

# Challenger Index Plus

FOR INSTITUTIONAL CLIENTS ONLY

## What is Index Plus?

Challenger Index Plus (Index Plus) offers institutional investors guaranteed alpha over an agreed index, with zero management fees. It is available as a daily liquid (pooled with other investors) or fixed term (custom wholly owned mandate) option.

Index Plus can be used either as an effective substitute for traditional passive funds, or as a complementary solution to active management in your portfolio.

By offering a guaranteed alpha over an index, this strategy can make a significant contribution to an investor's realised total returns.

It can also assist institutional investors in reducing total investment management fees.

The level of guaranteed alpha is determined by two key factors: index selection and term of investment. This solution offers significant index flexibility providing exposure to:

- equity markets;
- fixed income; and
- cash.

## What is the objective of the strategy?

The investment objective of the strategy is to provide investors with exposure to the performance of an agreed index plus guaranteed alpha for zero management fees.

## Key features:



Guaranteed alpha



Zero management fees



Zero tracking error



Flexible choice of index

## Who is the solution suitable for?

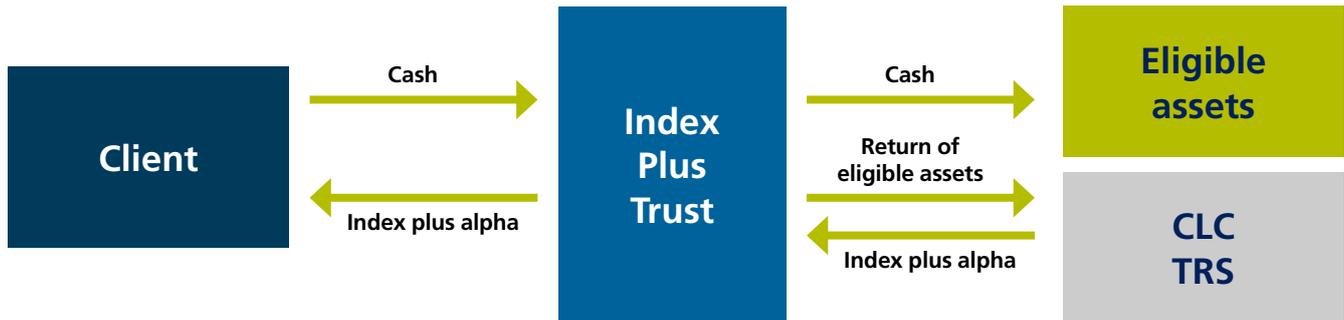
Institutional investors and insurers seeking:

- Stable and consistent alpha – provides certainty of benchmark outperformance;
- To reduce management fees – helps lower investment costs for better outcomes;
- Effective liability immunisation strategies – assisting DB schemes to remove risks;
- Capital efficient return enhancement – with no additional asset risk charge.

