

FIRST QUARTER AUM ANNUITY SALES & NET FLOWS¹

Record quarterly annuity sales

Continued momentum in growing longer duration business

- Group assets under management (AUM) \$107 billion, up 3% for the quarter
- Total Life sales \$2.8 billion, up 2%
 - Record annuity sales \$2.1 billion, up 17%
 - Lifetime annuity² sales \$837 million, up 365%
 - Challenger Index Plus sales \$691 million, down 26%
- Challenger Life remains well capitalised with a PCA ratio of 1.52 times³
- Funds Management funds under management (FUM) \$98 billion, up 3% for the quarter excluding the derecognition of Challenger's Australian real estate business (CRE) following its sale to Elanor⁴

Challenger Limited (ASX:CGF) today reported its first quarter annuity sales, net flows and AUM. Total Life sales were \$2.8 billion driven by record quarterly annuity sales and Group AUM was up 3% for the quarter.

Managing Director and Chief Executive Officer, Nick Hamilton said:

"Challenger has started FY24 well, demonstrating our progress in executing a range of strategic initiatives to drive growth and extend the duration of annuity business to improve book quality.

"Our Life business delivered another strong performance, with annuity sales driving book growth of 4.2%. In particular, sales of lifetime and longer duration annuity business were exceptional, supported by rising demand for guaranteed income.

"There is a significant opportunity for our business to support superannuation funds to help meet their members' needs in retirement. In July, Challenger was selected as Aware Super's partner to provide a de-risking solution for its defined benefit fund that included a group lifetime annuity to the value of \$619 million. The win highlighted the depth of Challenger's capability and strength of our investment and longevity risk solutions.

"We're making great progress in ensuring it's easier for customers, clients and advisers to do business with us. Challenger officially launched fixed term annuities 'in' the Netwealth platform in September, which provide advisers and their clients with a seamless and contemporary experience to access fixed term annuities directly and invest both superannuation and non-superannuation monies.

"We are investing to maintain our position as Australia's leading retirement income brand. Earlier this month, we announced our brand sponsorship partnership with the Professional Golfers

Association of Australia (PGA), including WPGA Tour Australasia, and Golf Australia. With over nine million passionate golf fans in Australia, and being a sport of choice for those aged 45 and over, this is a fantastic opportunity to amplify brand awareness and engagement with our customers and our broader target audience – those preparing for and in retirement.”

Mr Hamilton said the Funds Management business delivered a positive performance despite challenging industry conditions.

“We continue to focus on adding new alternative investment strategies to meet growing client demand. In July, we welcomed Elanor to Fidante’s stable of affiliate managers and commenced distributing the Apollo Aligned Alternatives strategy to the Australian market in September.

“With the structural tailwinds to the Australian retirement market, we have an exciting year ahead as we leverage our expertise to meet the growing need for guaranteed income and active investment management”, said Mr Hamilton.

Challenger Life

Total Life sales increased 2% to \$2.8 billion driven by record quarterly annuity sales, partially offset by lower Challenger Index Plus sales.

Challenger continues to grow longer duration and more profitable business. Demand for longer dated annuities improved with 91% of new business annuity sales being lifetime or term of 2-years or more⁵, compared to 69% on the prior corresponding period (pcp). The tenor on new business annuity sales increased to 9.8 years in the quarter, up from 5.5 years in the pcp.

Annuity sales increased by 17% to \$2.1 billion primarily reflecting very strong lifetime annuity sales and higher fixed term annuity sales of 2-years or more.

Domestic retail sales decreased 4% to \$945 million, reflecting higher lifetime annuity sales and fixed term annuity sales of 2-years or more, offset by lower 1-year fixed term annuity sales. Retail 1-year fixed term annuity sales decreased 25% to \$260 million.

Retail lifetime annuity sales increased 21% to \$218 million and comprised Liquid Lifetime of \$98 million (up 9%) and CarePlus of \$120 million (up 33%). CarePlus achieved its highest quarter of sales since launching in 2015, reflecting the growing opportunity in aged care.

