analysis and actively engaging with companies to improve their ESG performance where we can make a difference.	<ul style="list-style-type: none"> – Highlights the importance of incorporating environmental, social and governance considerations into our investment process – remains a material topic

Risk management and material topics (continued)

Better understanding our ESG risks

By leveraging Challenger's existing risk framework and profile, we have assessed the associated risks for each of our material topics. This included reviewing our top 10 risks from the annual Board risk workshop which are reviewed throughout the year.

We also analysed more than 200 individual risks within Challenger's risk register, tagged the relevant risks against our material topics and identified mitigating actions.

This process provided a more comprehensive understanding of areas where there were gaps between our material topics and risk profile, or where further analysis was required. This is particularly relevant to risks relating to climate change, which will become a greater focus for Challenger in the years ahead.

Linking material ESG topics to our risks and mitigants

MATERIAL ESG TOPICS	ASSOCIATED RISKS	MITIGATING ACTIONS
INVESTING RESPONSIBLY	<ul style="list-style-type: none"> – Poor investment decisions due to lack of ESG considerations 	<ul style="list-style-type: none"> – Responsible Investment Policy
SUSTAINABLE RETIREMENT INCOME SYSTEM AND ADEQUACY	<ul style="list-style-type: none"> – Failure to understand customers and their needs – Product misaligned to customer needs – Poor recognition and accommodation of vulnerable customer needs – Systems and processes inadequate in servicing customers 	<ul style="list-style-type: none"> – Product Lifecycle Policy – Centralised Customer division focused on end-to-end customer needs – Product roadmap – Market intelligence and analysis – Review and improvement of customer journeys – Financial abuse of elders and vulnerable customers framework – Complaints management process – Customer feedback quarterly forums
BUSINESS ETHICS	<ul style="list-style-type: none"> – Conduct misaligned to community expectations and regulatory environment – Fraudulent activities by third party managed investments – Fraudulent activities within key operational or financial teams – Fraud, bribery or corruption with respect to major transactions – Conflicts of interest – Insider trading – Handling confidential information 	<ul style="list-style-type: none"> – Conflicts of Interest Policy – Information Barriers Policy – Related Party Transactions Policy – Staff Trading Policy – Delegated Authorities Policy – Conduct Risk and Consequence Management Framework – Risk culture assessments and action planning – Ongoing review of Conflicts of Interest Register – Ongoing review of Gifts and Entertainment Register – Regulatory and compliance training – Consequence Management Committee
REPRESENTATION OF PRODUCTS AND INVESTMENT STRATEGIES	<ul style="list-style-type: none"> – False or misleading information or marketing – Incorrect or misleading corporate messaging 	<ul style="list-style-type: none"> – All marketing material subject to approval process – Product disclosure review and approvals – Compliance reporting for distribution activities – Marketing Compliance Policy and training
DATA PRIVACY AND CYBER SECURITY	<ul style="list-style-type: none"> – Unauthorised access, disclosure or use of data and personal information – Risk of successful cyber security incident 	<ul style="list-style-type: none"> – Information security controls to monitor and maintain a secure technology platform – Phishing and education campaigns – Information Security Policy – Information Retention and Storage Policy – IT Acceptable Use Policy – Privacy Policy
EMPLOYEE WELLBEING, DIVERSITY AND INCLUSION	<ul style="list-style-type: none"> – Inadequate support for employee health, safety and wellbeing – Inability to attract and retain the right people 	<ul style="list-style-type: none"> – Implementation of new Employee Value Proposition – Remuneration practices approved by management and the Board – Ongoing analysis of employee engagement and feedback to action and improve employee experience – Gender targets at Group, management, leadership and Board level, which are disclosed in the Annual Report and are considered in determining variable remuneration outcomes – Employee-led Diversity and Inclusion networks – Range of employee events to support diversity – Employee Assistance Program – Mental health first aiders

Identifying and assessing climate-related risks

Climate risk refers to potential consequences that arise from climate change including physical and transition risks.

As we progress our approach to assessing climate-related risks, we will focus on:

- **Data capture** – We will continue to assess the quality and coverage of our data of the asset classes we invest in. Using the Partnership for Carbon Accounting Financials (PCAF) methodology, we have commenced assessing the datasets currently available for various asset classes that comprise Challenger's total funds under management (FUM). As we begin assessing Scope 3 Financed Emissions profile, we will initially focus on the listed equities and corporate bonds asset classes.
- **Baselining financed emissions** – This will form a starting point for measuring and tracking greenhouse gas emissions associated with Challenger's investment and financing activities across the asset classes we invest in (Scope 3 Financed Emissions). With an initial focus on listed equities and corporate bonds, we will expand our analysis to additional asset classes over the next 12 to 24 months. Understanding our financed emissions will assist in target setting and informed key strategic decisions relating to climate risks and opportunities. The 2023 Sustainability Report includes reporting of Challenger's investment and financing activities for listed equities and corporate bonds.
- **Scenario analysis** – This will be based on a range of global climate scenarios developed by bodies such as the International Energy Agency and the Intergovernmental Panel on Climate Change, and will provide a range of potential future climate states. Scenarios will be used to evaluate the potential resiliency of our strategic plans, investment strategies and operational policies and ensure that we continue to meet legislative and regulatory requirements.





Our sustainability strategy

Responsible investment

Challenger is cognisant of the world that current and future customers will retire into, and the opportunity we have to make a positive difference through our investment activities. We believe ESG factors have an impact on the long-term performance of investment markets and company performance, and ESG integration should improve risk-adjusted returns over time.

Key points

Challenger manages approximately

~\$100 billion¹

in FUM across asset classes, including fixed income, equities, commercial real estate, private assets and alternatives

We actively consider ESG factors in our investment processes and engage with companies to improve their ESG performance and reduce investment risk

Our Responsible Investment Policy integrates ESG considerations into our investment processes

Our approach to ESG integration

Challenger takes ESG risks into consideration in our investment decision-making and ownership practices, portfolio construction and appointment of managers acting on our behalf. This approach helps Challenger build a more resilient organisation and protects the business and our customers from financial and non-financial risks.

The ESG risks and opportunities are considered across different asset classes as outlined below:

CONSIDERATIONS & EXAMPLES

Environmental

Climate change (e.g. greenhouse gas emissions, emissions trading, physical risks and opportunities, transition risks, adaptation, mitigation), biodiversity loss, building energy performance, energy consumption, pollution, natural resource use and degradation (e.g. water scarcity), land use, waste, clean technology products and services, environmental management practices and product lifecycle management.

Social

Human capital, workplace health and safety, labour relations and standards, human rights, modern slavery, demographic changes, supply chain, responsible lending, data privacy, Indigenous cultural heritage, animal welfare and community impacts.

Governance

Board composition and independence, executive remuneration and incentive plans, corporate accountability structures, compliance, negligence, bribery and corruption, conflicts of interest and related-party transactions, shareholder rights, board oversight of ESG risks, accounting and audit quality.

Challenger's Responsible Investment Policy

Challenger's Responsible Investment Policy is reviewed annually and requires the Challenger Limited Board, ESG Steering Committee, Challenger Leadership Team and investment teams to have responsibility for integrating ESG considerations into the investment process. Senior investment leaders across Challenger also have key performance indicators (KPIs) that are linked to responsible investment and ESG integration. Performance against these KPIs is assessed as part of the annual remuneration cycle and determining investment leaders' variable remuneration outcomes.

