

2018 Sustainability Report

Providing our
customers with
financial security
for retirement



About this report

This report discusses how we manage and anticipate current and future environmental, social and governance opportunities and challenges.

It is structured into sections; the first outlines how we do business, including our business vision and strategy and our corporate sustainability strategy; stakeholder engagement and our approach to the identification of material matters; governance and risk management and tax transparency.

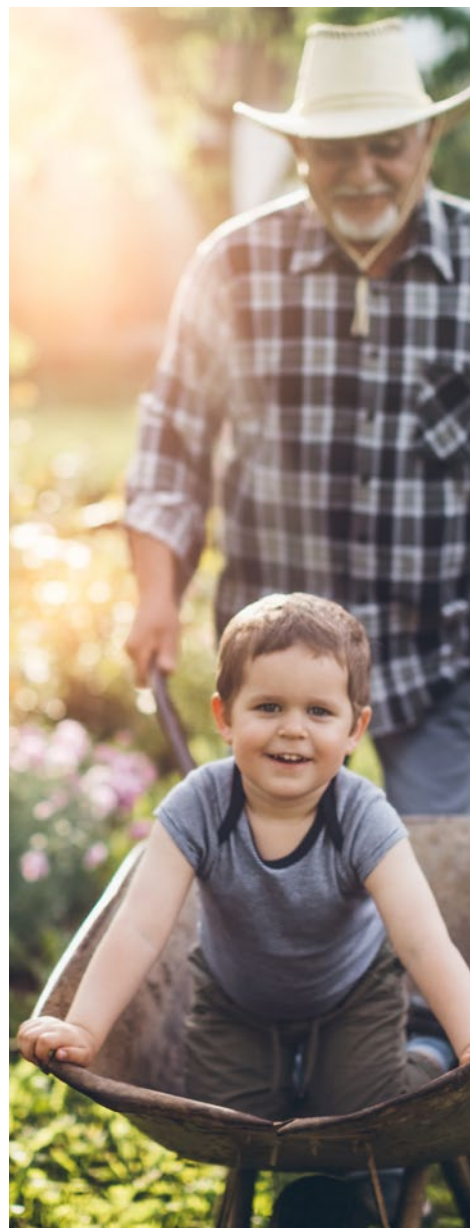
The following sections detail our management approach and performance relevant to materially significant matters. These matters are aligned to both our business vision and corporate sustainability strategy and form the content of this report.

We've categorised these matters into the following themes:

- Responsible operations
- Our customers
- Policy and regulation
- Operating environment impacts
- Our people.

The final section provides key performance data.

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option.



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Chair report

We believe that as the leading provider of lifetime retirement incomes and one of the fastest growing active fund managers in Australia, we play an important role in providing our customers with financial security for retirement.

Today's retirees are living much longer than when the superannuation guarantee system was created 26 years ago. Thanks to social, economic and technological advances, retirees are now typically living more than nine years longer than they did in 1992.

We know many people are anxious about their financial future. The wave of people reaching retirement is one of the biggest fiscal and social challenges facing Australia.

For us, being sustainable is about addressing this and other issues that have the potential to challenge the financial security of our customers or affect our business, while embracing the opportunities.

2018 has been a big year in progressing Challenger's sustainability commitment. We have developed a new Corporate Sustainability strategy that supports the delivery of our business strategy and reflects our most material social, environmental and governance opportunities. It centres around the priority areas of responsible business practices; taking action on issues affecting the ability of retirees to achieve financial security; and helping our customers and communities to be strong and financially resilient.

Our 2018 Sustainability Report focuses on our refined strategy and outlines the issues we care about and that are important to our stakeholders. It sets out how we manage and anticipate current and future economic, social and environmental risks and opportunities.

Key themes of the report include the importance of conduct and trust and ensuring we are managing long-term risk in a responsible way. We also explore the impact of the increasing pace of regulatory change and an ageing population, while providing positive customer outcomes. The report provides extended discussions on each of these topics, and more.

Meeting the challenge of sustainable retirement incomes is at the heart of our business. It is central to our promise to our customers and guides our business activities.

This challenge has also driven our extensive contributions to public policy, which are intended to improve outcomes for older Australians by advocating to enhance the retirement phase of the superannuation system and provide a wider range of retirement income options.

At Challenger, we have a passionate, high performing team, dedicated to delivering for our customers and contributing to a sustainable business. We understand the importance of diverse thinking and this year we were recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency.

Meeting the challenge of sustainable retirement incomes is at the heart of our business. It is central to our promise to our customers and guides our business activities.

From an environmental perspective, we harnessed the passion of our employees and created an employee-led Sustainability Action Group. The aim of this group is to promote sustainability throughout the organisation and to create and deliver environmental and community initiatives. We've continued to monitor and report on our carbon footprint and offset relevant greenhouse gas emissions, and have further enhanced our approach this year by having our calculations externally assured.

Our approach to sustainability is evolving. We've made considerable headway and still have some great opportunities ahead of us. I hope you enjoy reading the content in this report which provides details on our progress.



Peter Polson
Independent Chair



Peter Polson

Our vision and strategy

To provide our customers with financial security for retirement



Increase the Australian retirement savings pool allocation to secure and stable incomes



Be recognised as the leader and partner of choice in retirement income solutions with a broad product offering



Provide customers with relevant investment strategies exhibiting consistently superior performance



Highly engaged, diverse and agile workforce committed to sustainable business practices and a strong risk and compliance culture

Our Corporate Sustainability strategy



Challenger's new Corporate Sustainability strategy has been developed to support the delivery of our business strategy.

It reflects our most material social, environmental and governance opportunities and is aligned with our vision.



Financially resilient customers and communities

Helping our customers and communities to be strong and financially resilient.



Responsible business practices

Responsible business practices that focus on our customers, employees, shareholders and the environment.



Constructive public policy settings

Taking action on issues affecting the ability of retirees to achieve financial security.

What matters most

Our most important matters inform our report themes

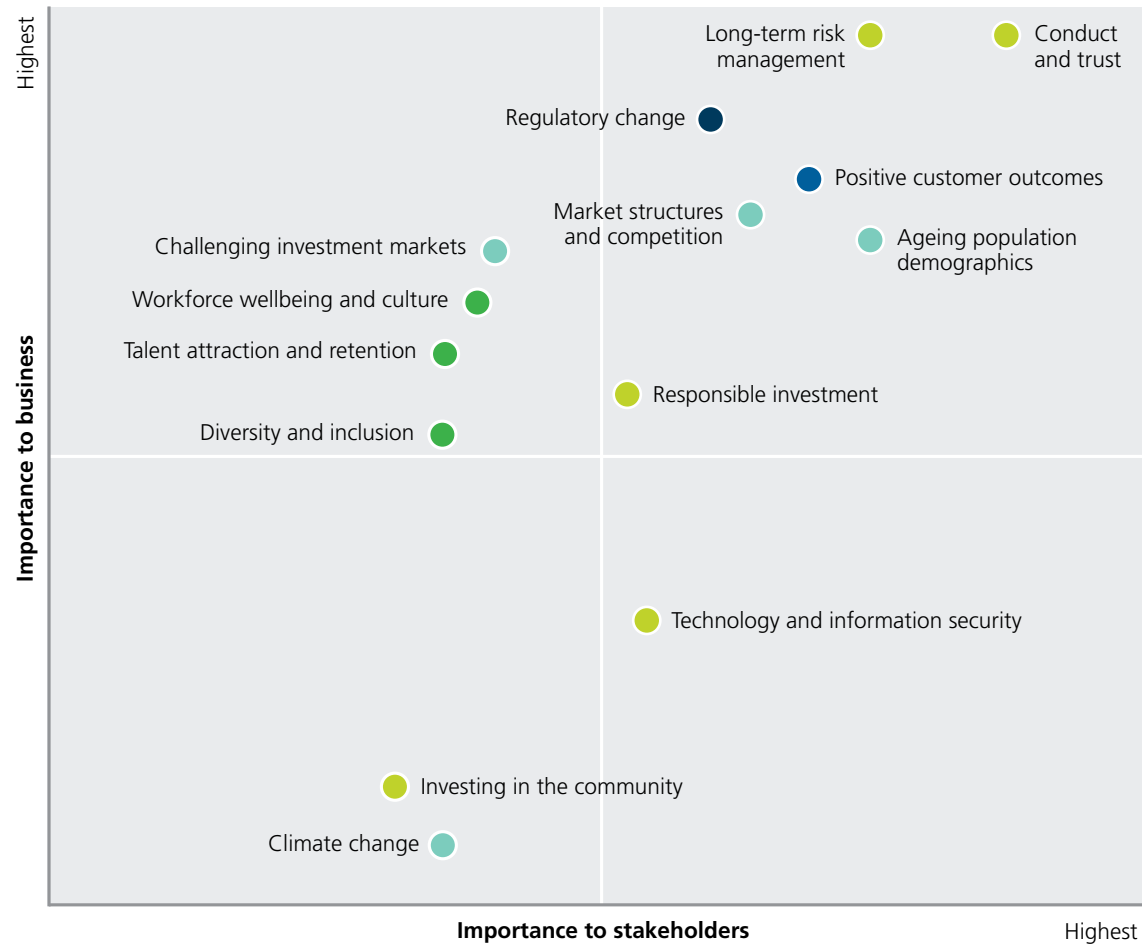
To understand the current and emerging issues that matter most, we gathered the views of key stakeholders and conducted extensive desktop research.