Consistent with growing longer duration business, retail fixed term annuity sales of 2-years or more increased to \$467 million and represented 64% of total retail fixed term sales, up from 57% in the pcp. This was supported by strong reinvestment rates, with approximately 90% of maturities of term annuities of 2-years or more reinvested during the quarter.

Institutional sales⁶ grew by 10% to \$1.8 billion primarily driven by institutional lifetime annuity sales of \$619 million, reflecting the group lifetime annuity policy relating to Challenger’s defined benefit partnership with Aware Super. Shorter duration institutional term annuity sales were \$441 million (down 34%) and Challenger Index Plus sales were \$691 million (down 26%).

Japanese (MS Primary) annuity sales were \$140 million, with Challenger on track to achieve the annual sales target of ¥50 billion per year (equivalent to ~A\$520 million)⁷.

Maturities for the quarter represented 9% of opening period annuity liability⁸. As previously announced, Challenger’s FY24 maturity rate is expected to be 26%⁷ with a greater weighting towards 1H24.

Annuity net flows were \$597 million, with annuity book growth of 4.2%⁹ for the quarter. Total Life net outflows were \$39 million representing Life book growth of -0.2%¹⁰ for the quarter. This included the impact of the maturities from short-term Index Plus and institutional term annuities.

Challenger Life's investment assets as at 30 September 2023 were \$23.3 billion, down 1% for the quarter. The movement in investment assets includes Challenger Life's retained earnings, dividend payments out, movements in investment markets and first quarter net book growth.

Challenger Life's PCA ratio was 1.52 times, primarily reflecting changes in the investment portfolio with an increased allocation to alternatives and payment of the 2023 final dividend. Challenger remains well capitalised and comfortable operating around this level of the target range of 1.3 to 1.7 times PCA.

Funds Management

Funds Management FUM was \$98.4 billion, stable for the quarter while reflecting the derecognition of \$3.3 billion of FUM following the previously announced sale of Challenger's Australian real estate business (CRE) to Elanor Investors Group (ASX:ENN) (Elanor)⁴. Excluding the sale of CRE, FUM increased by 3% (\$3.2 billion) for the quarter.

Fidante's FUM was \$81.7 billion, an increase of \$3.6 billion or 5% for the quarter. FUM growth benefitted from net inflows of \$4.3 billion for the quarter, partially offset by negative investment markets of \$0.4 billion and client distributions of \$0.3 billion. Net inflows primarily related to fixed income (\$3.6 billion) and equity strategies (\$0.7 billion).

In July 2023, Elanor became a new Fidante affiliate manager where Fidante will distribute Elanor's existing and new funds. In September 2023, Fidante commenced distributing the Apollo Aligned Alternatives (AAA) strategy to the Australian market. AAA is positioned as an equity replacement product and will provide clients with access to a diversified portfolio of private market opportunities, investing side-by-side with more than US\$10 billion of Apollo's own balance sheet capital.

Challenger Investment Management (CIM) FUM was \$16.7 billion and decreased by \$3.7 billion or 18% for the quarter. This was primarily driven by the sale of CRE to Elanor, which led to the derecognition of \$3.3 billion FUM relating to property previously managed by CIM, along with changes to asset allocation by Challenger Life. Excluding the sale of CRE, CIM FUM decreased by 2% (\$0.4 billion) for the quarter.

Challenger Bank

The Bank sale continues to progress and is subject to regulatory approvals in Australia and New Zealand. The Bank is strongly capitalised and remaining excess capital is expected to be returned to Challenger prior to completion.

Outlook

Challenger reaffirms its FY24 normalised net profit before tax guidance range of between \$555 million and \$605 million.

ENDS

This release has been authorised by Challenger's Continuous Disclosure Committee.

About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for a better retirement.