We undertake investment activity across Challenger Life and Funds Management. Within the Funds Management business, Challenger Investment Management (CIM) and Fidante affiliates manage money on behalf of Challenger Life and third-party external clients.

The consideration of ESG factors for the Challenger investment teams is governed by the Responsible Investment Statements specific to their investment team. However, they are all governed by our overarching Responsible Investment Policy. Detailed asset class approaches to ESG integration can be found on the [Challenger website](#). Fidante affiliates are governed by their own ESG policies and frameworks.

Challenger Life Company

The Challenger Life Company (CLC) holds \$24 billion in assets under management¹. The majority of Life's investment portfolio is either outsourced to Challenger Investment Management (CIM) or managed by external third-party managers.

CLC direct investment

Where Challenger Life makes a direct investment and is exposed to a company directly (either by way of an equity or debt investment), it will identify material ESG issues and engage with the company to discuss their ESG risk management policies, strategies, performance, disclosure and management capabilities, with the purpose of reducing the risk of the underlying investment.

1. As at 30 June 2023.

ESG governance



CLC may elect not to proceed with investments where ESG risks are deemed to be high. CLC also engages with companies on its existing investments to discuss changes in ESG-related risks and may choose to divest some investments where it deems ESG risk falls outside of its risk appetite. CLC does not undertake any ESG screening on passive (index) exposures.

ESG due diligence

CLC undertakes an extensive ESG due diligence process for any third-party investment manager that it considers appointing as an external investment manager. This process is conducted by Challenger's Senior ESG Specialist and considers:

- ESG philosophy, approach and capability;
- Responsible Investment Policy and Stewardship Policy; and
- Confirmation of the Manager being or intending to be a signatory to the Principles for Responsible Investment (PRI).

Challenger expects any third-party investment manager will demonstrate:

- An acceptable level of commitment to the management of key ESG risks and opportunities, including following the PRI Principles and effectively assessing, measuring and monitoring climate risks and opportunities;
- Modern slavery risks are considered as part of the ESG integration process; and
- The application of principles of active ownership and investment stewardship, particularly in relation to proxy advisory voting and engagement.

Challenger Investment Management (CIM)

Fixed income

CIM has a systematic approach to incorporating ESG considerations into its investment process, and its specialty in private lending markets provides a greater opportunity for active engagement. CIM determines materiality by considering which ESG risks and opportunities the industry is most exposed to as well as any ESG risks and opportunities specific to the issuer itself.

CIM has developed a proprietary framework to assign a rating for ESG risk factors on each potential investment. This assessment forms a key part of the investment process. Further detail on the ratings process can be found in the [CIM Responsible Investment Statement](#).



Strategy

Responsible investment (continued)

Real Estate

CIM Real Estate is committed to the integration of ESG considerations into its property investment decision-making and asset management. Integration of ESG practices is a part of the Real Estate team's day-to-day business operations. The climate change section of this report provides additional information on the NABERS rating outcomes achieved for the CIM Real Estate commercial office portfolio.

In April 2023, Challenger entered into an agreement with Elanor Investors Group, an Australian listed real estate investment and funds management business, to form a strategic real estate partnership. As part of the agreement, Challenger sold its Australian Real Estate business (within Challenger Investment Management) to Elanor. The transaction completed in July 2023, with the Real Estate portfolio now covered by Elanor's ESG framework.

Fidante

Fidante is a multi-affiliate platform that takes a minority equity interest in independent branded and operated funds management businesses and provides investment administration and distribution services to those businesses. Fidante affiliates offer strategies across equities, fixed income, private investments and alternative assets.

Fidante affiliate managers value responsible investment practices and integrate ESG factors into their investment processes. ESG is a core part of the due diligence process when Fidante considers partnering with a new affiliate manager, with its investment managers expected to align to Challenger's ESG values and principles, as outlined in our Responsible Investment Policy.

As part of this commitment, Fidante works with all affiliate investment teams on ESG integration. Every Fidante affiliate is a signatory of the PRI and implements their own ESG framework including ESG and Stewardship policies. Affiliates also work with the Fidante ESG team to continually enhance and upgrade their ESG practices and frameworks.

Fidante sustainable offering

Fidante has partnered with a range of affiliates that have a sustainability objective as a core part of their investment philosophy, including:



Alphinity Investment management has two sustainable funds with a focus on investments with a net positive alignment to the UN Sustainable Development Goals.



Proterra Investment Partners Asia has a strategy focused on food technologies that contribute to safe, high-quality and sustainable food products.



Cultiv8 Funds Management invests in early-stage sustainable agricultural and food technologies.



Resonance Asset Management invests in sustainable, circular and industrial infrastructure that produces renewable energy, cleans contaminated water and recovers valuable resources.



Impax Asset Management invests in opportunities arising from the transition to a sustainable economy.

Alphinity Workplace Culture Report

Following cultural issues in the resources sector, Alphinity undertook a research and engagement project to explore the related risks across the industry and deepen their understanding of the factors that drive, or mitigate, harmful behaviour within a company. Industry reports and one-on-one interviews with 10 S&P/ASX 200 companies in the mining and industrial sectors formed the basis of the investigation.

Alphinity subsequently developed a framework for investors to assess workplace culture characterised by three overarching pillars:

- **Strong governance:** A holistic safety culture driven from the top down, with Board oversight and remuneration linked to People and Culture;
- **Safe and inclusive operating environment:** A speak-up culture and strong diversity, equity and inclusion strategy integrated through the operating environment, together with effective training and awareness programs; and
- **Engaged employees:** An engaged workforce (that includes contractors under the same policies), supported by a strong engagement survey approach and transparent reporting of turnover and absenteeism data.

The Alphinity Workplace Culture Report can be reviewed [here](#).

Strategic partnership with Proterra Asia

In FY23, Fidante formed a strategic partnership with Proterra Investment Partners Asia, a leading private equity investor focused on the Asian food and agribusiness sectors. This partnership capitalises on the growing consumer demand for safe, high-quality food products that prioritise health, nutrition, convenience, social impact and sustainability.

Cultiv8 – From the Ground Up: reimaging the food and farming system

In October 2022, Fidante partnered with Cultiv8 Funds Management, a global agricultural and food technology investment team based in Orange, regional New South Wales. The team launched the Cultiv8 Agriculture and Food Technology Fund targeting seed to series B investments in Australian and global agri-food tech companies.

Cultiv8 focuses on sustainability, investing in agricultural and food technologies, enhancing adoption to create opportunities that reimagine the food and farming system. Cultiv8 has also established relationships with Australia's leading research and development providers and industry bodies including NSW Department of Primary Industries, Meat and Livestock Australia and Grains Research and Development Corporation.

Zetifi

Zetifi has created technology to deliver last-mile connectivity solutions via long-range Wi-Fi to improve rural connectivity. Zetifi offers low-cost, easily installed and scalable wireless technology to users with poor coverage.

Zetifi's products help to transform the way regional communities live and work, enabling farmers, agribusiness and essential service providers to unlock the power of connected digital technology.