Our material matters list for FY18 is informed by:

- sustainability frameworks such as the Global Reporting Initiative and the Sustainable Development Goals;
- analysis of regulator commentary and recommendations;
- workshops with key internal stakeholders;
- a review of competitor materiality;
- a review of analyst notes and investor feedback;
- consideration of employee views gauged through employee engagement surveys and other forums;
- consideration of customer views gleaned from relevant surveys; and
- media coverage of key issues.

Stakeholders considered as part of this process include: customers, shareholders, analysts, investors, government and regulators, industry groups, business partners, financial advisers, media, community groups and employees.

This chart maps the 14 most important matters identified in our most recent materiality assessment, ranked in terms of importance to our business and our stakeholders.



We've grouped these matters into five key themes, and they form the content and structure of this report.

- Responsible operations
- Our customers
- Policy and regulation
- Operating environment impacts
- Our people

Alignment to the Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) are a call to action to improve the wellbeing of current and future generations. They aim to tackle the world's biggest challenges through the promotion of sustainable development through to 2030. As we respond to our most material matters, Challenger's actions will support the achievement of these goals.

Conduct and trust

We live in an era where trust in institutions has declined and companies are under more scrutiny than ever before. We recognise that earning public trust requires us to set and maintain high standards of conduct and contribute to industry-wide commitments.



Long-term risk management

The management of risk over the long term is central to how we meet our promise to provide secure and stable incomes to our customers. To match the long-dated annuities we sell, we invest in long-dated assets. How we manage these investments, from origination through to divestment, requires us to take a long-term view of risk.



Positive customer outcomes

Providing great outcomes for our customers requires us to work within a complex ecosystem. We work closely with distribution and product partners, fund managers, Australian and offshore institutions, and financial advisers - who all play a role in providing positive customer outcomes.



Regulatory change

Significant regulatory change is ongoing in the financial services sector including regulation of product development and distribution. In addition, the Government has embarked on a series of superannuation reforms intended to create a world-class retirement income system.



Market structures and competition

We work with third-party distribution providers, specialised fund managers, superannuation funds and retail distribution hubs to provide our products and services to a growing number of retirees. Market structures including changes to existing business models and new entrants, create opportunities and challenges for our business.



Ageing population demographics

As a retirement income provider, our business is supported by the substantial growth in the ageing demographic. We also play a key role in contributing to fiscally responsible solutions to funding the ageing population, which is now living, on average, nine years longer than what was expected when the superannuation guarantee system was designed.



Responsible investment

Considering environmental, social and governance (ESG) factors in our investment decision-making and ownership practices enables us to better manage risks and opportunities.



Governance and risk management

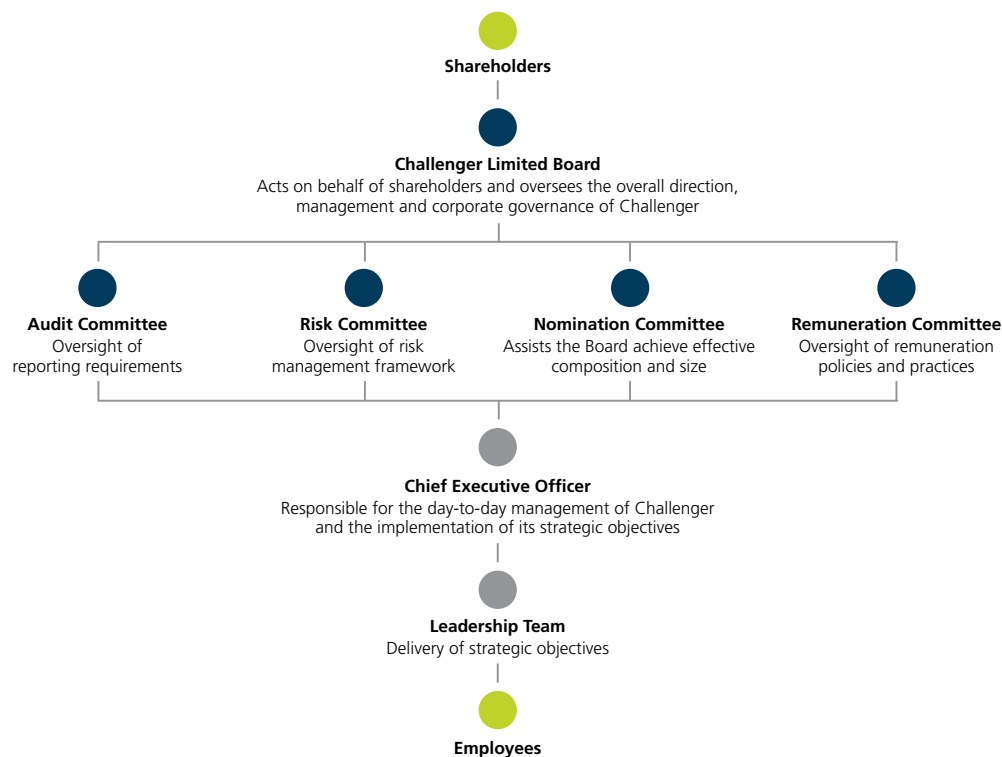
Challenger has a strong governance framework that provides a solid structure for effective and responsible decision-making within the organisation. The Board acts on behalf of shareholders and has oversight of the risks and opportunities arising from our activities.

The Board is responsible for setting the strategic direction for Challenger and for the approval of financial objectives. It delegates to the Chief Executive Officer (CEO) and the

Leadership Team the authority to implement approved strategies and to manage Challenger's business within policy and delegation limits.

Our Board and Leadership Team have a long-standing commitment to good corporate governance and we believe having good corporate governance adds value to our business and enhances stakeholder confidence.

Challenger's approach to corporate governance



Other committees and groups



The structure, composition and diversity of the Board are essential to its effectiveness. With the exception of the CEO, all Board members are independent.

To assist it in its duties, the Board has established the following committees:

- Audit Committee
- Risk Committee
- Nomination Committee
- Remuneration Committee.

The Board and each of the committees have charters which provide strategic guidance and effective oversight of management.

Other committees and groups responsible for progressing aspects of our strategy, including making decisions on environmental, social and governance topics and providing regular updates to Senior Executives include: the Executive Risk Management Committee, Asset Liability Committee, Work Health and Safety Committee, Diversity Committee, Our Community Committee and the Sustainability Action Group.

Risk is everybody's business

The management of risk is fundamental to our business and to building shareholder value. At Challenger, risk is everybody's business.

We have a suite of policies that detail the expectations of our employees regarding their behaviour, and all policies at Challenger have a whistleblower provision.

The Board recognises the broad range of risks that apply to Challenger as a participant in the financial services industry, including: funding and liquidity risk; investment and pricing risk; counterparty risk; strategic, business and reputational risk; operational risk; licence and regulatory risk; and climate change risk. The Board is committed to effective risk management, and the Leadership Team is accountable for managing risk within each member's area of responsibility. It is also required to manage risk as part of its business objectives with risk management integrated across business processes.

The Board's Risk Appetite Statement outlines the level of risk that is acceptable for us to achieve our strategic goals and financial objectives. It also provides clear boundaries on acceptable risk-taking activities across the organisation.

Challenger also considers sustainability to be an important part of its broader risk management framework and has in place a range of policies and practices detailed throughout this report.

Tax transparency

Challenger is committed to meeting its tax obligations and complying with prevailing taxation laws, practice and reporting requirements. We maintain an open relationship with key regulators, including the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), and the Australian Taxation Office (ATO).

Challenger is a signatory to the voluntary Tax Transparency Code (TTC), issued by the Australian Government Board of Taxation. We have prepared our tax transparency disclosures in this report and in the tax note of our 2018 Annual Report in conformance with the TTC.

Our tax charter governs how tax is managed within the organisation and has been in

place since 2007. The charter states that Challenger will manage its tax obligations in a sustainable way with regard to the commercial and social imperatives of the business and our stakeholders. It determines that Challenger will comply with prevailing revenue laws and maintain professional relationships with the regulatory and tax authorities in the jurisdictions we operate in.

Challenger does not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party.

Our total tax contribution (paid and collected) to and on behalf of the Australian Government (state and federal) for FY18 was \$302.8 million.

Overseas subsidiaries

As at 30 June 2018, 34% of Challenger Life Company Ltd's investment assets were offshore. We invest offshore to secure a diversified and balanced portfolio for our investors and to back our policies. Challenger's Life Company is also party to a number of global reinsurance agreements.