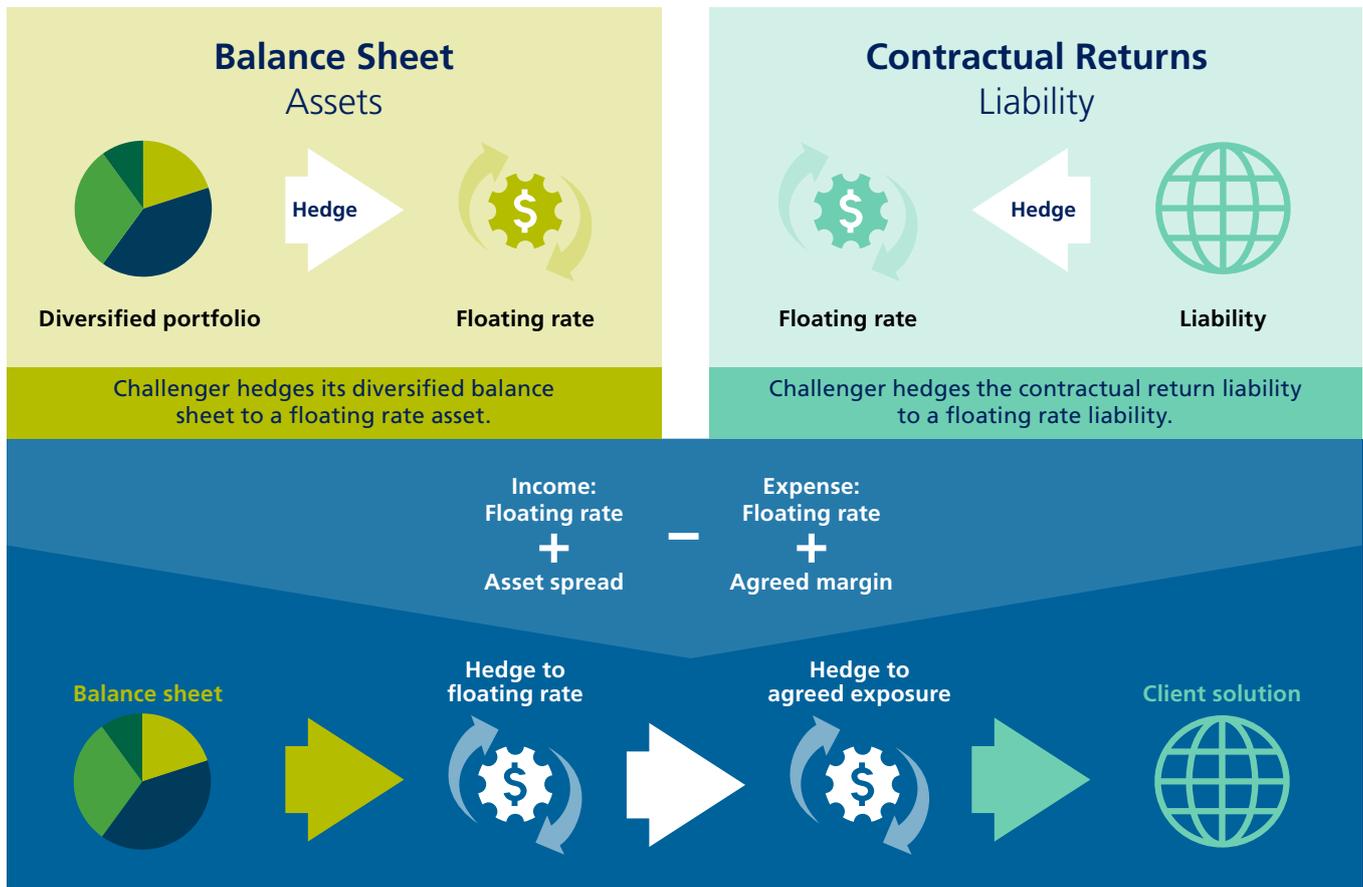
## How does the solution work?

The Fund achieves the investment objective by entering into a Total Return Swap (TRS) with Challenger Life Company Limited (Challenger Life) whereby Challenger Life agrees to pay the Fund returns equal to the performance of the specific index plus the guaranteed alpha and the Fund agrees to pay Challenger Life the returns generated from the underlying eligible assets. Under an Investment Management Agreement (IMA), Challenger Life in its capacity as Investment Manager will manage the underlying eligible assets of the Fund. If the performance of the specific index plus the guaranteed alpha exceeds the performance of the underlying eligible assets, Challenger Life will pay the excess amount. If the performance of the underlying eligible assets exceeds the performance of the specific index plus the guaranteed alpha, Challenger Life will receive the outperformance amount.

The TRS between Challenger Life and the Fund will seek to ensure that each unit class is able to achieve the returns of the agreed index plus the guaranteed alpha, regardless of the performance of the underlying portfolio of assets of the Fund. Importantly, the TRS net settles on a daily basis and the TRS settlement amounts are paid in cash normally within 2 business days, which limits any Challenger Life exposure.



## How does Challenger Life manage its commitments to the Index Plus Fund?



Index Plus allows Challenger Life, as the investment manager, to utilise Challenger Life's balance sheet and investment strategy to offer guaranteed alpha over the agreed index. Challenger Life's ability to pass on attractive returns to investors is a function of the margin it earns on investments relative to its cost of funds. Both investments and cost of funds are hedged to an equivalent floating rate basis.

Challenger Life applies an investment strategy used for Challenger Life's full range of guaranteed return products, involving asset and liability matching to deliver an agreed return profile. This approach allows Challenger Life to provide investors access to fixed income, cash or equity indices to meet their evolving investment and strategy requirements.