FutureFeed

FutureFeed has created the IP behind an innovative livestock feed supplement derived from red seaweed species *Asparagopsis*. The active ingredient bromoform, found naturally in the seaweed, is concentrated and added to feed. Used in small quantities, the feed additive can reduce livestock methane emissions by 80% and improve feed conversion.

FutureFeed manages the IP and provides licences to seaweed producers.



Collaborating for change

At Challenger, we engage collaboratively across the industry to effect change and advocate for our Investment Managers through our ESG, Sustainability and Distribution teams.

The ESG team actively engages with the Principles for Responsible Investment (PRI), Financial Services Council ESG Working Group, Responsible Investment Association of Australasia (RIAA) and the Investors Against Slavery and Trafficking Initiative (IAST).

Responsible Investment Association of Australasia (RIAA) – Investor Toolkit on Human Rights and Armed Conflict

Armed conflict impacts communities and investors across the world. The Russia-Ukraine conflict, with its severe economic and humanitarian consequences, highlighted the need to manage the complex financial and moral dilemmas of armed conflict in real time.

In response, Challenger engaged with the RIAA Human Rights Working Group and international experts to develop a comprehensive toolkit to empower investors and companies in safeguarding human rights and mitigating risks associated with armed conflict.

The toolkit provides detailed guidance for investors to identify where portfolio companies may be operating in a conflict-affected context, and how to identify actual and potential adverse human rights and international humanitarian law impacts. The toolkit also provides detailed guidance on how investors can engage with companies on these issues.



Our sustainability strategy

Financially resilient customers and communities

Challenger's purpose reflects our commitment to customers – to provide them with financial security for a better retirement – and is more relevant than ever given the economic and demographic shifts of the last year.

Key points

95%

Customer service satisfaction rate

Embedded new Customer division

Launched guaranteed fixed term annuity to direct customers

Cost of living concerns, combined with market and economic instability, mean today's retirees face far greater uncertainty. Our research and experience highlight retiree confidence is directly impacted by their sense of financial security – two-thirds of retirees expect to outlive their savings. Of those, 85% are worried about having a materially lower standard of living during retirement.

Through an improved customer experience, expanded product offering and relationships with advisers and strategic partners, Challenger is focused on providing that certainty and addressing a wider range of customer needs.

As a leading retirement income provider, Challenger also recognises the important role it plays in contributing to a more sustainable and equitable future for all Australians and is committed to supporting communities across the country.

Improving the customer experience

This year, Challenger focused on improving the customer experience as we continue to build a more customer-centric business.

Challenger established a Customer division, bringing together skills and capability from across the group. This division is now embedded with the needs of the customer at the centre of our business. The teams are focused on simplifying our operations and enhancing the way our products and solutions are delivered to customers.

In 2023, we've used digital technology to introduce new ways to materially improve the customer experience. This includes the launch of our guaranteed annuity fixed term direct, where customers or their adviser can purchase a fixed term annuity online in as little as five minutes. This initiative greatly improves the accessibility of our fixed term product, providing customers greater access to guaranteed income products.

Meeting a wider range of customer needs

Challenger is Australia's leading provider of guaranteed lifetime annuities, offering a comprehensive suite of options from immediate to deferred payments to suit a wide range of income needs in retirement. This includes a new accelerated payment option for retirees who seek more income earlier in retirement. Our customers can also now purchase annuities that align income to the Reserve Bank of Australia cash rate, CPI or to a range of investment market indices, while also choosing the timing of when to receive those income payments.

In a changing market environment, annuities provide certainty to our customers. Challenger's annuity rates reached 10-year highs in 2023, supported by rising interest rates, with Challenger passing on higher interest rates to our customers.

In June 2023, we launched the House of Income Solutions campaign. This promoted our wide range of products suitable for different life stages and needs. This was the first time the Challenger and Fidante brands were promoted together, positioning the business as an industry leader across both savings and income categories.

Challenger is also focused on building a unique retirement solutions capability, partnering with superannuation funds to deliver lifetime income to their members. In 2023, Challenger announced a partnership with TelstraSuper to provide the lifetime income component of its retirement offering to its members, ensuring TelstraSuper members will have more options to help them achieve financial security in retirement.

Fidante continued to drive innovation to address the needs of customers in a changing market environment. Several new funds were launched throughout the year, including two new active ETFs for Alphinity – the Global Equity Funds and the Alphinity Global Sustainable Fund, highlighting our ability to respond to customers who want to transact using different vehicles.

Advisers, on behalf of their clients, are increasingly interested in private market and alternative investments. To meet this growing demand, Fidante expanded its range of alternatives, including strategies with strong ESG credentials. For further information, please see the Responsible Investment section of our Report.

Strategic partnerships

Challenger has a strong track record of building strategic partnerships, leveraging their scale and expertise as we focus on our competitive advantages.

In FY23, Challenger entered into an agreement with Elanor Investors Group, an Australian listed real estate investment and funds management business, to form a new strategic real estate partnership. As part of the agreement, Challenger sold its Australian real estate business (within Challenger Investment Management) to Elanor who has now become our exclusive commercial real estate partner in Australia and New Zealand.

Challenger continued to build our long-term relationship with the MS&AD Group, a leading Japanese provider of foreign currency life products. Through this partnership, we deliver guaranteed foreign currency returns to MS Primary, MS&AD's Japanese Life insurer, which in turn are used to support income payments to their clients.

Our strategic partnership with Apollo, a global alternative asset manager, is progressing. An agreement has been formed for Fidante to become Apollo's distribution partner in Australia for their Apollo Aligned Alternatives (AAA) product. This will see Fidante make Apollo's alternatives capability available to Australian investors, providing an alternative to traditional stocks and bonds investments, which should help customers save for retirement and achieve financial security in retirement.

Esme – providing customers with financial security in retirement

Esme is a 95-year-old customer who lost her husband this year. In 1990, Esme and her husband paid \$40,000 for a Challenger annuity to begin the retirement phase of their lives. Esme contacted Challenger's customer service team recently, concerned that the \$6,000 annual payment she'd received was a mistake as it appeared too high.

Esme was delighted to learn that there was no mistake – over the years, the payment had kept pace with inflation and more than doubled. Esme will continue to receive a guaranteed and increasing income for the remainder of her life.



Our sustainability strategy

Financially resilient customers and communities (continued)

Challenger partnership with the Australian Academy of Technological Sciences and Engineering



In June 2023, Challenger established a new partnership with the Australian Academy of Technological Sciences and Engineering (ATSE) to support Indigenous leadership in STEM and technological innovation.

The partnership includes sponsorship of ATSE's inaugural Traditional Knowledge Innovation Award, which recognises STEM leaders who are applying Traditional Knowledge to solve modern problems. Award winners will receive funding to support development of their innovation and mentoring from Challenger executives.

This partnership reflects Challenger's commitment to investing in knowledge and embracing innovation. Challenger also hopes to provide opportunities for Aboriginal and Torres Strait Islander people who are using Traditional Knowledge to solve some of today's many challenges for the benefit of all Australians.

Working with advisers

Challenger has built longstanding relationships with Australian advisers, working with approximately 8,000 advisers who support both our Life and Funds Management businesses.