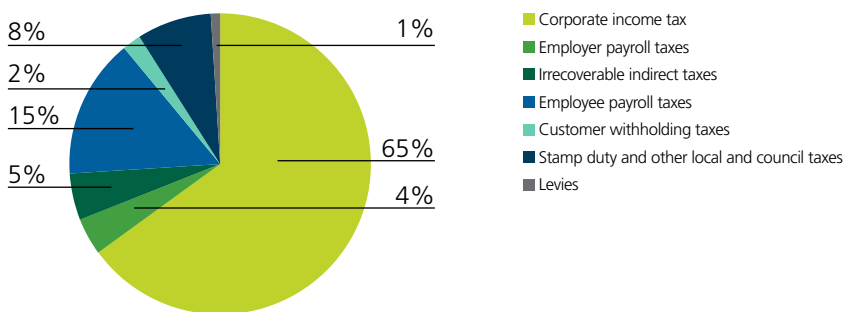
Our Funds Management business originates and manages offshore assets on behalf of Challenger Life Company Ltd and third-party institutional investors, such as Australian industry superannuation funds. These offshore interests mean that a number of overseas subsidiaries are included in the Challenger Group organisational structure.

Foreign structures are used to provide certainty over commercial, legal and tax aspects of the various transactions we enter into. This certainty comes from using entities in jurisdictions with similar laws to Australia or those that have substantially complied with the Organisation for Economic Cooperation and Development's guidelines on tax transparency, including information exchange with global tax authorities.

Like many other institutional investors in Australia and globally, when Challenger invests in offshore assets we are required to establish wholly owned subsidiaries in the countries where the investment is located. Use of these structures is part and parcel of global investing for most institutional investors. For Challenger, it allows us to invest alongside other institutions from other countries in an efficient way; increase economies of scale by allowing investors to pool their capital; reduce investment risk through portfolio diversification; and gain exposures to assets that Challenger may not otherwise be able to access directly on its own.

The investment returns that Challenger makes are taxable in the source country of the investment and also in Australia. This results in an underlying effective tax rate for Australian activities of 22.6% compared to an underlying effective tax rate of 24.7% for offshore operations.

Breakdown of total tax contribution



At Challenger, we understand that good corporate conduct is essential in supporting future sustainable growth



Conduct and trust

Why does it matter?

We live in an era where trust in institutions has declined and companies are under more scrutiny than ever before. We recognise that earning public trust requires us to set and maintain high standards of conduct and contribute to industry-wide commitments.

Over the past 10 years, public opinion of big business has become increasingly critical.

More recently, the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry appears to have already had an impact on the practices of the financial services sector and how participants may be thinking about their businesses. Customer trust in the financial advice sector, and financial services more generally, is facing real challenges.

Businesses are placing more importance on trust, values and culture. Building greater trust among customers and all stakeholders is a priority.

Our response

At Challenger, we understand the importance of acting lawfully, ethically and in a socially responsible manner and that good corporate conduct is essential in supporting sustainable growth. Our success is reliant on our people having the right processes and capabilities underpinned by an appropriate risk culture.



The culture at Challenger is what sets us apart. We have five principles that are integral to our culture and linked to everything we do. These principles are: integrity, commercial ownership, working together, compliance, and creative customer solutions. How we live these principles is evaluated as part of our performance reviews and has a direct link to individual reward.

Our policies and approach to managing risk, including corruption, anti-money laundering and counter-terrorism financing, privacy and political donations, are all part of our culture and inform how we do business every day.

Policies supporting good conduct

We have a suite of policies that detail expectations of our employees regarding their behaviour, both internally and externally. Policies are regularly reviewed to ensure they reflect any changes in legislative requirements and community expectations, and include:

- Code of Conduct
- Anti-Money Laundering and Counter Terrorism Financing policy
- Board Risk Appetite Statement
- Conflicts of Interest policy
- Fraud and Corruption policy
- Group Compliance policy
- Privacy policy
- Inside Information policy and Practice Note

All policies at Challenger have a whistleblower provision

- Regulated Persons policy
- Staff Trading policy
- Gifts, Benefits and Entertainment policy
- Discrimination and Harassment policy
- Workplace Bullying policy
- Work Health and Safety policy
- Group Information Security policy
- IT Acceptable Use policy
- Social Media policy
- Political Donations policy.

Our code of conduct

Our code of conduct outlines the standards of honest and ethical behaviour expected of our employees.

It sets out our values and guiding principles for our employees. The code applies equally to permanent and to temporary employees, as well as contractors and consultants, and it is a requirement that all employees comply with it.

We have clear expectations about our standards of conduct and employees are encouraged to raise any breaches of the code. This can be done whichever way employees feel most comfortable, including using online and anonymous whistleblower provisions, as options.

Whistleblower provisions

All policies at Challenger have a whistleblower provision and clear instructions on how employees can raise concerns in a confidential way. We strongly encourage employees to act on any concerns and actively foster a culture where issues can be raised and are addressed.

Managing fraud and corruption

We recognise that the management of fraud and corruption is an integral part of good governance and management practice, and we have implemented a robust framework that adopts the standards contained in the Australian Standard AS8001-2008.

Our Fraud and Corruption policy establishes a consistent understanding of fraud across our business. It outlines each employee's responsibilities to prevent and detect fraud. Challenger has adopted a zero-tolerance approach on fraud and corruption in all our business activities, which is consistent with our code of conduct.

Anti-money laundering and counter-terrorism financing

Challenger is committed to deterring the use of its products and services as an avenue for money laundering, financing of terrorism, tax evasion or as a means for processing criminal gains.

We've adopted a program to address these matters which complies with anti-money laundering and counter-terrorism financing legislation. We endorse a culture where employees understand that fraud, corruption, dishonest acts and conflicts of interest will be detected and investigated. This is governed by our Fraud and Corruption policy.

Privacy

Challenger collects sensitive information where required by law or where we have permission to collect it. We are committed to good privacy practice and our Privacy policy sets out our approach to privacy management. It includes details regarding the types of personal information collected, and how it may be used and disclosed.

No significant complaints regarding breaches of customer privacy or loss of customer data occurred during FY18.

Political donations

How we engage with politicians and political parties is important to our stakeholders and our business. Our political donations policy takes into account changing community expectations, potential legislative changes and current best practice approaches. At Challenger, we have adopted an approach of not making political donations.



Challenger provides secure income and longevity protection for retirees, which requires focus and expertise in long-term investments



Long-term risk management

Why does it matter?

The management of risk over the long term is central to how we meet our promise to provide secure and stable incomes to our customers. Through issuing our products to customers, Challenger is exposed to both asset risk and longevity risk (the risk that customers who have bought a lifetime annuity live longer, on average, than expected).

To match the long-dated annuities we sell, we invest in long-dated assets. How we manage these investments, from origination through to divestment, requires us to take a long-term view of risk.

Our response

Challenger provides secure income and longevity protection for retirees, which requires focus and expertise in long-term investment including origination, asset management and divestment. Over recent years, the proportion of long-term and lifetime annuities we sell has increased significantly, reflecting the increasing demand for retirement income products that will provide a secure and stable income for the rest of a retiree's life.

This trend is expected to continue, and it creates a need for Challenger to access more long-term investments, including fixed income, property, infrastructure and equities. Some long-term investments have lower liquidity and so are not attractive to all investors, which creates an advantage for Challenger, as these assets may face less competition and offer a premium for their illiquid nature. Our ability to originate sufficient investments as the business continues to grow is an important component of our business.

Managing the asset allocation process effectively requires us to purchase assets that provide a match to our liabilities. Our dedicated investment teams source assets to enable appropriate matching of assets to liabilities, and our property and fixed income teams have built extensive global relationships that provide access to off-market transactions to enhance this process. In addition to matching assets and liabilities, we hold capital to protect our customers.

In selecting individual assets, we take a comprehensive review of investment opportunities, including ESG aspects, to support long-term returns. Challenger has adopted an integrated investment management approach to deliver responsible investment outcomes and believes there are links between long-term sustainable returns and the quality of our ESG practices.

Challenger's longevity risk exposures are managed via a combination of prudent pricing, appropriate asset allocation, reinsurance and holding capital.

Our risk appetite

Challenger has a robust risk management framework that supports our operating segments. Our risk appetite distinguishes risks from which we seek to make an economic return from those we seek to minimise. The management of these risks is fundamental to Challenger's business and building long-term shareholder value. Challenger is also prudentially supervised by APRA, which prescribes certain prudential standards that must be met by Challenger and its life insurance subsidiary.

In addition to having a separate risk management function, Challenger recognises that a requirement for an effective risk management framework is to have a strong risk culture throughout the organisation. We regularly assess our risk culture with a combination of external audits and internal employee surveys to ensure that the management of risk and day-to-day compliance remains entrenched in the way we operate.

Challenger's Risk Appetite Statement provides that, subject to earning acceptable economic returns, it can retain exposure to certain risks including credit risk, property risk, infrastructure risk, equity risk and life insurance risk.

We consider ESG factors in investment decision-making and ownership practices

Responsible investment

Why does it matter?

As one of the largest investment managers in the Asia-Pacific region, we recognise the responsibilities we have in relation to sustainable investing.

Considering ESG factors in our investment decision-making and ownership practices enables us to better manage potential risks and opportunities.

Our response

Challenger has adopted an integrated investment management approach to deliver responsible investment outcomes. We believe there are links between long-term sustainable returns and the quality of an organisation's ESG practices. We recognise that the consideration of ESG factors provides us with a greater understanding of areas of potential risk and opportunity that could ultimately affect the value, performance and reputation of our investment decision-making.

