

Challenger Index Plus

For institutional clients only

Helping institutional investors access market beta with zero management fees and contractual alpha.

Challenger Index Plus (**Index Plus**) offers institutional investors contractual alpha over an agreed index, with zero management fees. Investors have the flexibility to choose from a range of investment terms, liquidity profiles and indices.

What is Index Plus?

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 an excess return over an index, this product can have a substantial impact on realised total returns. It can also assist institutional investors in managing (or reducing) their overall fee budget.

The excess returns are based on three key factors: index selection, underlying eligible assets of the fund and term of investment. This solution offers significant index flexibility providing access to:

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

Index Plus is available as a daily liquid (pooled with other investors) or enhanced mandate option in each case through a special purpose fund structure (**Index Plus Fund**). The enhanced mandate option delivers an enhanced level of contractual margin to investors provided they agree to invest for a minimum of 1 year. Generally, the longer the investment term the higher the contractual alpha that can be delivered.

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 a margin above the index.

Index Plus offers:



an excess margin above a specified benchmark;



zero management fees to assist with management expense ratio (MER) considerations;



zero tracking error;



flexibility on term and index selection; and the option of scheduled windows of liquidity.

How is this achieved?

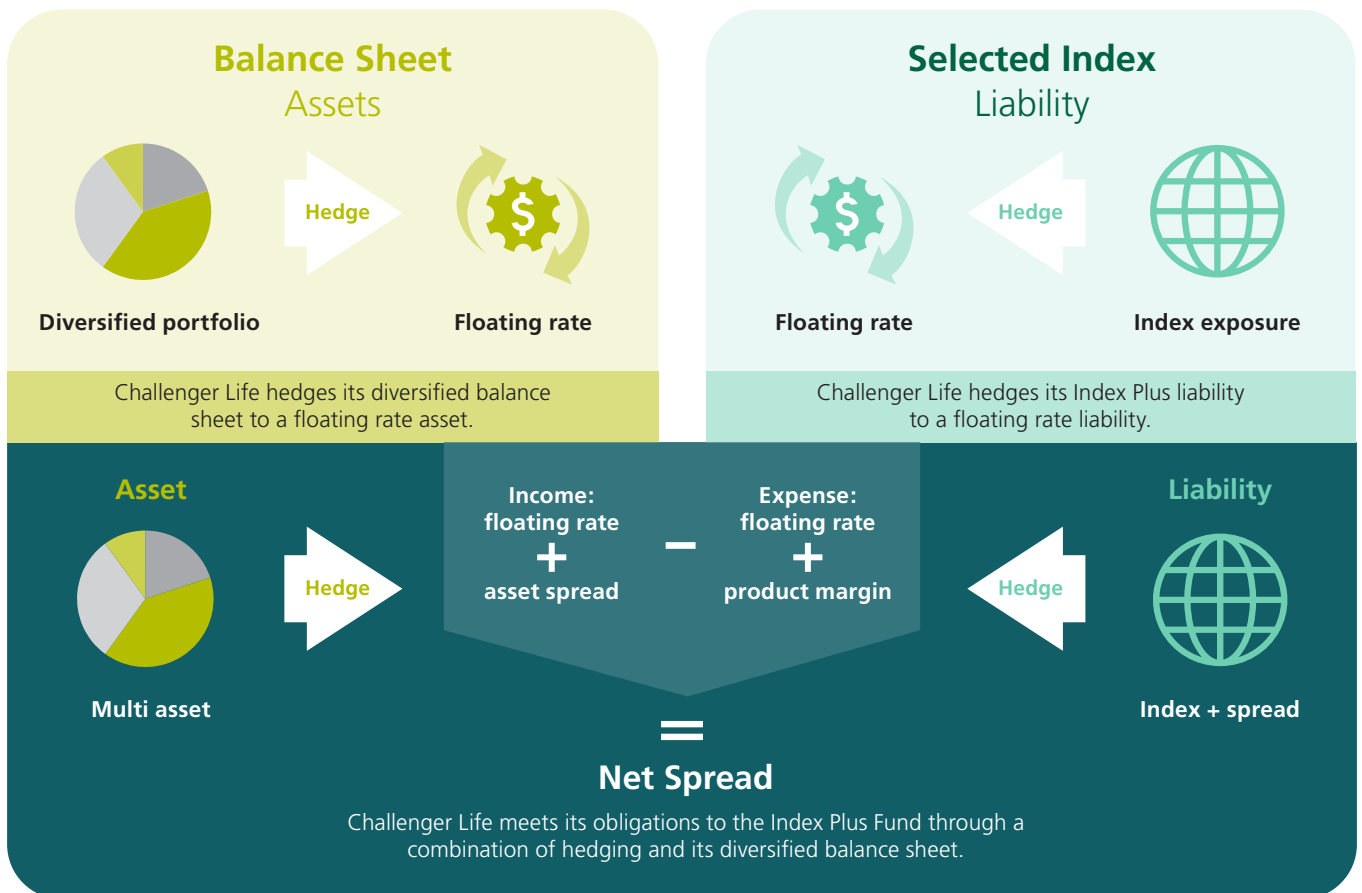
The relevant Index Plus Fund enters into a Total Return Swap and Investment Management Agreement with Challenger Life Company Limited (**Challenger Life**). Under these arrangements, Challenger Life is required to pay a return equal to the specified index plus the agreed margin, and the Index Plus Fund agrees to pay Challenger Life the returns of the underlying portfolio of assets.

