

**Market
release**

Q1 2017

Challenger Limited
Assets and funds under
management, net flows and sales

ASSETS AND FUNDS UNDER MANAGEMENT OF \$62.0 BILLION

ANNUITY SALES OF \$1.03 BILLION UP 46% ON PCP

RECORD LIFETIME ANNUITY SALES UP 208% ON PCP

STRONG TERM ANNUITY SALES GROWTH UP 21% ON PCP

FIRST QUARTER LIFE NET BOOK GROWTH OF 3.1%

FUNDS MANAGEMENT NET FLOWS OF \$0.9 BILLION

18 October 2016, Sydney – Challenger Limited (ASX:CGF) today announced September quarter assets and funds under management, net flows and sales across its two operating businesses, Funds Management and Life.

Challenger's total group assets and funds under management at 30 September 2016 was \$62.0 billion, up 3% for the quarter.

Funds Management achieved positive net flows across both Fidante Partners and Challenger Investment Partners of \$0.9 billion for the quarter. FUM increased by \$2.2 billion for the quarter to \$58.9 billion, as a result of these net flows (\$0.9 billion) and positive investment markets (\$1.3 billion).

Total Life sales for the quarter were \$1,083 million, comprising annuity sales of \$1,033 million and other Life sales of \$50 million.

Annuity sales increased by 46% on the prior corresponding period (pcp), including strong growth in term annuities (up 21%) and record quarterly lifetime annuity sales (up 208%).

Total Life net book growth was \$334 million, or 3.1% for the quarter, compared to \$129 million or 1.3% in the pcp.

Challenger's Chief Executive Officer Brian Benari said: "We continue to experience strong demand for our products and have achieved back-to-back quarterly annuity sales in excess of \$1 billion.

"Sales growth is coming via investment administration platforms, due to our expanded distribution relationships, and from broad-based off platform sales via financial advisers.

"The superannuation industry continues to move ahead of the retirement income regulatory reform agenda to meet client needs by implementing comprehensive retirement income solutions.

"Retirees are increasingly seeking longevity protection in the form of annuities to supplement the Age Pension. Financial advisers are implementing income layering and retirement income model portfolios to meet the needs of these retirees.

"This is reflected in our record quarter of lifetime annuity sales, which accounted for 29% of total annuity sales, compared with 20% in the quarter to 30 June 2016 and 14% in the pcp".

Funds Management

Funds Management FUM includes both the Fidante Partners multi-boutique funds management business as well as Challenger Investment Partners fixed income and commercial property mandates.

Fidante Partners' FUM was \$44.5 billion, up \$1.5 billion or 4% for the quarter, with net inflows of \$0.3 billion and positive market movements of \$1.2 billion.

Challenger Investment Partners FUM was \$14.4 billion at 30 September 2016, up \$0.7 billion, or 5% for the quarter. Net inflows for the quarter were \$0.6 billion with positive flows across both property and fixed income.

Life

Annuity sales increased from \$707 million in the September 2015 quarter to \$1,033 million in the September 2016 quarter, an increase of 46%. Other Life sales, representing Challenger's Guaranteed Index Return (GIR) product, were \$50 million, representing the reinvestment of GIR maturities during the quarter.

Annuity sales of \$1,033 million, included fixed term annuity sales of \$737 million which increased by \$126 million or 21% on the pcp. Lifetime annuity sales were \$296 million and increased by \$200 million or 208% on the pcp or 33% on the final quarter of the 2016 financial year.

Total Life net book growth for the quarter was \$334 million, or 3.1%.

Lifetime annuity sales include the Liquid Lifetime and CarePlus products. Liquid Lifetime sales continue to benefit from strong demand, as advisers implement comprehensive retirement income models. The rollout and product education process for CarePlus continued. CarePlus sales for the quarter were \$43m, up 34% from the final quarter of the 2016 financial year.

Lifetime annuity sales represented 29% of total annuity sales, up from 14% in the pcp and 17% for the 2016 financial year.

Life's investment assets at 30 September 2016 were \$14.3 billion, an increase of \$0.2 billion for the quarter. Movements in Life's investment assets reflect net book growth and changes in retained earnings net of dividends paid to the Challenger Group.