We are a signatory to the Principles for Responsible Investment (PRI) and, in March 2018, we lodged our annual PRI assessment report covering the period 1 January 2017 to 31 December 2017. In this report, Challenger Limited publicly reported assets and funds



under management as at 31 December 2017 as \$76.5 billion. For PRI purposes, the assets under management associated with our Funds Management Boutique Partners through external segregated mandate appointments by their third-party clients, totalling \$37.3 billion, have been excluded. The responsible investment considerations for these funds are managed by and reported on by the third-party and boutique clients themselves, as part of their own PRI requirements.

At Challenger, we consider ESG factors in investment decision-making and ownership practices. We do, however, recognise that ESG considerations cover a wide range of issues and that the means of applying responsible investment principles in a practical sense are still developing across the industry. More specific information about our environmental considerations can be found under the [climate change](#) topic.

Policies and accountabilities

We have a Board-approved Responsible Investment policy and our Board, relevant chief-level employees, and all investment managers and their teams are responsible for the effective management of the integration of ESG considerations in the investment decision-making process. They also ensure that proper procedures are in place to meet the obligations outlined within our Responsible Investment policy.

Challenger is generally a long-term holder of assets to match the term of life insurance contract liabilities. We have an Asset Liability Committee appointed to assist in managing investment portfolios, approving transactions, and managing investment risk. For the Funds Management business, operations monitors and report internally to ensure third-party managers adhere to investment mandate terms, including any ESG matters.



We encourage new boutiques to become signatories to PRI



Fidante Partners

Challenger's Funds Management business is comprised of Fidante Partners and Challenger Investment Partners. Fidante Partners comprises co-owned, separately branded, boutique active investment managers. As part of growing the business, Fidante establishes and acquires stakes in new boutiques.

During 2017, Fidante established a new boutique — Lennox Capital Partners Pty Ltd and acquired a stake in Avenir Capital Pty Ltd. As a part of partnering with these new boutiques, Fidante assisted both boutiques to document their own Responsible Investment policies and become signatories to the PRI.

Our due diligence approach to manager selection for the appointment of new boutiques includes the assessment of the investment team's approach to ESG integration. This forms part of our overall assessment of the strategy and investment process when we consider new fund managers to join our boutique suite. We assist and encourage any new boutique that Fidante partners with to document its ESG and voting policies and to become a signatory to PRI. Fidante, as responsible entity for a number of funds, appoints our boutique managers to manage these funds. We have a standard Responsible Investment clause in all of our new investment management agreements, including those for our two newest boutique funds, in which we require managers to consider ESG factors in their investment process.

Adding to this, in March 2018, Alphinity Investment Management (another of our Fidante boutiques) refreshed its Socially Responsible Share Fund. Previously, this fund focused primarily on negative screening; now

it is taking a more active approach in seeking companies that can make a positive impact to society. The fund was renamed the Alphinity Sustainable Share Fund (SSF).

The Alphinity SSF provides a diversified portfolio of Australian stocks that have strong ESG characteristics. Where possible, this fund contributes towards the advancement of the UN SDGs.

In May 2018, the Alphinity SSF was awarded the Money Management/Lonsec Fund Manager of the Year for Responsible Investments.

Our commitment to responsible investment

We've taken a number of steps to demonstrate our commitment to responsible investment, including the following:

- our business strategy includes reference to continuing to build a leading responsible investment and asset origination capability;
- we have invested in responsible investment training through the PRI Academy;
- we have demonstrated support for formal integration of ESG factors into credit ratings;
- we have participated in the PRI project to outline a framework for understanding the key megatrends that will shape capital allocation, the financial system and the world's ability to achieve the UN's SDGs in the near future;
- we have improved communication of ESG activities within the organisation; and
- we included responsible investment performance objectives for relevant investment management employees.

Key benchmarking indices



FTSE4Good



Signatory of:



We continue to evolve our IT approach to enable us to remain agile and ensure the security of our information



Technology and information security

Why does it matter?

We continue to see the rise of emerging technologies across financial services, creating new opportunities for growth and potentially changing the way customers interact with us.

As a growing business, we understand the importance of technological innovation and ensuring the scalability of our systems. We also recognise that ensuring information security is important for both our business and our stakeholders.

Increasingly, consumers are living in a 24/7 digital world. This is changing the way services are delivered and consumed and challenging traditional business models. In financial services, we continue to see the rise of new business models and emerging technologies, with new entrants to the market and increased collaboration and partnering between fintech start-ups and established organisations.

From social, mobile, real-time data analytics and cloud to robotics, artificial intelligence and machine learning, technology is constantly evolving to transform the customer and employee experience.

Adding to this, the sophistication and volume of cybersecurity attacks continues to challenge all organisations, across all industry sectors and regions. With more people using more online devices and sharing more data, there is a need to continue to evolve cybersecurity capabilities, ensuring that customer privacy and information security remain at the fore as new business models and digital solutions emerge.

Our response

Transforming our technology systems and environment

Challenger continues to evolve its IT approach, as technology transforms the capabilities available to all companies. This allows us to realise significant efficiencies, as well as enabling and supporting a number of key business initiatives. We expect this to continue as new technological capabilities continue to present themselves.

We pride ourselves on maintaining a fresh, uncluttered suite of technology platforms that enable us to adapt quickly to new business and market requirements, while maintaining the security and stability required of all in our industry. This leaves us in good shape to meet the many regulatory requirements we face, including the European Union's (EU's) newly introduced General Data Protection Regulation (GDPR) provisions, ensuring that Challenger remains well placed to take advantage of business opportunities as they arise, both in Australia and overseas.

Strengthening cybersecurity

We take the security and privacy of our information and systems seriously and deploy and maintain a variety of risk-based security controls and procedures. These are monitored and reviewed, both internally and externally, to ensure they remain current and are operating effectively.

Over the past 12 months, the most significant increase in fraud related incidents across all financial services organisations worldwide, has been related to cyber-attacks. These include phishing, malicious data loss, social engineering, identity theft and ransomware attacks. At Challenger, we have implemented a number of policy and market-leading technological initiatives to ensure we keep pace with these threats as they evolve. This includes targeted online, face-to-face, and simulation-based training for employees; and a dedicated information security and risk team to ensure we are able to monitor and respond to incidents as they arise, and that we remain abreast of the fast-evolving threat.

Central to our focus is the prevention of attacks and the integrity and protection of our and our customers' data. These controls operate at various levels. At the edge of our network where our networks connect to others, such as our business partners and the wider internet, we operate a layered set of controls to protect our systems and people from attacks. Inside our network, our servers and devices have both secured configurations and an additional set of capabilities to protect against both malicious software and attack. This is in addition to our long-standing detection, response, and recovery capabilities, which remain strong and effective.

Challenger donated an average of \$326 per employee in FY18¹



Investing in the community

Why does it matter?

The financial services sector has a role to play to ensure we have a positive social and economic impact on the community. Through our giving and volunteering programs, we aim to connect with and help the communities in which we operate to be strong and financially resilient.

Our response

Challenger has community partnerships with Barnardos; Bear Cottage; beyondblue; Dementia Australia; Meals on Wheels; and National Seniors Australia.

We support these partners through a range of initiatives, including:

- a Workplace Giving Program, where employees can make regular pre-tax donations directly from their salary and these contributions (up to \$500 per employee per year) are matched by Challenger;
- fundraising events;
- donations;
- research grants; and
- corporate memberships.

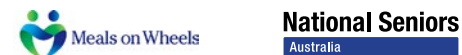
¹ This includes all donations made to our community partners and other charitable organisations, along with the costs associated with volunteering.

We were also a silver sponsor of the 2017 Sohn Hearts & Minds investment leaders conference, which raises funds to support Australian medical research. Funds raised were shared between four charities:

- Victor Chang Cardiac Research Institute;
- Black Dog Institute;
- MS Research Australia; and
- Juvenile Diabetes Research Foundation.

Encouraging volunteering

Challenger believes volunteering provides a great opportunity for employees to contribute to the community. Employees are provided with one paid day of volunteering leave each year to offer voluntary services to a not-for-profit organisation, or environmental, community or charitable project. Over the past year, we conducted a campaign to promote the benefits of volunteering, to provide more options to volunteer, and to make the process of volunteering easier. As a result, the number of reported employees volunteering increased by 40% to 95 employees.



Challenger employees volunteering in the community



97% of advisers who place business with us rate us as a market leader¹



Positive customer outcomes

Why does it matter?

Providing great outcomes for our customers requires us to work within a complex ecosystem. We work closely with distribution and product partners, fund managers, Australian and offshore institutions, and financial advisers — who all play a role in providing positive customer outcomes.

Building key business partnerships along with developing a deeper understanding of our customers enables us to provide products and services to meet both customer and societal needs.

Customers today are better informed, better connected and more demanding than ever. Keeping abreast of the latest consumer trends, customer expectations and changes in digital technologies can be incredibly challenging. Navigating through these complexities and finding new ways of creating value for customers is key to driving profitable growth.