Throughout 2023, we also continued to grow our affiliate presence on external Approved Product Lists and platforms, making our strategies more accessible to more advisers and their clients.

Advisers continued to recognise the strength of our annuities offering, with a 36% increase in the number of Australian advisers writing lifetime annuities and a 72% increase in those writing multiple policies.

We are committed to supporting adviser education, and throughout the year we held 70 retirement workshops across the country, helping financial advisers understand the financial risks and considerations their clients face in retirement and when entering aged care.

Customer feedback and taking action to improve

Challenger uses a range of tools to track, measure and report how we deliver for our customers and, importantly, what actions we can take to improve.

Overall, feedback shows customers feel heard and are highly valued. In FY23, Challenger maintained a high customer service satisfaction rate of 95% and our Net Promoter Score was 75.

Improving the customer experience and how feedback is addressed is an ongoing priority. In 2023, in response to customer feedback we launched the online application process for term annuities and laid the foundations for continuous improvement of our customer experience. We also introduced a Voice of the Customer (VOCA) forum, which meets quarterly to share customer feedback and identify and prioritise opportunities for improvement, and which is attended by senior executives including Challenger's Chief Executive, Customer.

Vulnerable customers

Challenger recognises the implications that elder financial abuse can have on customers. Our ability to effectively identify and manage the risk of financial abuse of elders and other vulnerable customers is central to our purpose.

Challenger's Financial Abuse of Elders and Vulnerable Customers Framework sets out the internal measures in place to manage these risks and how customers can protect themselves during their retirement. Supporting information has also been published on Challenger's website.

Education

Challenger is committed to helping educate older Australians on how to generate better retirement incomes and provide financial security in retirement. We undertake research and work closely with the government, community and media to drive debate on a range of issues affecting retirees.

This includes working with National Seniors Australia (NSA) to provide their members with practical guidance on financial issues in retirement. We also engage with media and retirement specific groups on how retirees can plan for and enjoy a more financially secure retirement.

Managing the impact of inflation on retirement portfolios is now rated as the top priority for investors and financial advisers. This year, Challenger's Retirement Income Research team published several research papers aimed at educating advisers on the impact of inflation in retirement, and approaches to managing it.

Community giving

Challenger supports payroll giving through the Good2Give platform. Through this platform, employees can donate to their charity of choice and Challenger will match donations up to \$500 per employee each year.

Throughout FY23, total donations via the Good2Give platform were over \$78,000 across 80 charities. Challenger also continues to support employees to volunteer, providing one day of leave for volunteering every year.



Foodlab Sydney – a meaningful partnership with the Challenger Real Estate team

Food entrepreneurs with high-barrier backgrounds have been given the chance to rent affordable kitchen space and grow their food business from Foodlab's shared kitchen space in Challenger's industrial estate, 'The Junction', at Enfield, Sydney.

Foodlab Sydney is a not-for-profit and self-funded social enterprise. It has evolved into a thriving mentorship program and culinary business incubator, offering a safe and professional workspace for refugee, migrant, Aboriginal Australian and low-income food entrepreneurs.

Challenger is delighted to provide Foodlab with a social value-based \$1 per annum nominal rent, with a three-year lease term which commenced in June 2023.

Women up North (WUN)

In 2022, Challenger and its employees donated \$30,000 to Women Up North, following the devastating floods in northern New South Wales.

WUN is a charity that provides vital services for women, children and young people who have experienced domestic violence or abuse, including servicing a number of Indigenous communities.

In 2023, Challenger continued to strengthen this partnership. Members of the team, including Challenger's CEO Nick Hamilton, visited WUN to discuss how Challenger's capabilities could help support their work and further their mission.

During the year, Challenger established a team of volunteers to support WUN, with an initial focus on activities such as refreshing their website, marketing as well as strategic planning. Additional support included sending furniture and other equipment to help re-establish the charity's premises.





Our sustainability strategy

Doing things right

Our People

Employee engagement

Our people are key to the long-term success and sustainability of our business. Building a highly motivated workforce, with a growth and commercial mindset and culture of innovation and collaboration, is a priority.

Key points

Focus on building a collaborative, innovative, growth culture

Commenced assessing Scope 3 Financed Emissions

Uplifted practices to reduce modern slavery risks

Strong commitment to cyber security processes and governance

One of the ways Challenger measures employee engagement is through the annual Your Voice survey – an important checkpoint after a period of organisational change where we positioned the business for the future.

In 2023, Challenger's employee engagement score was 68%, two percentage points below the Australian median. Whilst the results show that our people are engaged in Challenger's strategy and objectives, feedback highlighted opportunities to improve legacy processes and systems. Challenger has now agreed to a program of investment to improve the customer experience, which will not only improve the customer experience but will also make it easier for our people to do their jobs.

Diversity and inclusion remained strong at 89%, while 89% also believed that their manager acts in a way that is consistent with the IACT values, setting an important cultural tone for our business. 82% would also recommend Challenger as a great place to work.

OUR VALUES

Our values are the bedrock of what we do every day at Challenger – Act with Integrity, Aim High, Collaborate and Think Customer (IACT).

We recognise that to help achieve these values, our people need to feel valued, recognised and contributing to meaningful work.

EMPLOYEE VALUE PROPOSITION

In 2023, Challenger launched its new employee value proposition (EVP) following consultation with over 120 employees from across the business. The new EVP reflects Challenger's commitment to putting its people first and is based on three pillars – grow and realise your potential; stronger together, supporting each other; and make things happen.

IMAGINATE23

In 2023, Challenger hosted Imagine, its annual ideas forum, driven by our people with ideas to help improve outcomes for our customers and make Challenger a better place to work. This year Imagine23 involved over 20% of our people. Ideas were themed around Unlock, Create and Simplify, with ideas focused on delivering better customer outcomes, simplifying processes and enhancing efficiency for clients and advisers. Of the 21 semi-finalist ideas pitched, 17 will progress to delivery, highlighting the calibre of pitches across the business.



Imagine23

At this year's Imagine, there was no shortage of innovative and creative ideas across the three themes of Unlock, Create and Simplify. This year's winning idea focused on developing a central register. Employees can provide details and resource commitments of what they perceive to be inefficient processes, which will be referred to an internal governance forum to determine whether the processes can be improved.

Learning and development

Offering a comprehensive training and development program is key to helping our people realise their potential and achieve their career goals. In 2023, Challenger launched and refreshed a program of learning and development opportunities, including:

- a new graduate program, with graduates undertaking placements across investment management, actuarial, finance, technology and marketing;
- Lead@Challenger, a bespoke six-month leadership program for frontline leaders;
- LinkedIn Learning, where employees have access to over 16,000 courses covering topics that include leadership skills, customer service, risk management and innovation; and
- a structured 12-month mentor program offered across all levels of the organisation.

Challenger's hybrid working approach

This year, Challenger implemented a hybrid working approach which balances the flexibility of hybrid working with the importance of teams coming together to implement strategy, collaborate and build engagement.

Under this approach, employees work from the office for at least three days a week, which includes a Challenger-wide day, a divisional day and an additional in-office team day. For the remaining two days of the week, employees can work remotely. This model has been informed by employee feedback, reviewing work habits and learning from best practice both in Australia and internationally.