## Liquidity Management

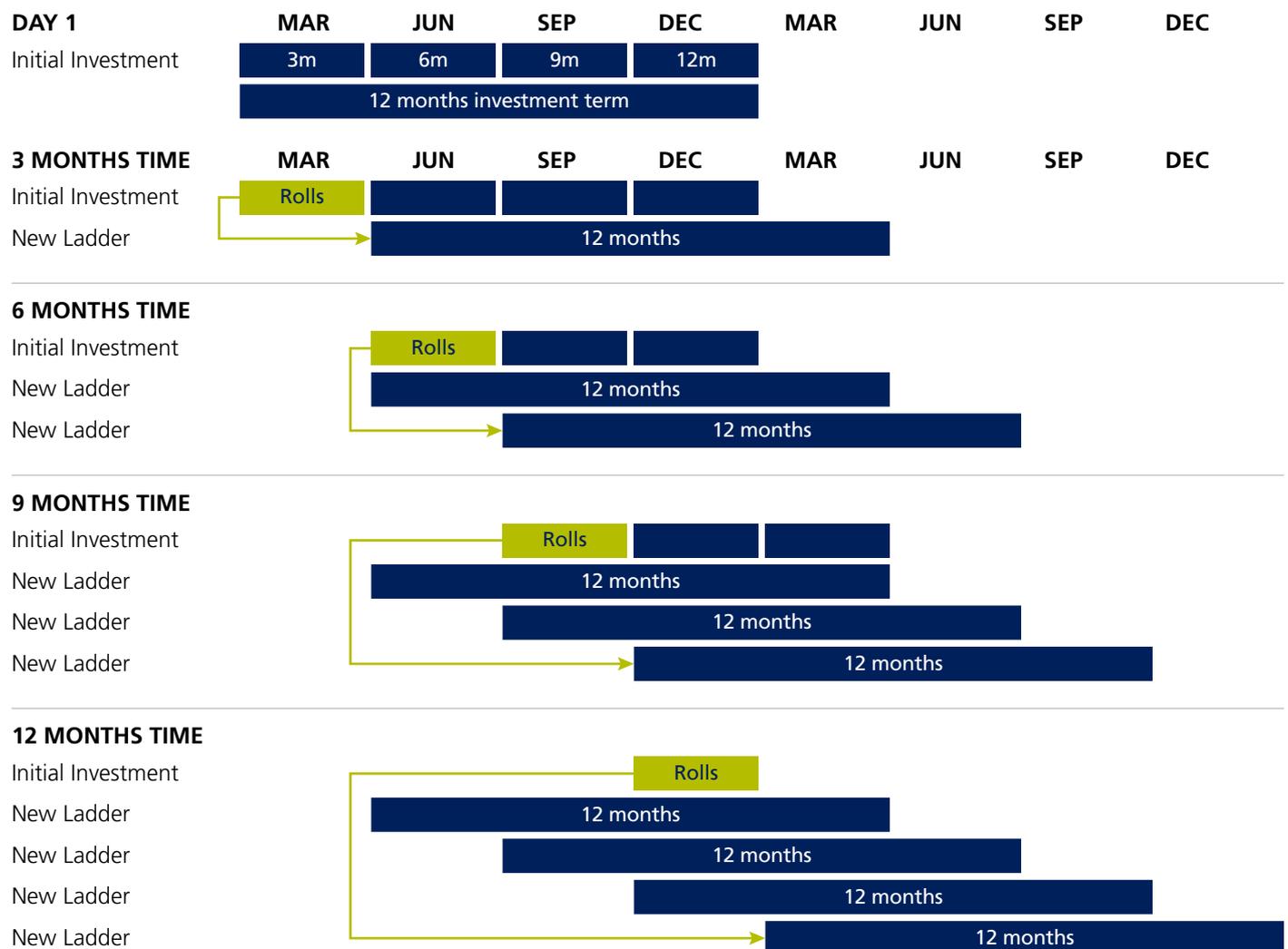
Generally, the longer the investment term the higher the guaranteed alpha that can be delivered.

For investors wishing to invest for longer terms in return for higher guaranteed alpha, Challenger Life is able to put in place scheduled windows of liquidity for the fixed term (custom enhanced mandate) option by implementing a process called "laddering". Laddering is a process whereby the investment is staggered over several quarters so that every quarter, a portion of the total portfolio matures, and in such case, investors could take the capital or choose to roll into another term contract. Pricing for each tranche will reflect the term of the investment for that tranche.

For example, it's possible to set up four separate investment tranches on day one ensuring that every year, 25% of the portfolio is accessible.

### For example:

#### Investment split across 4 classes with 3 month liquidity windows



## What indices are offered?

Challenger Life offers indexed investments as either a fund that offers daily liquidity, allowing investors to buy and sell (subject to a withdrawal fee) units at short notice, or an enhanced term mandate form which offers investors higher guaranteed alpha in return for a longer-term investment commitment.

The daily liquid fund offers the following indices:

Index ticker	Index name
<b>RBATCTR</b>	RBA Cash Rate
<b>BAUBIL</b>	AusBond Bank Bill
<b>BAGV0</b>	AusBond Government
<b>BATYO</b>	AusBond Treasury Index
<b>BAIG0</b>	AusBond Government Inflation
<b>BACM0</b>	AusBond Composite
<b>EANREXAN</b>	MSCI World ex Australia Net Return
<b>NA113648</b>	MSCI ACWI ex Australia Net Return

Enhanced term mandates allow investors the ability to lock in higher guaranteed alpha for investment terms of one year or longer. Challenger Life offers term mandates for the indices listed above and, subject to availability, can provide tailored or alternative indices to better suit investor requirements.