Our response

Building key business relationships and partnerships

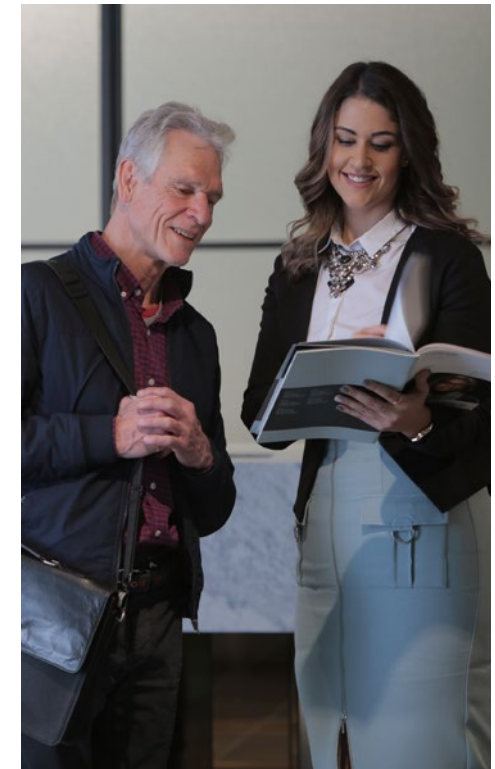
In Australia, a key ongoing priority is to make Challenger annuities readily available through investment and administration platforms. In the past three years, Challenger has built partnerships to deliver annuities with nine major superannuation providers. We've also worked hard to maintain our relationships with financial advisers, and 97% of advisers who place business with us rate us as a market leader¹. We provide advisers with support, including education and tools, and complement this with our strong brand presence.

Beyond our shores, we've built a strategic relationship with MS&AD in Japan. One aspect of this is our annuity partnership with its subsidiary, MS Primary, a leading provider of Australian dollar annuities in the country. Our businesses are very complementary, and we can see great potential for both groups in the future.

Our funds management business is comprised of Fidante Partners and Challenger Investment Partners, and both rely on strong relationships. Fidante Partners invests in and forms long-term alliances with talented investment professionals to create, grow and support specialist, boutique funds management businesses, and Challenger Investment Partners clients include global institutions and Australia's leading superannuation funds.

Understanding our customers

Challenger invests considerable resources into educating our customers on the role annuities can play in their retirement. As our business grows, we intend to be even more influential and targeted in our education programs, helping empower more customers to plan for financial security for retirement. To facilitate this, in FY18 we commissioned



¹ Marketing pulse adviser study - Dec 2017.

Over the years, we have introduced a range of new products and features to meet the needs of our customers



a customer research program with the aim of better identifying the needs and understanding the experiences of existing and prospective customers.

The research was both qualitative and quantitative and developed a 360 degree view of lifetime annuity customers with varying wealth, and at differing stages of their retirement. Data was collected over a three-month period, via focus groups, phone interviews and surveys. Through this research we aim to better identify Australian pre-retirees and retirees who would most value and be most interested in annuities. Our immediate focus involved understanding the needs and experiences of current and prospective annuity customers, including gathering deeper insights on their perspectives on retirement, how they plan for retirement, the channels they use in planning for retirement, and the critical perspectives, biases, emotions, experiences and views of those who become customers of Challenger.

The research will help us to improve customer and adviser outcomes. It will enable us to enhance our personalisation of communications and provide messaging and education in a language that resonates. A deeper understanding of customer behaviour means we can position our services in a more relevant way. It also helps us to design products and product features for specific customer needs. Finally, our insights will be shared with financial advisers, empowering them to better understand their own clients, and the role annuities can potentially play in their retirement planning.

Continuous development in our understanding of customer behaviour, and how we implement these insights across the business, is fundamental to our success. Ensuring we can anticipate customer needs and communicating in a more customer-centric way is key to achieving our vision of providing customers with financial security for retirement.

Research partner National Seniors Australia

Challenger has a research relationship with National Seniors Australia (NSA). NSA is Australia's largest member body for older (aged 50+) Australians. Our research relationship includes sponsorship of its key annual survey to understand the sentiment of its membership base and enables us to explore issues around financing retirement.

Challenger works with NSA to develop a series of questions each year. The topics have varied in different years, but typically relate to the key goals of Australians in retirement, their financial preparedness for retirement and their understanding of the issues faced by retirees.

As a key thought leader in retirement incomes in Australia, we work with NSA, industry groups and government to contribute to policy outcomes that will be beneficial for all older Australians.

Product innovation to meet the changing needs of our customers

Over the years, Challenger has introduced a range of new products and features to meet the needs of our customers and to help overcome their concerns. A great example of this is our CarePlus product. The Government estimates that more than 300 people move into government-funded permanent residential and home aged care, every day.

CarePlus was specifically designed to address the need for a targeted aged care product solution. The product was conceived in January 2015 to address the financial needs related to managing aged care. CarePlus launched in August 2015 and today, is our fastest growing product.

We have also worked with government to develop policy to enable a wider range of retirement income products to offer to Australian retirees. The Australian superannuation system continues to evolve and there has been a need to adjust the settings on an almost annual basis. While until recently the retirement phase has not changed much, the rapid growth in balances at retirement in recent years (as the system continues to mature) is creating a large unmet need for better retirement solutions. We monitor these needs and seek to develop products and solutions that will be beneficial to this growing demographic.

Regulatory change is intended to improve outcomes for retirees by providing options for a wider range of retirement income solutions



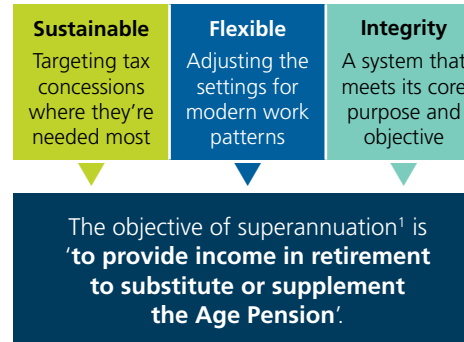
Regulatory change

Why does it matter?

Significant regulatory change is ongoing in the financial services sector, including regulation of product development and distribution. In addition, the Government has embarked on a series of superannuation reforms intended to create a world-class retirement income system. These changes have the potential to impact our customers, our business and other stakeholders.

The need for a wider range of retirement income solutions has been recognised and progressed steadily by both Labor and Coalition governments since it was first recommended in 2010 by the Super System Review. At that time, it was noted that development of the retirement phase of superannuation would become increasingly important as the super system continued to mature.

The Retirement Income Framework is intended to improve outcomes for retirees in Australia by ensuring they have greater choice in how they take their superannuation benefits in retirement.



The Government is progressing these reforms via a staged approach set out in the Retirement Income Framework, announced in May 2018 Federal Budget. The framework is intended to improve outcomes for retirees in Australia by ensuring they have greater choice in how they take their superannuation benefits in retirement.

This reform is highly important, as it will increase awareness of, and demand for, secure retirement income products. The details of the reforms are targeted to be debated and finalised during 2018 and 2019, and the outcomes of this process will have a substantial impact on how products are implemented and how retirees respond.

Increased focus on retirement income policy

Australia currently has a three-pillar approach to the provision of retirement incomes, comprising:

- the means tested and publicly funded Age Pension;
- compulsory private savings through the superannuation guarantee arrangements; and
- voluntary private savings, supported by taxation concessions and direct government payments for low income earners.

The Government's proposed Retirement Income Framework would add to the three pillars by introducing a requirement for all superannuation funds to consider the retirement income needs of members. It also proposes that funds must offer Comprehensive Income Products for Retirement (CIPRs) to their members. The CIPR is expected to include a pooled longevity product (such as an annuity) and is intended to balance the competing objectives of high income, flexibility and risk management, to deliver better outcomes for members in retirement.

This framework builds on regulatory changes that were introduced in 2017 to enable the development and provision of innovative new retirement income products. These changes were completed with the announcement of new means test rules for lifetime income products in May 2018. These changes clarify

¹ Australian Government, Treasury website - Superannuation Reforms

Challenger seeks to help Australian retirees convert their superannuation savings into reliable income that lasts for a lifetime



how lifetime income products will affect age pension assessment, providing much needed certainty for retirees and product providers.

Consultation on the Framework closed on 15 June 2018 and proposed the introduction of a retirement income covenant into the superannuation laws. The covenant is the mechanism by which superannuation funds will be required to consider the needs of their members in retirement. This consultation followed the 2014 Financial System Inquiry final report (released on 7 December 2014), which noted that: 'The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of retirees'. In response to this finding, the Government embarked on a series of reforms including: defining the objective of superannuation; introducing new retirement income rules to enable the creation of new products such as Deferred Lifetime Annuities; and implementing CIPRs.

Our response

Challenger operates in a highly regulated industry. There are constant changes to laws, regulations and the approaches taken by regulators. We understand the importance of being fully informed of these changes, and the need to respond quickly to ensure we operate in a manner consistent with community expectations and the law.

Regulatory change can both increase and decrease the range of products Challenger can provide and influence their attractiveness to consumers. It can also impact the cost of doing business. Regulatory change can also however, provide opportunities to differentiate our business model from our competitors.