Our values are the bedrock of what we do every day at Challenger – Act with Integrity, Aim High, Collaborate and Think Customer (IACT). We recognise that to help achieve these values, our people need to feel valued, recognised and contributing to meaningful work.



Our sustainability strategy

Doing things right (continued)

Female representation FY23

	FY23	FY23 TARGET	FY25 TARGET	FY30 TARGET
Women in all roles	43.1%	40–60%	40–60 %	40–60%
Women in management	38.7%	40–60%	40–60%	40–60%
Women in leadership team	40%	37.5%	40–60%	40–60%
Board	37.5%	33.3%	40–60%	40–60%

Focus on gender equality

Challenger is committed to achieving gender equality and the many benefits this delivers. Initiatives to help achieve this include implementation of talent management programs for high-potential females.

We recognise business outcomes can be improved through gender balance, and gender composition targets are reported to the Board monthly. In FY23, Challenger met its targets for women in all roles, women in the Leadership Team and at Board level.

Challenger's female representation across the business, management, leadership and Board level in FY23 is noted to the left.

Challenger continues to be a Workplace Gender Equality Agency (WGEA) Employer of Choice citation holder. This recognises our work to improve gender equality across areas such as leadership and strategy; developing a gender-balanced workforce, preventing gender-based harassment and discrimination, sexual harassment and bullying; and driving change beyond the workforce.

Challenger also remains a signatory to HESTA's 40:40 vision that seeks to achieve gender balance in executive leadership across all ASX 300 companies by 2030.

Challenger is a one of eight signatories to the Financial Services Council (FSC) Women in Investment Management Charter that focuses on improving gender balance in investment management teams. As a signatory, Challenger has agreed to adopt the Charter's four principles, including appointing a senior executive within the investment management team who is responsible for gender diversity and setting and reporting on internal targets.

Fidante UK is also a signatory to the UK-led Diversity Project. The Diversity Project champions a more inclusive culture within the savings and investment profession. The project aims to champion diversity in its broadest sense spanning gender, ethnicity, socioeconomic background, degree discipline, LGBTQIA+, neurodiversity, mental health, military veterans and disability.





Launch of CEO awards

This year, Challenger launched its biannual CEO employee awards program, which builds on our existing Making a Difference program, to provide additional recognition of those who go above and beyond and live our IACT values.

The calibre of nominations across the two categories – an individual CEO award and CEO One Challenger Team award – highlighted the talent across our business.

Charlotte O'Meara, Senior ESG Specialist, was the winner of the Individual CEO award. Recognised for the high quality of her work in managing ESG and sustainability initiatives, Charlotte's achievements include supporting Challenger's affiliates navigate evolving legislation, playing a crucial role in addressing client demands and progressing the ESG Steering Committee. She has also gained external recognition as one of Australia's 50 most influential corporate ESG leaders.

Diversity and Inclusion Networks

Challenger has five employee-led diversity and inclusion networks, which contribute to our diversity agenda, and recognise and celebrate the different perspectives and backgrounds of people across the business. This includes our newest diversity employee network Tessellate, focused on raising awareness, understanding and support about disability and chronic illness in the workplace.

We have also been a participant to the Australian Workplace Equality Index since 2019.

Age
Inclusion



Gender
Inclusion



Cultural
Inclusion



LGBTQIA+
Inclusion



Disability
Inclusion



Superstars of STEM program

In 2023, Program Manager Neelima Kadiyala was selected as one of 60 women across Australia to take part in Superstars of STEM program, supported by the Federal Government's Science and Technology Association. Superstars of STEM is an innovative initiative to address gender assumptions about who can work in science, technology, engineering and maths.

As part of the program, Neelima has taken part in a wide range of initiatives including engaging with politicians at the Federal Parliament to discuss bridging the skills gap through gender equality and diversity.



Together @ Challenger LGBTQIA+ Awareness and Inclusion Training

The Together @ Challenger network highlights how the business' diversity and inclusion groups promote positive change in our workplace. In response to employee feedback, Challenger held training to provide a deeper understanding of LGBTQIA+, the challenges communities and individuals face and how to support them. The training was attended by our CEO, members of the Leadership Team and employees from across the business, and reinforces our commitment to a diverse and inclusive workplace.

Our sustainability strategy

Doing things right (continued)

Employee health, safety and wellbeing

Challenger's Work Health and Safety Policy outlines our commitment to creating a workplace that meets work health and safety obligations and protects the health, safety and wellbeing of our employees.

Whistleblowing policy

Challenger's Whistleblower Policy sets out the process for raising concerns as well as the systems in place to protect the confidentiality of individuals. We provide an independent whistleblower service to enable people to raise concerns anonymously via a range of channels. We actively encourage employees, contractors, former employees, suppliers, service providers and relatives to speak up and report any concerns of wrongdoing.

Code of Conduct

Challenger's Code of Conduct describes the expectations for how we act, solve problems and make fair and balanced decisions. It brings together our IACT values and Group policies and applies to everyone who works at Challenger, including permanent and fixed-term employees, contractors, consultants and directors, irrespective of their seniority or any other factor. The Code details expectations in the way we conduct business in a professional and honest way and how we should measure ourselves against the highest possible standards.

Modern slavery

Challenger is committed to upholding the highest possible standards of ethics in all aspects of our business.

This involves decisions about who we partner with in our supply chain or where we invest funds we manage on behalf of our clients.

We do not tolerate modern slavery in any aspect of our business operations and have worked to understand the risks we need to address and implement appropriate measures to minimise those risks.

In 2023, Challenger engaged an external human rights consultant to undertake a review of our initiatives to date, as well as provide recommendations for the future. The review concluded that whilst Challenger had laid solid foundations, a number of initiatives could be implemented to strengthen the business' approach to addressing risks related to modern slavery.

Following the review, Challenger overhauled its 2022 Modern Slavery Statement, including implementing an improved structure for addressing and assessing modern slavery risks.

Supporting this work, Challenger rolled out training for key teams to help them understand modern slavery risks and how to identify them, with over 90% of teams completing the training.

Challenger's Modern Slavery Working Group will oversee the implementation of a range of initiatives based on the review's recommendations as we continue to improve our practices and strengthen our processes, systems and controls.

Customer complaints and disputes

Challenger's ongoing responsibility to customers requires us to be responsive to their needs, especially when things don't go to plan.

In these cases, we are focused on resolving issues as quickly as possible as well as learning from the experience. Challenger's Customer Resolution team is responsible for responding to and resolving complaints.

Our policy is to acknowledge any complaint within 24 hours or as soon as practicable. We investigate, properly consider and decide how we intend to resolve a complaint and communicate our decision to customers within 30 days (45 days if customers invested with superannuation monies). In many instances, we resolve the complaint to the customer's satisfaction within 24 hours.

Our number of customer complaints continued to decrease. We recorded 195 complaints in 2023, an improvement from 225 complaints in 2022, that's approximately 18 complaints per month; less than one every working day, and approximately 60% of complaints are closed in one day.

Customer complaint trends also contain important insights into the root causes of customer pain points. These insights are shared in a range of customer management forums and have delivered initiatives that strengthen our processes and the overall customer experience, including improvements to the ways we communicate with customers.