The availability of other indices is dependent on factors, such as, Challenger Life's ability to hedge the market risk of the relevant index.

## How is Challenger Life regulated and what protection is there for customers?

Challenger Life is authorised under the Life Insurance Act and supervised by the Australian Prudential Regulation Authority (**APRA**). APRA's primary objective is to protect customers through promoting the prudent management of regulated institutions in each industry, and the promotion of financial stability more broadly.

APRA's supervisory objectives are met in two main ways:

1. maintaining a regulatory framework within which insurance companies must operate; and
2. monitoring insurers (including via requiring the submission of financial and other returns) to ensure compliance with the regulatory framework.

APRA issues a range of prudential standards, including standards which determine the level of capital required to be held by all life insurers. APRA's prudential capital standards define a minimum level of regulatory capital that is designed to ensure a life insurer can withstand a 1-in-200-year shock event and requires insurers to hold an additional capital buffer above this regulatory minimum to minimise the chance of breaching the regulatory minimum. APRA's capital regime is considered amongst the most robust for life insurers globally. APRA actively monitors Challenger Life's financial position to ensure it can continue to meet its promises to customers both now and in the future.

**Index Plus is a truly differentiated and highly versatile index management capability. It can be used either as an effective substitute for traditional passive funds, or as a complementary solution to active management. Either way it can help investors to boost realised alpha and reduce aggregate investment management costs.**

**Contractual returns are provided by Challenger Life as a counterparty, an APRA regulated life insurance and leading provider of guaranteed solutions.**

**Challenger works in a partnership-based approach with clients to develop the optimal Index Plus solution that best suits the investment, liquidity, operational and strategy needs of clients.**

## About Challenger Life

Challenger is an investment management firm focused on providing customers with financial security for a better retirement. We're a multi-award-winning company with group assets under management of \$117 billion (as at 31 December 2023).

Challenger operates an APRA-regulated Life division, Challenger Life Company Limited (Challenger Life) which is Australia's largest provider of annuities and a fiduciary Funds Management division.

We have 30-year track record of providing lifetime income to our customers and have longstanding experience in partnering with institutions domestically and internationally in delivering innovative partnership solutions.

We are focused on building trusted partnerships with our institutional clients, offering scalable and robust solutions that span:

- Alpha generation
- Longevity protected lifetime income
- Defined benefit de-risking
- Reinsurance

Challenger Life is regulated under the Life Insurance Act and the prudential standards made under it. Compliance with these regulations is supervised by APRA to ensure Challenger Life is able to meet their obligations to clients now, and in the future.

APRA requires Challenger Life to hold a minimum amount of capital in the statutory fund. This will depend on the risk profile of the invested assets. Challenger Life holds significantly more capital in the fund than APRA requires.

### For more information please contact the Challenger Institutional Client Solutions team:

#### Simon Brinsmead

General Manager, Institutional Client Solutions  
0477 776 841  
[sbrinsmead@challenger.com.au](mailto:sbrinsmead@challenger.com.au)

#### Meher Edibam

Director, Institutional Client Solutions  
0421 747 309  
[medibam@challenger.com.au](mailto:medibam@challenger.com.au)

#### Stephan Richartz

Director, Institutional Client Solutions  
0428 659 780  
[srichartz@challenger.com.au](mailto:srichartz@challenger.com.au)

#### Jaryd Bryce-Borthwick

Senior Manager, Institutional Client Solutions  
0458 218 313  
[jbryceborthwick@challenger.com.au](mailto:jbryceborthwick@challenger.com.au)

The information contained in this flyer is current at 21 March 2024 unless otherwise specified. It is provided as shown by Fidante Partners Services Limited ABN 44 119 605 373, AFSL 320505 (FPSL) and Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger Life) and is intended solely for holders of an Australian financial services licence or other wholesale clients (as defined in the *Corporations Act 2001* (Cth)). The information contained in this article must not be passed on to retail clients. It is for information purposes only and is intended as general factual information only. It has been prepared without taking account of any person's objectives, financial situation or needs and is not intended to constitute personal financial product advice. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their or their client's objectives, financial situation and needs.

Challenger Life is not an authorised deposit-taking institution for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an authorised deposit-taking institution in the Challenger Group ("**Challenger ADI**") and no Challenger ADI provides a guarantee or otherwise provide assurance in respect of the obligations of Challenger Life. **Accordingly, unless specified otherwise, the performance, the repayment of capital and any particular rate of return on your client's investments are not guaranteed by any Challenger ADI.**