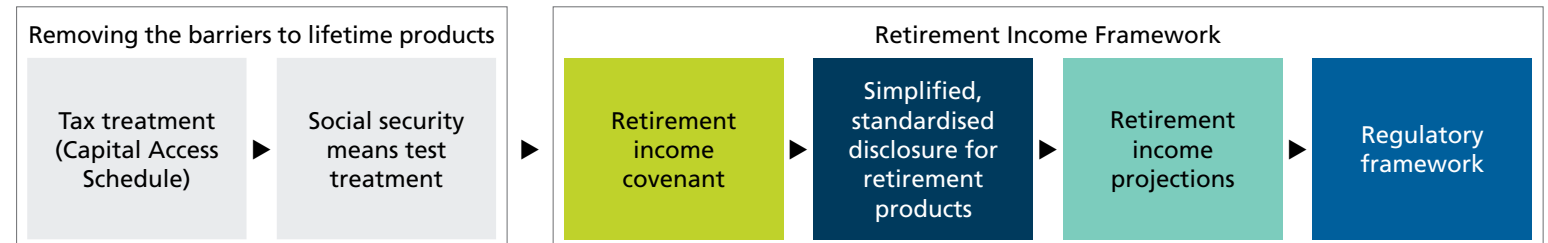
Our approach to regulatory change

Challenger has been running an extensive public policy program to develop an evidence base for reform of Australia's retirement income system for a number of years. Challenger seeks to help Australian retirees convert their superannuation savings into reliable income that lasts for life. In particular, we support products that help

retirees manage the key risks in retirement - longevity, inflation and market risk. In May 2018, we sponsored the Committee for Sustainable Retirement Incomes (CSRI) Leadership Forum. This forum brought together leaders in public policy, industry and academia to discuss retirement income reform and progress the policy debate. The theme of the forum was 'Seeking income security for older Australians'.

Challenger actively engages in retirement income policy development. We do this through direct engagement with government and active participation in a number of industry groups. Our dedicated research function produces thought leadership papers and presents at numerous forums. We also undertake extensive industry education activities and media relations to broaden awareness of retirement income issues.

We will continue to actively engage in the policy process related to retirement income reform into the future, including providing submissions to discussion papers, undertaking research and providing the results to key stakeholders, and through industry participation.



Challenger is exposed to a broad range of regulators, regulatory frameworks and market structures through our international activities



Market structures and competition

Why does it matter?

Our marketplace is changing. Regulatory change, new technology and new entrants are challenging the established approach to financial products and services.

We work with third-party distribution providers, specialised fund managers, superannuation funds and retail distribution hubs to provide our products and services to a growing number of retirees. Market structures, including the impact of regulation on product development and distribution, barriers to entry, and changes to business models, create opportunities and challenges for our business.

Our response

Exposure to broader regulation

The pace of regulatory change has accelerated around the world, particularly in regard to privacy and data security. Our business is primarily based in Australia, where requirements in these areas are constantly evolving. We are actively managing these changes with an ongoing program of activities to assess and improve our data management and [information security](#)

measures, both internally and in our supply chain. While regulatory compliance is a significant task, it also strengthens our business model, as it becomes more difficult for boutique fund managers to undertake these types of activities themselves.

Challenger is exposed to a broad range of regulators, regulatory frameworks and market structures through our international activities, particularly our growing presence in Japan and our Fidante Europe business based in London.

In Japan, we are subject to local licencing obligations affecting our investment management and real estate advisory. We currently have licences in place to perform investment management and advisory services in relation to real estate and are looking to expand upon these to broaden the scope of our activities to include investment management and advisory activities for fixed interest and equities.

The EU GDPR was introduced in May 2018 with a view to standardising and upgrading the protection of the personal information of EU residents. This was partly due to the rapid changes in the way data is used by businesses worldwide. At Challenger, we have implemented data and privacy processes to help ensure compliance with GDPR.

The Markets in Financial Instruments Directive (MiFID) framework was reviewed by the European Commission and updates to the framework (MiFID II) came into effect in January 2018. MiFID II is an update of existing regulation of providers of financial services and has four key objectives:

- strengthen investor protection;
- reduce the risks of a disorderly market;
- reduce systemic risks; and
- increase the efficiency of financial markets.

To ensure we comply with broader regulations, including MiFID II, we have set up an international legal and compliance regulatory forum with key delegates from our Sydney, London and Tokyo offices. Forum members work together to understand and take action on regulatory and compliance matters in local jurisdictions.

Working in collaboration and across borders to understand and respond to market regulations will be a continuing focus for Challenger.

The impact of new technology

Emerging technologies such as robotics, blockchain and artificial intelligence are evolving in their roles in investment management such as making investment strategies systematic and opening up new capacity. In addition, greater volumes of data, and access to it, are providing opportunities to improve product design and customisation. The industry is implementing technological developments across the value chain.

Challenger has made substantial investments in operations to improve transaction processing, client reporting and risk management, including using technology to streamline our operations and allow straight through processing of a number of activities. We also have work underway to implement new product formats.

We are seeing interest in longevity solutions not just from super funds but from other potential product providers



Distribution channels

The distribution of financial products in Australia is affected by regulatory change, mergers and acquisitions, particularly in the wealth management sector, and increased focus on the financial advice sector.

Challenger works with a wide range of partners. We have broad and deep superannuation fund relationships which extend beyond the provision of products.

We form strategic, solution-oriented partnerships supported by research and technology aimed at meeting member and business objectives.

In Australia, a key ongoing priority is to make Challenger annuities readily available through superannuation and investment platforms. We were already on the Colonial First State platform and in September 2017 we launched via AMP's adviser portal to its retail and corporate superannuation clients. We also have plans in place to launch on the BT Panorama platform.

We have a multi-faceted capability tightly integrated into the advice processes of these retail hubs. Our Business Development Management team works closely with the hubs in the area of adviser education and its supported by our technical services team, our research capability and leading tools, which together with our leading client services capability, all contributes to this integration.

New entrants and competition

Currently, Challenger has few direct competitors offering annuities, although we do compete in the broader market for retirement income products. The retirement income market is changing, driven by the growth of superannuation funds in the retirement phase and regulatory change which removes barriers to the development of new pooled lifetime income products, including deferred lifetime annuities. These developments are expected to accelerate the takeup of pooled products such as annuities and will bring competition. We are seeing interest in longevity solutions not just from super funds but from other potential product providers.

Competition is a good outcome. It is evidence that the Government's reforms are having the desired effect and that retirees will have more choice when it comes to products purpose built for retirement.

It will help grow the overall market, while Challenger focuses on strengthening our position as a leader in retirement incomes, with competitive advantages built over many years.

In terms of funds management, there is ongoing industry commentary about the shift to passive management strategies from active ones, as well as the emergence of exchange traded funds (ETFs) as a product format that's capturing strong flows globally into passive management. These trends are supported by technology advances and a focus on returns net of fees. While the debate around passive strategies carries on, there's continued strong demand from investors for alpha from active management, which has helped make our funds management business one of the fastest growing in the sector.

Fundamental to growing a sustainable funds management business is the need to have a high quality, differentiated product mix with good performance. Ensuring success through market conditions and cycles requires a diversity of asset classes and investment capability. Challenger is an active fund manager, with over 90% of our assets under management outperforming benchmark over the last 12 months. As a business, we have also been able to maintain a stable margin through time, despite evidence of margin compression across the industry.

At Challenger, our business model, including the Fidante Partners multi-boutique platform, represents a key reason for our sustained superior investment performance. Our model offers a boutique advantage, where we partner with small boutique funds management teams. The boutique advantage remains evident across the Australian landscape, with Australian large and small-cap boutique managers more consistently outperforming their benchmark than non-boutiques. Through the Challenger and Fidante Partners model, we are able to offer both the boutique performance advantage and a range of strongly and consistently performing managers on a common platform to prospective customers. At the same time, our strong track record in funds management is enabling us to create new platforms for growth through domestic active ETF offerings and adding capabilities offshore.

It's anticipated that the number of Australians over 65 will double to more than seven million within the next 40 years



Ageing population demographics

Why does it matter?

As a retirement income provider, our business is supported by the substantial growth in the ageing demographic. We also play a key role in contributing to fiscally responsible solutions to funding the ageing population, which is now living on average, nine years longer than when the superannuation guarantee system was designed.

The ageing population in Australia is a large, significant and well-established demographic shift. Retirees are living longer than ever before. It's anticipated that the number of Australians over 65 will double to more than seven million within the next 40 years. On average, retired men are expected to live from age 65 to 88 and women to 90, and half will live longer than this. There is a 9% chance that one member of a 65-year-old couple today will live to be 100.

As a leading retirement income provider, the growth of our business is significantly influenced by our ageing population. The ageing population demographic creates substantial opportunities for our business by providing an increasing market for retirement income products, particularly those providing longevity protection.

Considering other dimensions of the population is also critical for achieving sustainable retirement income solutions

both for each retiree and from a societal perspective. These include issues such as superannuation balances and other savings at retirement, home ownership in retirement and the gender superannuation gap.

Understanding these demographic dimensions is vital for Challenger, government and other stakeholders such as the wider superannuation industry, as we all work to deliver a sustainable retirement income system.