Investors Against Slavery and Trafficking (IAST APAC) – Anti-Slavery Australia Collaboration Award



In 2023, the IAST APAC initiative was honoured with the Collaboration Award at the Anti-Slavery Australia Freedom Awards. The IAST APAC initiative consists of 37 investors with a combined AUM of \$8.2 trillion, and Challenger is an active participant.

IAST APAC has distributed an investor statement to ASX 200 companies on the impacts of modern slavery, including measures to mitigate modern slavery risks. IAST APAC has advocated for the funds management industry with the Government on the Modern Slavery Act review. The group also collectively engaged with companies across a wide range of sectors to push for actions to identify, address and prevent modern slavery in business practices and supply chains.

Cyber security

In 2023, Challenger continued to strengthen its cyber security capabilities. We ensure every possible effort is made to protect the security of our customer's information via a range of mechanisms.

Governance

Challenger's Board has ultimate responsibility and oversight of our information security controls and practices. The Board's Group Risk Committee formally discusses information security every quarter, reviewing the health of our security controls, including their overall effectiveness, external factors such as emerging threats and the impact of strategy decisions on information security. The Board endorses Challenger's information security strategy and approves ongoing funding in response to changes to the threat landscape.

The Board is supported by a management-led security risk and governance committee whose membership includes the Chief Risk Officer, Chief Executive Technology, the Chief Information Security Officer and other senior members of the risk and technology functions. Cyber security subject matter experts provide day-to-day oversight of our security environment and controls, and the Risk and Internal Audit functions independently assure the security-related processes.

Risk management

Our cyber security team are responsible for designing and implementing a range of security processes and controls. They drive a strong cyber security culture, including preparing our employees for cyber security attacks, simulated phishing exercises as well as regular testing of risk controls. All employees undertake mandatory cyber security training each year and awareness programs are regularly included in employee communications. Our processes also include technical reviews of projects and technology solutions, and due diligence of third parties, to ensure robust security practices and controls exist and present acceptable risk to Challenger.

Continuous improvement

Challenger adopts a continuous improvement approach to information security management. We use a range of technologies and security activities to minimise the likelihood and impact of a cyber incident. Technologies include advanced endpoint threat detection and response software, and activities such as regular penetration testing to test our ability to resist and attack. Challenger also conducts routine simulations with the Board, Leadership Team and Crisis Management Team to test our preparedness to respond to a cyber security incident and identify areas for improvement.

No material cyber security breaches were experienced during FY23. Our protection mechanisms ensured almost six million emails containing malware and phishing threats were filtered out of Challenger's systems over a 90-day period alone, highlighting the robustness of our security settings.

Fraud and corruption

Challenger is committed to the highest ethical standards.

We have zero tolerance for fraud and corruption in any form both within the organisation and in relation to our external partners.

Our fraud and corruption policy and controls are overseen by the Board Group Risk Committee and all employees have a role to play in fraud and corruption control. Our fraud and corruption policy prohibits our people from inducing, receiving, facilitating or making payments which can be constituted as a bribe.



Our sustainability strategy

Doing things right (continued)

Tax transparency

Challenger is committed to paying its fair share of taxes and we take our obligation to comply with prevailing taxation laws, practices and reporting requirements seriously.

Our tax charter governs how tax is managed within the organisation and outlines Challenger will manage its tax obligations in a sustainable way, considering the commercial and social imperatives of the business and our stakeholders.

Challenger's tax charter and tax risk governance is embedded in the broader Challenger risk governance frameworks and is reviewed and approved by the Challenger Board on a biannual basis. Challenger does not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party.

Most of the tax paid by the Group is to the Australian Taxation Office (ATO). The Group seeks to maintain a 'high assurance Justified Trust' over income tax and GST with the ATO. Under the ATO Justified Trust framework, the Group reports all significant transactions, risks and other issues to the ATO on a regular basis, and issues are resolved with the ATO in a constructive manner.

More detailed information is available in the Tax Transparency section of the 2023 Challenger Annual Report.

Climate

Challenger believes climate change will impact every part of the economy. We recognise the importance of supporting the transition to a low-carbon economy and are working with peers, clients, industry and the regulators to reduce risks and create a more sustainable economy.

Climate change presents a range of physical and transition risks to our business, the investments we manage and the wider community. Such risks are incorporated into our investment decisions and overall risk management frameworks.

Climate is also a key consideration in our investment due diligence processes for the Life, Fixed Income and Real Estate portfolios, as outlined in their Responsible Investment statements.



Operational greenhouse gas emissions

At Challenger, we're committed to measuring, monitoring and reducing our operational greenhouse gas emissions. We have partnered with NDevr Environmental to calculate our emissions to ensure the calculation aligns with industry practice.

Overall, Challenger's emissions have increased by 4% over the past year, reflecting employees continued return to the office under our hybrid working approach and corporate travel resuming following pandemic lockdowns in recent years.

Reflecting this, emissions relating to flights and accommodation increased in FY23; however, they were down 48% and 45% respectively on pre-pandemic levels (FY20).

Emissions from electricity, postage and brand promotion also reduced further in FY23.

Scope 3 Financed Emissions

Challenger recognises measuring financed emissions is an important consideration in managing climate related risks and opportunities. In 2023, we undertook preliminary work to understand the Scope 3 Financed Emissions across our portfolio, initially focusing on listed equities and corporate bonds.

ASSET CLASS	PORTFOLIO WACI (tCO ₂ e/\$A'm) SCOPES 1 AND 2	BENCHMARK WACI (tCO ₂ e/\$A'm) SCOPES 1 AND 2	PCAF RATING
Corporate bonds	27.94	27.30 iBoxx \$ Liquid Investment Grade Index	3.50
Listed equities	52.00	60.72 S&P/ASX 300 Accumulation Index	3.50

1. Fidante holds a minority stake in the large majority of its affiliates and acts as Responsible Entity for the majority of products. On investment management, this function is outsourced to the affiliates.
2. The calculations for listed equities exclude Funds Management mandates.
3. Portfolio and Benchmark WACI refers to weighted average carbon intensity in tCO₂e/\$A'm invested as calculated using Emmi Solutions Pty Ltd proprietary forecasting methodology.

SCOPE 3 FINANCED EMISSIONS METHODOLOGY

Challenger's normalised financed emissions measurement covers Scope 1 and 2 emissions for the investments that sit within the asset classes noted above.

Our attributed emissions for listed equities and corporate bonds are calculated in accordance with the Partnership for Carbon Accounting Financials (PCAF) methodology and apportions the percentage of carbon emissions to the financial institution based on the level of ownership of equity or debt of the investment.

Working with our financed emissions partner, Emmi, we have constructed data based on portfolio holdings as at 31 May 2023, using machine learning models trained on historical reported and verified emissions.

Machine learning estimates provide data for the specified reporting period across all covered holdings. This provides a comprehensive and up-to-date picture of financed emissions for Challenger's listed equities and corporate bond portfolios.

As Challenger undertakes initial work to understand its Scope 3 Financed Emissions, we have focused on data with a better PCAF quality rating to ensure our reporting reflects usable and accurate information, noting that 1 reflects the highest rating and 5 is the lowest. The overall PCAF rating for the asset classes selected is 3.50.

Challenger is committed to extending the coverage of its portfolio emissions measurement as new emissions methodologies are developed and as data availability, methodologies and data quality continue to improve.