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

For more information contact:**Mark Chen**

General Manager Investor Relations
Mob +61 423 823 209
machen@challenger.com.au

Felicity Goodwin

Head of External Communications
Mob +61 461 579 782
fgoodwin@challenger.com.au

Irene Xu

Investor Relations Manager
Mob +61 451 822 326
ixu@challenger.com.au

Rhiannon Hornsey

General Manager Corporate Affairs and Sustainability
Mob +61 428 404 345
rhornsey@challenger.com.au

-
- ¹ All commentary compares the September 2023 quarter against the September 2022 quarter (the prior corresponding period or pcq), unless otherwise stated.
- ² Lifetime sales includes CarePlus, a product that pays income for life and is specifically designed for the aged care market.
- ³ 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 September 2023.
- ⁴ Challenger completed the sale of its Australian real estate business (CRE) to Elanor Investors Group (ASX:ENN) (Elanor) for total consideration of \$38 million (before tax, transaction costs and other adjustments and subject to certain milestones being met) on 7 July 2023. Following completion, the Funds Management business derecognised \$3,253 million of funds under management. The derecognition of CRE is expected to be EPS neutral for Challenger in the first year after completion. Challenger's holding in Elanor is ~14% of Elanor securities on issue on a non-diluted basis and subject to certain milestones being met.
- ⁵ Quarterly new business annuity sales by tenor excluding reinvestments and Japanese sales.
- ⁶ Institutional sales include institutional fixed term annuity sales, institutional lifetime annuity sales and Challenger Index Plus.
- ⁷ Reinsurance across both Australian and US dollar annuities, of at least ¥50 billion (~A\$520m based on the exchange rate as at 30 June 2023) per year for a minimum of five years, commencing 1 July 2019. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.
- ⁸ Maturity rate represents the value of Life annuities maturing and repayments (excluding interest payments) in the period as a proportion of opening Life annuity liabilities (undiscounted) of \$16.6 billion.
- ⁹ Life annuity book growth of 4.2% for the quarter represents Life annuity net flows divided by opening FY24 annuity liabilities.
- ¹⁰ Life book growth of -0.2% for the quarter represents Life net flows divided by opening FY24 annuity and Challenger Index Plus liabilities.

Challenger Limited

Assets and Funds Under Management, net flows and sales

Life quarterly sales and investment assets

\$m	Q1 24	Q4 23	Q3 23	Q2 23	Q1 23
Life sales					
Fixed term sales – 1-year	260	229	194	385	349
Fixed term sales – 2-years or more	467	327	394	573	460
Lifetime sales ¹	218	187	147	195	180
Total retail annuity sales	945	743	735	1,153	989
Fixed term sales – 1-year	407	50	9	180	663
Fixed term sales – 2-years or more	34	5	88	145	2
Lifetime sales	619	14	—	—	—
Total institutional annuity sales	1,060	69	97	325	665
Total domestic annuity sales	2,005	812	832	1,478	1,654
Japan sales	140	117	212	225	187
Total Life annuity sales	2,145	929	1,044	1,703	1,841
Maturities and repayments	(1,548)	(807)	(1,583)	(1,244)	(1,498)
Total Life net flows	597	122	(539)	459	343
Annuity book growth²	4.2%	0.9%	(4.0%)	3.4%	2.5%
Challenger Index Plus sales	691	1,331	963	1,006	929
Challenger Index Plus maturities and repayments	(1,327)	(993)	(933)	(891)	(861)
Challenger Index Plus flows	(636)	338	30	115	68
Challenger Index Plus net book growth	(12.1%)	7.7%	0.7%	2.6%	1.6%
Total Life sales	2,836	2,260	2,007	2,709	2,770
Total maturities and repayments	(2,875)	(1,800)	(2,516)	(2,135)	(2,359)
Total Life net flows	(39)	460	(509)	574	411
Total Life book growth²	(0.2%)	2.5%	(2.8%)	3.2%	2.3%
Life					
Fixed income and cash ³	16,921	17,800	17,506	17,621	16,816
Property ³	3,060	3,062	3,236	3,178	3,228
Equity and Infrastructure ³	333	291	259	259	961
Alternatives	2,942	2,385	2,349	2,027	1,812
Total Life investment assets	23,256	23,538	23,350	23,085	22,817
Average Life investment assets⁴	23,446	23,600	23,287	23,032	22,525