Index Plus allows Challenger Life, as the investment manager, to utilise Challenger Life's balance sheet and investment strategy to offer excess returns over the agreed index. Challenger Life's ability to pass on

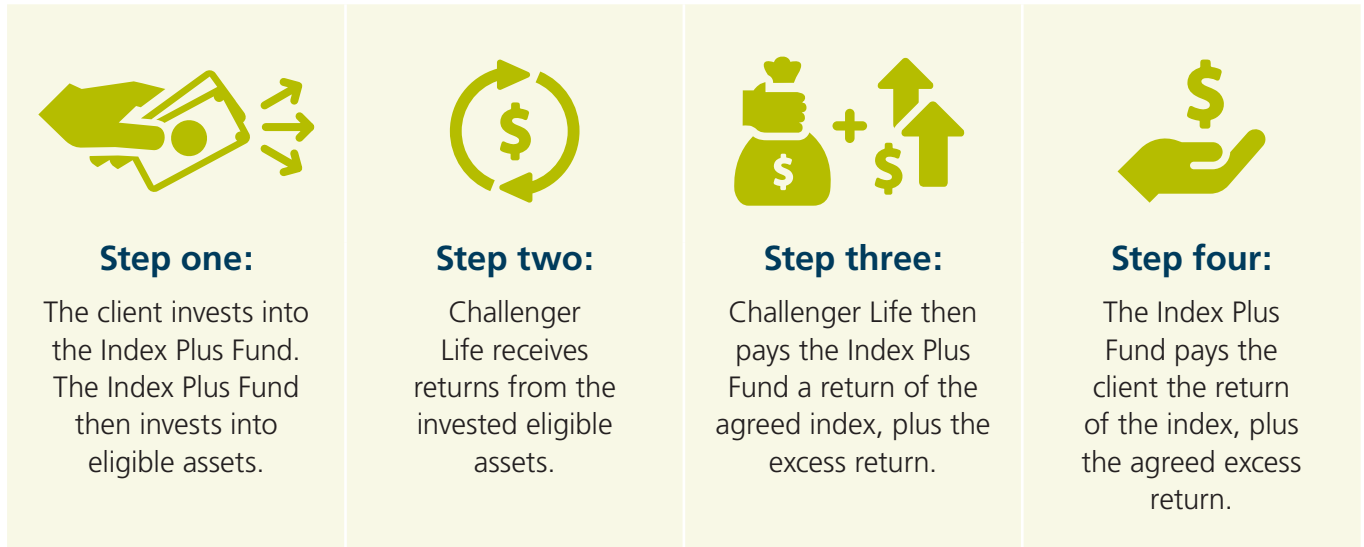
attractive returns to investors is a function of the margin it earns on investments relative to its cost of funds. Both investments and cost of funds are hedged to an equivalent floating rate basis.

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 under Index Plus to meet their evolving investment and strategy requirements.