Real Estate office portfolio – NABERS ratings uplift

Challenger Investment Management has undertaken capital expenditure works across a number of properties in the office portfolio, demonstrating the team's commitment to address the ESG risks and opportunities arising from climate change. This work has also positively impacted both the NABERS energy and water ratings of individual buildings.

In 2018, the commercial office portfolio achieved an average NABERS energy rating of 3.95 stars and over the past five years this has improved to an average of 4.9 in 2022. In 2018, the average NABERS water rating achieved was 3.3 stars, improving to an average of 4.45 stars in 2022.





Our sustainability strategy

Constructive public policy settings

Policy advocacy

Challenger plays an active role in advocating for public policy and reforms that are in the best interests of our customers, shareholders and wider stakeholders. This year, we have been at the forefront of discussions relating to Australia's superannuation and retirement income system.

Key points

Challenger has advocated for reforms to improve affordability and access to financial advice

Supported Federal Government's move to place retirement income at the centre of its proposed Objective for Superannuation

Participated in a range of consultations focused on improving the quality of climate risk disclosures

We undertake direct advocacy with members of parliament, relevant Federal Government departments such as the Treasury, and regulatory agencies, such as the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC), on matters of policy that impact our business and customers.

Financial advice policy

Challenger supported the Federal Government's proposals to reform financial advice regulations under the Quality of Advice Review. We strongly agree that simplifying the financial advice regulatory framework will better enable the provision of high-quality, accessible and affordable financial advice.

In its submission, Challenger also explained that low financial literacy and a misunderstanding of the intent of superannuation have meant Australians are not adequately planning for their retirement and are limiting the value they can generate from their assets during retirement.

Superannuation policy

Challenger has been a strong advocate of retirement income reforms that will enhance the lives of older Australians.

We supported the Federal Government's plan to legislate an objective for superannuation that will give guidance to policy makers to prioritise the provision of retirement income. We also believe the objective should contribute to the financial wellbeing and sustainability of retirement incomes for the growing number of Australian retirees, creating significant economic and social policy benefits.

Climate disclosure policy

Treasury consultation – Climate-related financial disclosures

Challenger, through its active membership of the Financial Services Council, plays a key role in Treasury's consultations on the proposed climate-related financial disclosure regime.

The proposed climate risk disclosure regime aims to help Australian companies and investors mitigate the risks and maximise the opportunities arising from climate change. The proposed approach includes mandatory reporting on a range of climate-related areas including emissions (Scopes 1 to 3), risks and scenarios.

Challenger will be included in the first phase of mandatory reporting, and meeting these proposed obligations will form a core part of our future ESG work program.

International Sustainability Standards Board (ISSB)

The ISSB's final standards aim to provide a comprehensive global baseline of sustainability disclosures for investors and financial markets. International Financial Reporting Standards (IFRS) Foundation S1 General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 Climate-related Disclosures were released in June 2023.

IFRS S1 aims to help companies communicate the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1.

Australian Government's sustainable finance agenda

Challenger intends to play an active role in the development of the Federal Government's Sustainable Finance Strategy. The strategy will examine options and priorities for addressing key data challenges relating to ESG and provide clearer guidance in these areas.

Political donations

Challenger seeks to strike the right balance between our commitment to a robust ESG framework, our constructive involvement in the Australian Government's policy-making agenda, and protection of our employees' freedom of political communication.

Challenger does not make political donations to any political party, member of parliament, elected official or candidate for political office. Employees, directors and contractors are not permitted to attend political fundraising events as a representative of Challenger.

Challenger is committed to engaging with political parties and members of parliament in a bipartisan way to progress its advocacy efforts both directly and indirectly through industry associations.

Industry groups

Challenger participates in a range of finance and sustainability-focused industry groups. We are committed to working with these stakeholders through our membership, and participation in policy committees and consultations.

Signatory of:



Governance

Challenger understands that our customers place their trust in us to help provide long-term security during retirement. We take this responsibility seriously and believe good governance plays a key role in achieving our purpose.

Key points

Improvements to governance and oversight of ESG across Challenger

Reinvigorated Challenger's ESG Steering Committee to improve decision-making and focus

Recognising the increased importance of ESG issues to Challenger and our stakeholders, we have enhanced our framework for ESG governance to ensure efforts are co-ordinated across the business.

Board oversight

Challenger's Board plays a vital role in ESG governance. It provides oversight, strategic guidance and accountability to ensure the company's ESG practices align with overall business strategy and stakeholder expectations.

The Board skills matrix shows Board members have a high level of competency across areas of expertise relevant to ESG and Challenger's business, including customer, corporate governance, public policy, risk, strategy and people.

At a minimum, ESG is discussed and considered at each Board Group Risk Committee meeting. The Board receives regular reports from management through the Group ESG Steering Committee. Both the GRC and Board consider and oversee specific ESG issues, which have included cyber security, modern slavery, diversity and inclusion.

The Board also considered the internal review of Challenger's ESG approach and endorsed changes proposed to the way ESG is overseen and operationalised in the business.

Leadership team oversight

The Leadership Team's commitment to ESG governance focuses on driving sustainable practices, promoting responsible business behaviour and enhancing long-term value creation for both the company and its stakeholders.

ESG issues are discussed as part of the Leadership Team's engagement with a range of stakeholders and feedback is incorporated into Challenger's ESG materiality assessments and associated responses.

Group ESG Steering Committee

In 2023, Challenger initiated a review of its Group ESG Steering Committee to orientate its focus more strongly towards Challenger's core business activities and their impact on ESG issues.

Chaired by Challenger's General Manager Corporate Affairs and Sustainability, the Group ESG Steering Committee meets monthly and includes senior executives such as Challenger Life's Chief investment Officer, the Group Chief Risk Officer and representatives from Funds Management and Finance. Its revised remit involves assisting Challenger's Leadership Team and Board to develop the Group's ESG strategy, initiatives to implement the strategy, reporting on ESG risks and associated controls, and external assessment of the Group's ESG performance.

First line of defence – role in enhancing ESG approach

The role of the first line of defence is to incorporate and oversee ESG considerations into Challenger's day-to-day operations and business activities. The first line of defence plays a crucial role in implementing and managing Challenger's ESG practices and initiatives include:

Integration of ESG factors

Responsible for integrating ESG factors into operational and investment processes, systems and decision-making. Challenger Life Company, Challenger Investment Management and Fidante consider ESG factors and apply ESG risk ratings to all material transactions. ESG reviews are conducted by Challenger's Senior ESG Specialist whose findings are considered by the CEO of the relevant business division. For further information, please see the Responsible Investment section of this report.

Risk identification and management

Identifies ESG risks relevant to their operations and assesses their impact. They develop and implement risk management strategies and controls to mitigate those risks.

Compliance and regulatory adherence

Ensures compliance with ESG regulations, laws and standards and establishes processes and practices. This has included a business review of all market-facing documentation to ensure ESG representations contained in Challenger's products are accurate.

Performance assessment and reporting

Collects and analyses data on the company's ESG performance such as energy consumption, employee diversity, health and safety. The data is incorporated into reporting at business unit, group, leadership and Board level and is used to measure and track progress, initiate improvement opportunities and fulfil external reporting requirements.