Our response

Research and partnerships

Challenger undertakes research and partners with other research bodies to deepen the understanding of trends that impact the sustainable provision of retirement incomes. Our research informs both our own decisions and the decisions of our key stakeholders.

The research that we have produced ourselves, and partnered with others to create, has been used to inform the debate around funding a better retirement lifestyle for older Australians.

We work with National Seniors Australia, the largest member organisation representing the interests of senior Australians to understand their changing situations. We have partnered with three Australian universities to help educate advisers and industry participants on the demographic issues. This includes a significant Australian Research Council Linkage Project partnership between Monash University, the Commonwealth Scientific and Industrial



Research Organisation and Challenger that aims to improve our understanding of the circumstances of Australian retirees.

Some of our research is based on analysis of data available from the Australian Bureau of Statistics, the ATO, APRA and the Department of Social Services. We have also examined the Household, Income and Labour Dynamics in Australia data for longitudinal assessments of how the Australian population lives, works, spends and saves as people grow older. This research is used to inform our stakeholders on many levels, from assisting the Government to design appropriate policies, to helping super funds develop appropriate products for their members, as well as assisting Australian retirees to understand their own financial needs in retirement and how to manage them.

Challenger remains committed to developing products that meet the needs of older Australians



Expert analysis

Our business relies on accurate life expectancy estimates to price the growing number of lifetime guaranteed products being sold. Dramatic changes in a population's life expectancy would have a significant financial impact on the business, as these product types provide a guaranteed income to customers for their whole life.

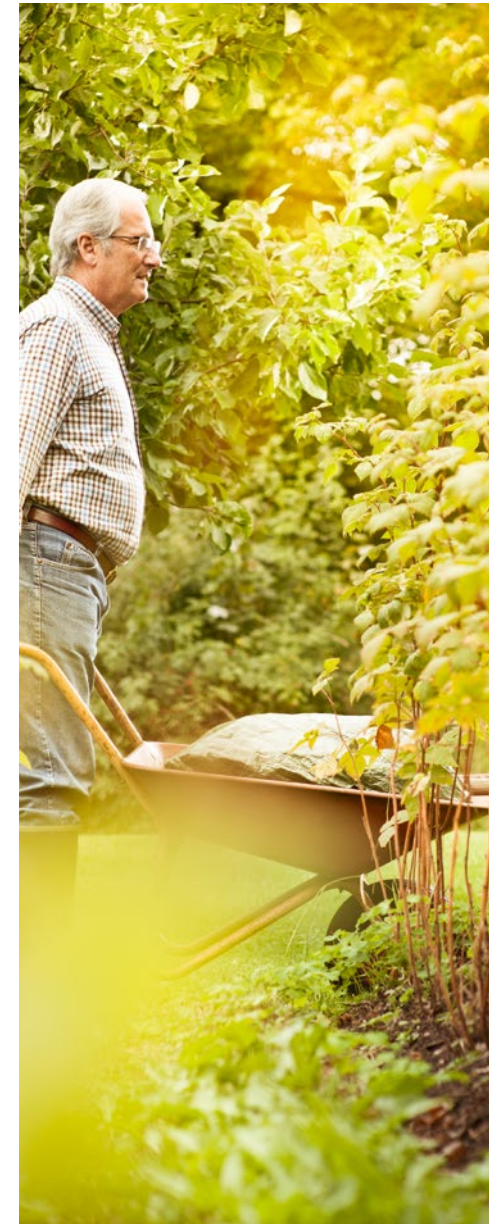
To address demographic impacts from an operational perspective, we have a team of actuaries who utilise detailed age, gender and life expectancy data to assess and manage longevity risk. They regularly review the portfolio to ensure that longevity assumptions remain appropriate and monitor mortality trends through detailed analysis and review of expert views and developments in the industry.

Products meeting the needs of retirees

Our products are tailored to provide retirees with a stable and secure income for life. We are recognised by financial advisers as the leading retirement income provider, and we also enjoy strong consumer brand recognition.

We are strong advocates in the industry and have been recognised for our work helping advisers understand the demographic challenges faced by their clients.

Challenger remains committed to developing and marketing products that specifically meet the needs of older Australians and provide financial security in retirement. We continue to expand our range of longevity products and in September 2017, we offered for the first time, a deferred lifetime annuity, following government regulations enabling retirees to use super to purchase these products. Product innovations such as this are designed to address the market growth being driven by the ageing population.



At the heart of our asset allocation framework is an unwavering focus on capital and risk management



Challenging investment markets

Why does it matter?

With an economic environment of low growth, below-average inflation, market instability and increased geopolitical risk, the road ahead in terms of investment is a challenging one.

The need for diversification and ensuring sufficient access to assets remains an important consideration for our business and our stakeholders.

Our response

Challenger has a strong track record of prudently managed growth. A large proportion of Challenger's group earnings comes from the Challenger Life Company Ltd (CLC), which generates value by selling annuities and investing the proceeds alongside CLC's owners' equity in global capital markets. How CLC invests is governed by a Board-approved Asset Allocation Plan and Risk Appetite Statement.

We have a strategy to diversify our product mix and this is progressing well. We have three main product groups: Guaranteed Income Return (GIR); Japanese products through our arrangements with MS Primary; and our core Australian business of term and lifetime annuities. All product categories continue to target our 18% pre-tax ROE and together drive continued growth.

A robust asset allocation framework

At the heart of our asset allocation framework is an unwavering focus on capital and risk management. This is central to our culture and is the foundation of our investment process.

From a financial risk management point of view, we seek to minimise interest rate, currency and inflation risks. We do this using a variety of instruments including:

- swaps and government bonds to minimise our interest rate risks across all maturities;
- hedging currency exposure using foreign exchange swaps; and
- inflation-linked products and investments to minimise residual inflation risks.

A fundamental principle of asset allocation for Challenger is that liability cash flows must be matched with appropriate asset cash flows.

We have a dedicated team responsible for ensuring we are appropriately matched at all times. By matching liabilities to assets, we reduce reinvestment risk and are able to extract an illiquidity premium (a premium for having a longer-term investment) from our investment portfolio.

Our asset allocation is also informed by a careful review of expected excess returns inclusive of the illiquidity premium.

Delivering on our targets

We get signals on relative value by comparing broad liquid market risk premiums for the key asset classes of:

- investment grade credit;
- high yield credit; and
- property.

These feed into our assessment of risk-adjusted returns and enable us to deliver on our ROE target for all products. We manage our asset allocation within our Board-approved risk appetite, which also includes our excess capital targets.

Our investment teams have a proven track record of finding opportunities to extract excess returns as they actively invest their portfolios. Our asset allocation has responded both to our changing product mix and to the relative value between asset classes. This underscores Challenger's dynamic approach to asset allocation.

Our robust and well tested asset allocation framework ensures we can respond to the challenging investment environment. We make changes to our asset allocation to enable us to deliver appropriate returns for shareholders while, most importantly, maintaining the solid foundation that underpins our customer promises.

We consider climate change as part of our responsible investment practices; and in how we manage the impact we have on the environment through our direct operations



Climate change

Why does it matter?

Challenger recognises that climate change poses immediate and long-term challenges for the global economy and society. This has implications for our investment decisions and operations.

Our response

At Challenger, climate change is considered as part of our [responsible investment](#) practices; and in initiatives we implement to reduce the impact we have on the environment through our direct operations.

We recognise the growing importance of climate change to both our business and our stakeholders and, while we have implemented a number of operational initiatives, we also understand we have an opportunity to do more to address it.

Considering climate change in our investment decision-making

Challenger considers ESG factors in investment decision-making and ownership practices. Environmental considerations include assessing the climate risk of our investments and assets and factoring that into our decision-making.

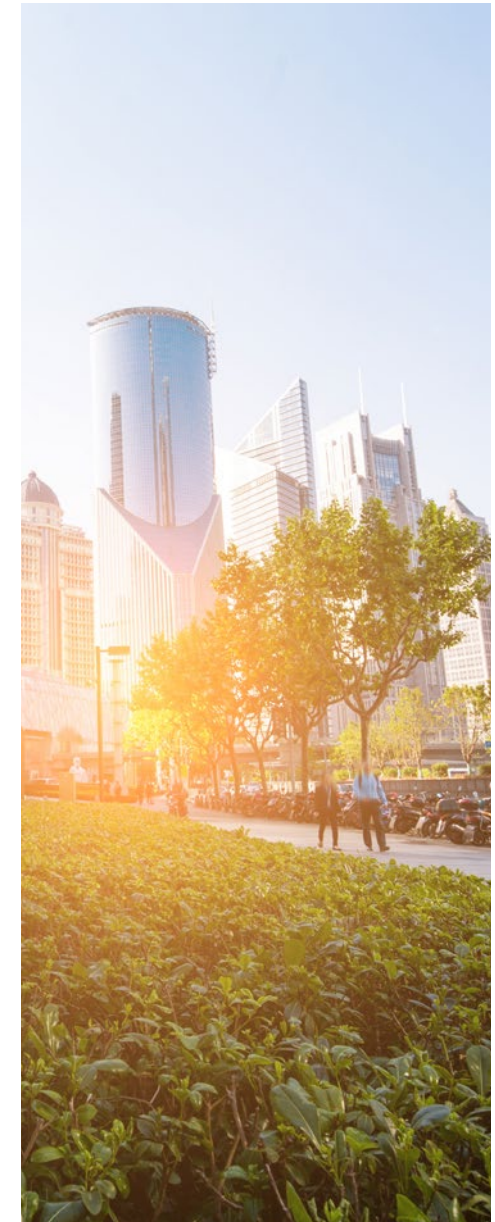
In terms of governance for risk management in regard to climate-related risks and opportunities, we have a Responsible Investment policy and a Risk Management

Strategy that govern our approach. As a life company, we do not have a lot of exposure to climate risk in our insurance exposure, and our current asset allocation strategy means we are not exposed in a material way in terms of climate risk.