Capital Management

Challenger Life Company Limited (CLC) targets a prescribed capital amount (PCA) ratio range of 1.3 to 1.6 times APRA's minimum requirement. CLC's PCA ratio was 1.57 times at 30 June 2016 and CLC has continued to maintain the PCA ratio at the upper end of the target range at 30 September 2016.

In order to further support CLC's growth ambitions and to provide capital flexibility Challenger is planning to issue qualifying Additional Tier 1 capital notes before the end of the 2017 financial year, subject to prevailing market conditions.

Outlook

For the 2017 financial year, Life's Normalised Cash Operating Earnings guidance remains unchanged at a range of \$620 million to \$640 million and Challenger remains committed to its 18% pre-tax normalised return on equity target.

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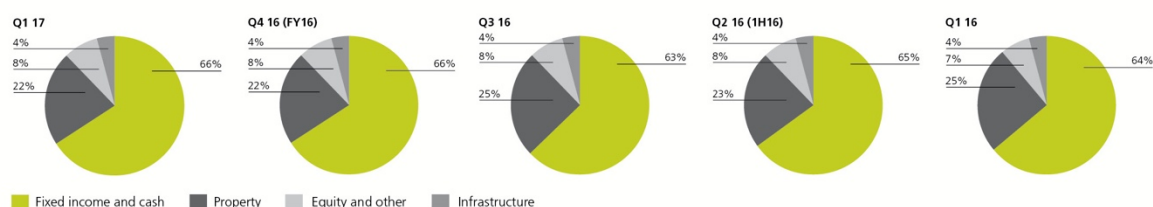
Challenger Total Group Assets and Funds Under Management

\$m	Q1 17	Q4 16	Q3 16	Q2 16	Q1 16
Funds Management (FUM)	58,893	56,662	54,621	54,698	53,540
Life investment assets	14,316	14,112	13,102	13,147	13,021
Adjustments to remove double counting of cross holdings	(11,215)	(10,723)	(10,289)	(10,228)	(10,466)
Total Assets and Funds Under Management	61,994	60,051	57,434	57,617	56,095

Life quarterly sales and investment assets

Life sales	Q1 17	Q4 16	Q3 16	Q2 16	Q1 16
Fixed Term	737	912	445	801	611
Lifetime (including Care)	296	223	130	133	96
Total annuity sales	1,033	1,135	575	934	707
Other Life sales	50	300	289	233	177
Total Life sales	1,083	1,435	864	1,167	884
Life					
Fixed income and cash ¹	9,518	9,316	8,280	8,488	8,336
Property ¹	3,183	3,150	3,243	3,063	3,218
Equity and other	1,079	1,079	1,042	1,060	909
Infrastructure ¹	536	567	537	536	558
Total Life investment assets	14,316	14,112	13,102	13,147	13,021
Average Life investment assets²	14,227	13,535	13,134	13,047	12,962

Life asset allocation



¹ Fixed income, property and infrastructure are reported net of debt.

² Average Life investment assets calculated on a monthly basis.

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Funds Management Assets and Funds Under Management and net flows

\$m	Q1 17	Q4 16	Q3 16	Q2 16	Q1 16
Funds Management					
Fidante Partners					
Equities	19,124	18,317	17,929	18,754	17,096
Fixed income	19,065	18,364	17,707	17,305	17,273
Alternatives	6,332	6,331	5,880	5,546	6,141
Total Fidante Partners	44,521	43,012	41,516	41,605	40,510
Challenger Investment Partners					
Fixed income	9,703	9,059	8,425	8,541	8,532
Property	4,669	4,591	4,680	4,552	4,498
Total Challenger Investment Partners	14,372	13,650	13,105	13,093	13,030
Total funds under management	58,893	56,662	54,621	54,698	53,540
Average Fidante Partners	44,041	42,539	41,292	41,071	42,049
Average Challenger Investment Partners	14,000	13,506	13,126	13,029	13,201
Average total funds under management¹	58,041	56,045	54,418	54,100	55,250
Analysis of flows					
Funds Management net flows					
Equities	(56)	(51)	(182)	492	766
Fixed Income	369	360	436	199	(5,050)
Alternatives	(31)	434	336	(765)	416
Total Fidante Partners	282	743	590	(74)	(3,868)
Challenger Investment Partners	641	338	169	131	(545)
Net flows	923	1,081	759	57	(4,413)

¹ Average total funds under management calculated on a monthly basis.