Challenger Capital Notes

Newsletter 13 August 2024



DUNCAN WESTIndependent Chair

NORMALISED NPBT¹,4

▲ 17% on last year

\$608m

STATUTORY NPAT1

▼ 24% on last year² Includes impact of property valuations and changes to mortality rate assumptions

\$130m

LIFE SALES

▼ 6% on last year Includes record lifetime annuity sales

\$9.1bn

GROUP AUM

▲ 21% on last year

\$**127**bn

INTERIM DIVIDEND

▲ 10% on last year

26.5cps

GROUP ROE^{3,4}

▲ 290 bps from earnings growth

15.6%



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 2024 financial year.

Challenger delivered a strong performance this year, as we continued to execute our strategy to build long-term sustainable growth and orientate the business around the customer - making it easier to do business with us, broadening our reach and delivering retirement income to meet more customer needs.

2024 has seen further progress in the development of a retirement income system with the potential to deliver social and economic benefits on par with our superannuation accumulation system. We have seen meaningful policy discussion and consultation around the purpose of superannuation, affordable financial advice and retirement income design. The need to continue with this program of reform and deliver co-ordinated policy has never been greater and we look forward with optimism.

Challenger is Australia's leading retirement income brand, with a clear purpose to provide customers with financial security for a better retirement. We see a significant opportunity to play our part in providing financial security to more Australians as they save for, enter and enjoy retirement.

We have broadened our customer sales channels and strengthened the role we play in the retirement phase of superannuation. We are making progress supporting superannuation funds to meet their members' needs into and through retirement.

At the same time, to support our growth strategy and deliver long-term sustainable growth, we have focused on simplifying the business, whilst diversifying the balance sheet and leveraging the scale and capabilities of our strategic partners.

We have the right business model to capture significant future growth. Challenger has an incredible opportunity to provide even more Australians with financial security so they can confidently live their best retirement.

FINANCIAL UPDATE

Challenger delivered a strong financial performance this year, with normalised net profit before tax⁴ (NPBT) increasing 17% to \$608 million, and above our guidance range.

This reflects our focus on growing longer dated, more valuable business, that in turn supported our Group normalised ROE^{3,4} to increase by 290 basis points to 15.6%. Challenger has made significant progress towards achieving its ROE target and is on track to achieve this in the 2025 financial year.

Statutory net profit after tax (NPAT) decreased 24%² to \$130 million, driven by an unrealised reduction in property valuations and accounting changes to mortality rate assumptions.

Sales across Life's retirement income products remained strong, supported by rising demand for guaranteed lifetime income and a growing number of Australians entering retirement and aged care. Total Life sales of \$9.1 billion included annuity sales of \$5.2 billion that was supported by record sales of longer duration lifetime annuities of \$1.5 billion (up 110%). Lifetime sales included a group lifetime annuity policy to the value of \$619 million to Aware Super, highlighting the depth of Challenger's capability and strength of its investment and longevity risk solutions.

⁴ Normalised metrics including Normalised net profit before tax and Normalised ROE exclude Discontinued Operations (Bank) in FY24. Prior periods have not been restated to exclude Discontinued Operations (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 2024 Annual Financial Report.

² FY23 statutory net profit after tax has been restated to reflect the application impact of AASB 17.

³ Normalised return on equity (ROE) (pre-tax).

In Funds Management, the business has performed well in a challenging market. Funds Management Funds Under Management (FUM) increased 19% to \$117 billion, benefiting from strong institutional net inflows of \$11 billion and positive investment markets.

Funds Management continued to innovate, with Fidante adding new alternative investment strategies to meet growing client demand, and our fixed income platform, Challenger Investment Management, expanding its offering as private credit and lending grows in Australia and overseas.

Group assets under management (AUM) increased 21% to \$127 billion, driven by Life book growth and strong Funds Management net flows.

STRONGLY CAPITALISED

Challenger Life Company Limited (Challenger Life) remained strongly capitalised with a PCA ratio of 1.67 times⁵ the Australian Prudential Regulation Authority's (APRA) minimum requirement.

Challenger Life has \$1.8 billion of excess capital above PCA, which is above both APRA's minimum requirement.

STRATEGIC PARTNERSHIPS

In 2024, Challenger extended its highly successful and collaborative reinsurance agreement with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) for a further five years and commenced reinsurance of Japanese yen-denominated annuities, in addition to Australian dollar and US dollar annuities issued in Japan.

Challenger also expanded its strategic relationship with Apollo Global Management Inc. (Apollo) (NYSE:APO) through a new origination partnership that will provide Challenger Life with access to Apollo's high-quality, privately originated global credit and alternative opportunities that will help support customer annuity rates and returns for Challenger investors.

This year, we formed a long-term technology partner with Accenture, under which we will implement a new customer experience uplift program. This will facilitate easier integration of our capabilities with advisers, platforms and superannuation funds, as well as making it easier for customers to do business with us.

OUTLOOK

Challenger expects growth to continue strongly in the 2025 financial year, supported by momentum in our Life business and improved Funds Management performance.

In 2025, Challenger is targeting a normalised net profit after tax guidance of between \$440 million and \$480 million, with the mid-point of the range representing an 10% increase on 2024.

Challenger is a strong, well capitalised business, with a clear path to driving long-term sustainable growth and investor returns, while delivering superior outcomes for our customers.

On behalf of the Challenger Board, I would like to thank you for your ongoing support and commitment to Challenger.



DUNCAN WEST

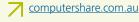
Independent Chair Challenger Limited

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CHALLENGER CAPITAL NOTES 3 DISTRIBUTION HISTORY

DISTRIBUTION PAYMENT DATE	CASH DISTRIBUTION	TOTAL RETURN P.A.
26 August 2024	\$1.56	8.94%
27 May 2024	\$1.56	8.94%
26 February 2024	\$1.57	8.98%
27 November 2023	\$1.58	8.74%

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CHALLENGER CAPITAL NOTES 4 DISTRIBUTION HISTORY

DISTRIBUTION PAYMENT DATE	CASH DISTRIBUTION	TOTAL RETURN P.A.
26 August 2024	\$1.38	7.94%
27 May 2024	\$1.38	7.94%
26 February 2024	\$1.39	7.98%
27 November 2023	\$1.39	7.74%

⁵ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 30 June 2024.