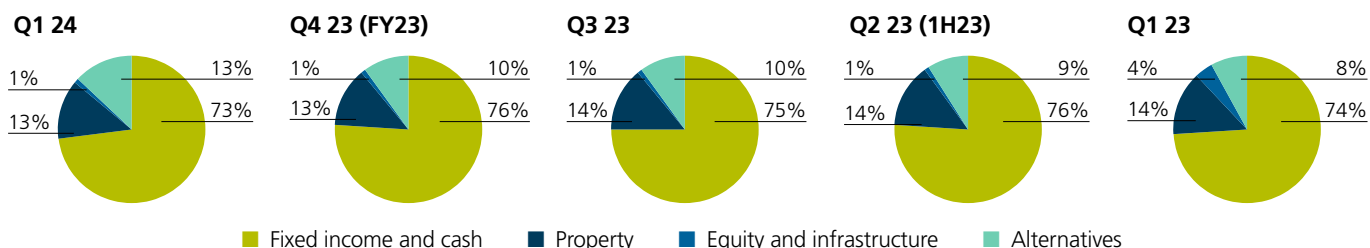
1 Lifetime sales includes CarePlus, a product that pays income for life and is specifically designed for the aged care market.

2 Book growth percentage represents net flows for the period divided by opening book value for the financial year.

3 Fixed income, property and infrastructure are reported net of debt.

4 Average Life investment assets is calculated on a monthly basis.

Life Asset Allocation



Challenger Limited

Assets and Funds Under Management, net flows and sales

Funds Under Management and net flows

\$m	Q1 24	Q4 23	Q3 23	Q2 23	Q1 23
Funds Under Management					
Equities	43,914	44,020	40,632	37,991	36,101
Fixed Income	52,007	48,693	49,223	48,750	48,001
Property ¹	781	4,036	4,289	4,275	4,274
Alternatives	1,729	1,718	1,600	2,359	2,665
Total Funds Under Management	98,431	98,467	95,744	93,375	91,041
Fidante	81,692	78,075	74,571	72,390	69,971
Challenger Investment Management ¹	16,739	20,392	21,173	20,985	21,070
Total Funds Under Management	98,431	98,467	95,744	93,375	91,041
Institutional ¹	80,368	79,894	76,643	74,493	72,248
Retail	18,063	18,573	19,101	18,882	18,793
Total Funds Under Management	98,431	98,467	95,744	93,375	91,041
Average Fidante	80,239	77,145	73,808	71,760	72,102
Average Challenger Investment Management	17,634	20,899	21,014	21,015	20,891
Total average Funds Under Management²	97,873	98,044	94,822	92,775	92,993
Analysis of flows					
Equities	663	2,368	617	(491)	415
Fixed income	2,999	(107)	(760)	667	(2,147)
Property ¹	(3,254)	(64)	—	(76)	(93)
Alternatives	33	86	(786)	(276)	175
Total net flows	441	2,283	(929)	(176)	(1,650)
Fidante	4,265	2,928	(882)	40	(1,706)
Challenger Investment Management ¹	(3,824)	(645)	(47)	(216)	56
Total net flows	441	2,283	(929)	(176)	(1,650)
Institutional ¹	839	2,750	(652)	116	(1,311)
Retail	(398)	(467)	(277)	(292)	(339)
Total net flows	441	2,283	(929)	(176)	(1,650)

1 Q1 24 included \$3,253m FUM derecognition following the sale of Challenger's Australian real estate business to Elanor Investors Group (ASX:ENN).

2 Average total Funds Under Management calculated on a monthly basis.

Reconciliation of total group assets and Funds Under Management

\$m	Q1 24	Q4 23	Q3 23	Q2 23	Q1 23
Funds Management Funds Under Management	98,431	98,467	95,744	93,375	91,041
Life investment assets	23,256	23,538	23,349	23,085	22,817
Adjustments to remove double counting of cross-holdings	(14,247)	(17,278)	(17,555)	(17,474)	(17,821)
Total Assets Under Management¹	107,440	104,727	101,538	98,986	96,037

1 Total Assets Under Management excludes Bank lending and financing assets, which have been held for sale: Q1 24 - \$382m; Q4 23 - \$225m; Q3 23 - \$322m; Q2 23 - \$407m; Q1 23 - \$415m.