ESG training and awareness

Initiates and participates in ESG training and awareness programs to promote a culture of ESG awareness and encourage employees to contribute to ESG objectives. This includes monthly ESG podcasts, lunch and learn sessions, external presentations and specific training in targeted areas such as modern slavery.

Remuneration

We recognise the importance of culture to the long-term sustainability of our business.

This has become increasingly prevalent as the business prepares for the implementation of APRA's new prudential standard on remuneration, CPS 511, which will ensure entities maintain remuneration arrangements that appropriately incentivise individuals to manage risk and apply consequences for poor risk outcomes.

Challenger has undertaken extensive planning for the standard, which became effective from 1 July 2023 for our business. In particular, the Board has reviewed a range of non-financial measures to meet our CPS 511 obligations and determined that including a culture measure as part of the long-term incentive (LTI) plan will focus our leaders on protecting and strengthening our culture and support the long-term sustainability of our business. This measure will be assessed using a suite of key metrics (including risk culture, employee engagement scores and specific culture-related questions from the engagement surveys).

These metrics have been measured internally for a number of years, are quantifiable and can be benchmarked externally to other Australian financial services organisations. The Board will also review these metrics in conjunction with relevant operational metrics at the end of the performance period, ensuring no unintended or adverse outcomes are rewarded.

Group policies

Challenger has a suite of policies that guide our business practices. These are reviewed regularly and enhanced to ensure regulatory changes, current issues and trends are captured and considered.

These include:

Anti-Money Laundering and Counter Terrorism Financial policy

Code of Conduct

Conflicts of Interest policy

Continuous Disclosure policy

Discrimination and Harassment policy

Financial Abuse of Elders and Vulnerable Customers framework

Fraud and Corruption policy

Gifts, Benefits and Entertainment policy

Group Compliance policy

Group Information Security policy

Human Rights statement

Inside Information policy and Practice Note

IT Acceptable Use policy

Political Donations policy

Privacy policy

Regulated Persons policy

Risk Appetite statement

Social Media policy

Staff Trading policy

Whistleblower policy

Work Health and Safety policy

Workplace Bullying policy

Metrics and targets

Environment

2023 greenhouse gas emissions

EMISSIONS	UNITS	SOURCE DATA	2023 tCO ₂ -e	2022 tCO ₂ -e
Scope 1				
Natural gas	GJ	676.74	34.87	40.67 ¹
Total Scope 1	GJ	676.74	34.87	40.67
Scope 2				
Electricity	MWh	948.81	670.91	660.03
Total Scope 2	MWh	948.81	670.91	660.03
Scope 3				
Utilities				
Natural gas	GJ	676.74	8.87	10.34
Electricity	MWh	948.81	56.39	75.30
Electricity (base building)	MWh	716.44	614.47	714.87
Water	ML	0.09	13.87	2.28
Equipment & services				
Paper	tonnes	3.59	9.16	4.60
Printing	\$0 (000)	337.42	87.01	321.47
IT equipment	\$0 (000)	12,259.51	1,700.58	1,817.48
Postage & couriers	\$0 (000)	223.41	52.85	80.04
Brand promotion	\$0 (000)	491.59	59.04	306.42
Travel & commuting				
Accommodation	occupancy nights	1,218	40.24	27.87
Flights	(000) km	6,442.42	882.13	352.19
Employee commuting	(000) km	2,946.89	505.52	142.48
Taxis and hire cars	(000) km	125.28	25.05	9.96
Food & beverage				
Food and catering (from major events)	\$0 (000)	407.87	81.10	81.83
Waste				
Landfill	tonnes	3.57	4.13	3.17
Working from home				
Working from home	tCO ₂ -e	210.61	151.71	148.85
Total Scope 3			4,292.12	4,099.14
Overall total			4,997.90	4,799.85

1. Note FY22 natural gas emissions and corresponding calculations have been restated:

- FY22 Scope 1 natural gas, 789.22GJ, 40.67 tCO₂-e;
- Total Scope 3 4,099.14 tCO₂-e; and
- Overall total emissions, 4,799.85 tCO₂-e.

People

Employee profile

Number of employees

	FTE	HEADCOUNT
Overall total	817.71	837

Employees by contract type and gender

CONTRACT TYPE	FEMALE	MALE	NOT SPECIFIED	TOTAL
Permanent				
Full time	268	463	3	734
Part time	55	8	0	63
Fixed term				
Full time	16	19	0	35
Part time	3	2	0	5
Total	342	492	3	837

Contingent workers by type

CONTRACT TYPE	TOTAL
Agency contractor	171
Independent contractor	25
Intern – contingent worker	2
Total	198

Parental leave return rate

	FEMALE	MALE
Employees who took parental leave during the period ¹	27	44
Employees who returned to work during the period, after parental leave during the prior 12-month period	14	26
Employees who returned to work after parental leave in the prior 12-month period ²	93%	100%
Parental leave attachment rate (%)³	57%	94%

1. Commenced leave between 1 July 22 and 30 June 23.

2. Commenced leave between 1 July 21 and 30 June 22, and returned from leave before 30 June 23.

3. Returned from leave between 1 July 21 and 30 June 22, and remained employed on 30 June 23.

Metrics and targets (continued)

Employees by region and gender

REGION	FEMALE	MALE	NOT SPECIFIED	TOTAL
Adelaide	1	2	0	3
Brisbane	8	10	0	18
Hobart	0	1	0	1
Melbourne	20	36	0	56
Perth	2	3	0	5
Sydney	303	414	3	720
London	3	15	0	18
Tokyo	3	9	0	12
Other	2	2	0	4
Total	342	492	3	837

Employees by age group

AGE GROUP	TOTAL
Under 30	133
30–39	256
40–49	317
50–59	105
60 and over	26
Total	837

New hires by age group

AGE GROUP	TOTAL
Under 30	65
30–39	60
40–49	42
50–59	15
60 and over	3
Total	185

New hires by region and gender

REGION	FEMALE	MALE	NOT SPECIFIED	TOTAL
Adelaide	0	1	0	1
Brisbane	2	2	0	4
Melbourne	7	4	0	11
Sydney	83	76	1	160
London	2	5	0	7
Tokyo	0	2	0	2
Total	94	90	1	185

Voluntary turnover by age group

AGE GROUP	TOTAL
Under 30	20
30–39	29
40–49	21
50–59	7
60 and over	1
Total	78

Voluntary turnover by region and gender

REGION	FEMALE	MALE	TOTAL
Adelaide	1	0	1
Brisbane	0	1	1
Hobart	2	0	2
Melbourne	2	3	5
Sydney	24	42	66
London	1	0	1
Tokyo	0	1	1
Other	0	1	1
Total	30	48	78

Internal employee movement by gender

	FEMALE	MALE	NOT SPECIFIED	TOTAL
Transfer	21	26		47
Secondment	14	11		25
Promotion	51	73	1	125
Total	86	110	1	197

Employee safety and wellbeing

WORK HEALTH AND SAFETY	2022	2023
Lost time injury frequency rate (days)	0.67	0
Workers compensation claims	2	1
Absenteeism days per FTE	2.06	3.23
Fatalities	0	0
Work health and safety training	423	487