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



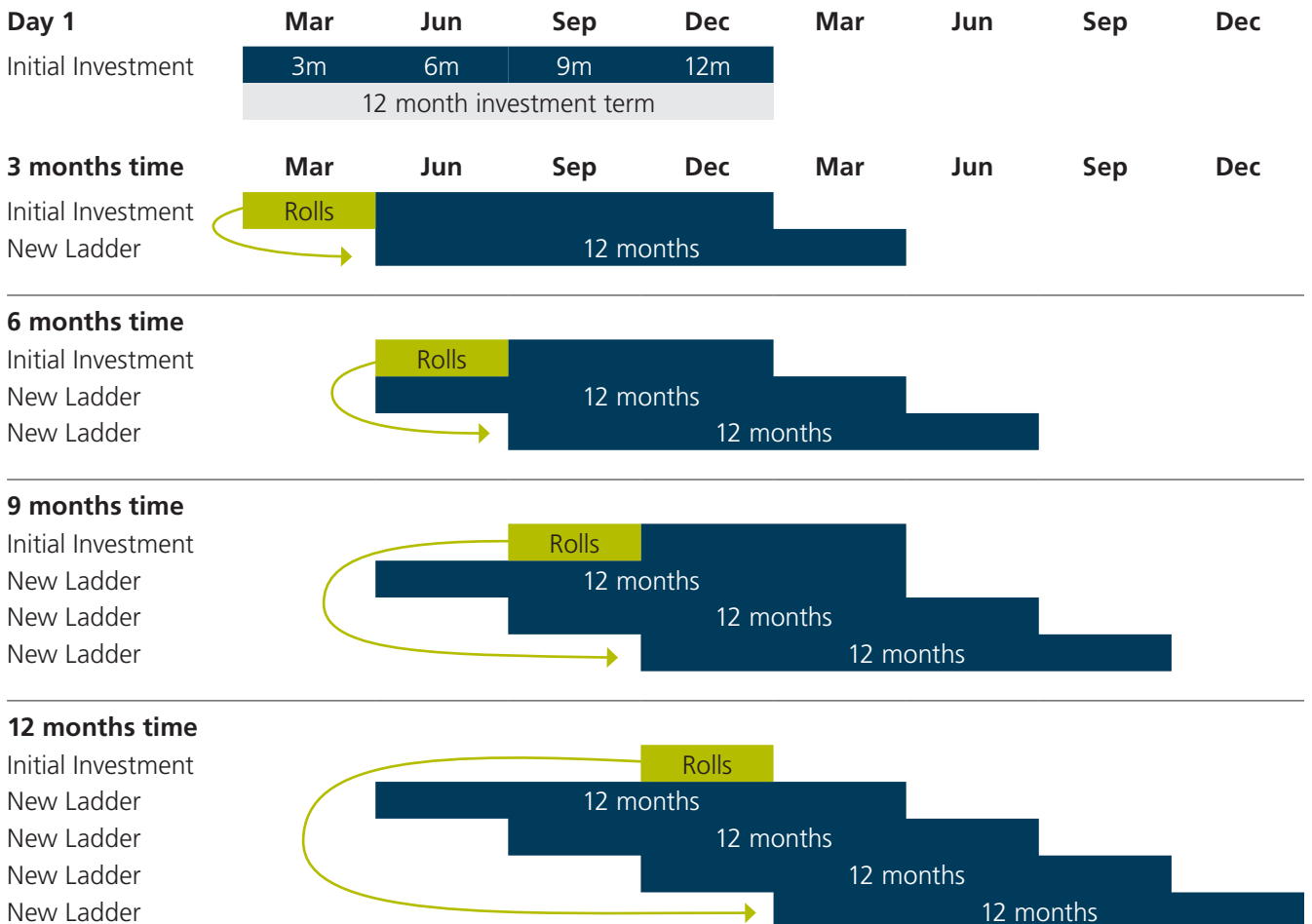
How does the solution work?



Challenger Life is able to put in place scheduled windows of liquidity for the fixed term 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 three months, ¼ of the portfolio is accessible.

For example:



What indices are offered?

Challenger Life offers indexed investments in either the daily liquid fund, 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 yields in return for longer-term investments.

The daily liquid fund offers the following indices:

Index Ticker	Index Name
RBATCTR	RBA Cash Rate
BAUBIL	AusBond Bank Bill Index
BAGV0	AusBond Government 0y+ Index
BATY0	AusBond Treasury Index
BAIGO	AusBond Government Inflation Index
BACMO	AusBond Composite 0y+ Index
EANREXAN	MSCI World Ex Australia Net Total Return in AUD

Enhanced term mandates allow investors the ability to lock in higher excess returns 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. 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 as a stand-alone investment solution or as a complement to traditional index management facilities. Either way it can boost the alpha and reduce costs.

Contractual returns, including excess 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.

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