Infrastructure is a small part of CLC's investment portfolio, and half of this is invested in broad listed infrastructure markets by external fund managers. In terms of CLC, consideration of responsible investing is part of our manager selection process, and all the managers we use are signatories to the Principles of Responsible Investment.

CLC invests in commercial property both domestically and in some offshore markets, and ESG factors are a direct consideration in the management of this portfolio. We use the NABERS ratings system to measure the environmental performance of buildings in Australia. This has a direct impact on efficiency of building operation. The properties CLC invests in are in locations not considered to be at risk of climate change effects in the medium term.

A large proportion of our investment portfolio is in fixed income, of which the bulk is a credit exposure. Responsible investment is a direct factor considered in all lending decisions. The fixed income portfolio has a weighted average life of approximately three years, and so is less exposed to longer moving climate change risks. The portfolio is diversified geographically and by industry, reducing the potential exposure to any individual risk factor.



Each year, we balance the scales by offsetting our carbon emissions



Reducing our impact on the environment through our operations

We are committed to reducing the impact we have on the environment through our direct operations. Our Sydney head office at 5 Martin Place is a 5-star NABERS and Green Star rated building, and 85% of our workforce is based there.

In FY18, we partnered with Pangolin Associates Pty Ltd to calculate our carbon footprint. As a part of this, we expanded our greenhouse gas emissions boundary to include additional utilities and services. We've also extended our measurements for travel and commuting, food and beverages, and waste factors. This has provided us with a more thorough and robust understanding of our carbon footprint. Our full emissions reporting is provided in the [performance data](#).

When comparing like-for-like information¹ from FY17 to FY18, we have reduced our greenhouse gas emissions by 18%. This is attributed to:

- reducing our electricity usage by 10% in Sydney (our head office building) and 18% in London;
- a significant reduction in measured air travel; calculated emissions from flights is 53% lower than in FY17; and
- a 57% reduction in our measured waste to landfill for our Sydney office.

When comparing total scope 1, 2 and 3 emissions from FY17 to FY18, we have:

- included scope 1 emissions for the first time in FY18 (previously this information was unavailable);
- reduced our overall scope 2 emissions by 22%; and



- increased our overall scope 3 emissions by 12% (this is due to the expanded boundary, which has increased our measured emissions by 951.5 tonnes of carbon. Without the expanded boundary, our overall scope 3 emissions would have been down by 17%).

We've taken an additional step in validating our carbon footprint by having our emissions calculation externally assured.

Each year, we balance the scales by offsetting our carbon emissions. Since 2015, Challenger has offset all known relevant greenhouse gas emissions for our offices, making our business operations carbon neutral.

Sustainability Action Group

At Challenger, we recognise the importance of harnessing the passion of our employees. In November 2017, we created an employee-led Sustainability Action Group to promote sustainability throughout the organisation and to create and deliver environmental and community initiatives.

Throughout the year, the committee has led a number of campaigns and initiatives that have assisted in the reductions outlined above. These include:

- improving overall awareness of recycling including arranging for bins for organic waste to be provided throughout our Sydney office;
- implementing a successful recycling initiative resulting in a saving of 1.0 tonne of carbon emissions;
- raising awareness of and promoting Earth Hour activities;
- running a campaign to reduce the use of takeaway coffee cups and encouraging the use of provided reusable cups; and
- encouraging employee volunteering - including supporting environmentally based community initiatives.

¹ Includes emissions from scope 2 and 3 electricity (excluding base building), flights, taxis and hire cars, employee transport fuels, paper, IT equipment, waste to landfill, and food from major events.

We understand that a great employee experience directly translates to a better customer experience



Workforce wellbeing and culture

Why does it matter?

Corporate culture is critical to success. Our focus on talent, leadership, capability and employee wellbeing helps us to create a great place to work and leads to better outcomes for all our stakeholders.

Our response

Creating a great place to work

At Challenger, we believe that our people are a competitive advantage. We have passionate and high performing teams and aim to create an environment where they can thrive. We pride ourselves on creating performance and reward practices that drive quality outcomes in the right way and ensuring we have simple, standard and scalable processes.

We understand that a great employee experience directly translates to a better customer experience, and understanding how our employees think and feel about working at Challenger is important to us. We track employee engagement formally through an employee engagement survey and complement this with feedback gathered at employee events, discussions and forums.

Over the past few years, results and areas of focus identified in our engagement survey have been similar, and this is supported by the other regular feedback we receive from employees. As a result, we decided to change from conducting our employee engagement survey annually to doing it every two years.

In our 2017 survey, our overall sustainable engagement score was 88%, placing us well above the Australian National Norm (ANN), Global Financial Services Norm (GFSN) and Global High Performing Norm (GHPN) for companies.

We outperformed ANN and GFSN benchmarks across all 16 categories surveyed, and 87% of categories were also above the GHPN benchmark.

The survey also gave us great insights into where we could improve. This included communicating more about our corporate responsibility approach; amplifying our focus on our customers; and providing greater clarity on aspects of career development and reward and recognition.

In response to this feedback, in the past 12 months we have:

- created an employee-led sustainability action group;
- developed a number of campaigns to get employees involved and share more broadly our corporate responsibility approach;
- undertaken a research program to hear directly from our customers about what's important to them;
- developed an internal customer terminology framework;
- continued our leadership programs and forums and introduced a new Women Leading @ Challenger program; and
- provided more information to employees about our pay and benefits.



These priority areas will continue to be an ongoing focus for us, and our progress in each of the key focus areas is reviewed by the Leadership Team on a quarterly basis.

Leadership and talent

Leaders play a critical role at Challenger and we recognise the importance of developing our leaders.

Challenger has an Executive Management Team (EMT) and a Senior Management Forum (SMF) and has programs in place to focus on the development of leaders in these groups. Both groups were established to:

- enable leaders to share ideas and drive business performance;
- consider market trends and impacts and contribute to the strategic planning process; and
- build leadership capability.

This year, both the EMT and the SMF participated in sessions to help us better understand the cultural dynamics across Challenger. Input from these sessions was used as part of the strategic planning process.

We aim to connect with our people to support them inside and outside of work



Wellbeing@Challenger

The aim of Wellbeing@Challenger is to connect with our people to support them inside and outside of work.

We take an integrated approach to wellbeing and provide programs and assistance to support employees with their health, work, life, community and financial needs.

The goals of our program are:

- **Health** - provide employees with insight into their physical and mental health, raise awareness of potential health concerns and give them the confidence to seek support or assist others in need.
- **Work** - maintain a highly engaging and safe work environment which represents the promises we make to our employees.
- **Life** - connect with employees so they can manage the demands of their work and personal lives.
- **Community** - provide opportunities for employees to connect with and contribute to the wider community.
- **Financial** - enable employees to take control of their finances to achieve sustained financial security for retirement.

Throughout the year, we have supported this program by:

- partnering with Assure Programs to provide access to an Employee Assistance Program that provides confidential and free counselling services to employees and their immediate families;
- holding events and fundraising to support R U OK day and beyondblue; raising awareness of the potential impacts of mental illness;
- providing an onsite health check machine, free flu vaccinations and skin cancer checks;
- sponsoring employees to participate in the Sydney JP Morgan and Brisbane QUT fun runs;
- providing sit-to-stand desks for all employees and conducting ergonomic assessments;
- offering flexible work and leave options, including paid parental leave and volunteer leave;
- facilitating payroll giving and fundraising activities to support our community partners;
- providing paid insurance as part of our employee default super option;
- providing a super top-up benefit to encourage voluntary contributions to personal superannuation; and
- providing financial advice to employees approaching retirement.

We recognise when our people are safe and well, they're able to make great things happen.

Our Work Health and Safety (WHS) Committee is made up of employees of all levels. The committee meets every two months and provides updates to the Board via the Executive Risk Management Committee regarding both hazards and risks, and actions taken to eliminate or control them. Over the past year, the committee has:

- contributed to health and safety related employee communication;
- developed ergonomic assessment procedures and provided training;
- provided refresher CPR training for first aid officers; and
- provided Employee Assistance Program information sessions.

We have a number of policies and provisions to support us in maintaining a safe and happy work environment, free of bullying, discrimination and harassment. These include our:

- Work Health and Safety policy
- Workplace Bullying policy
- Discrimination and Harassment policy
- Whistleblower provisions.

We empower all employees to take ownership of their careers and provide support to assist them



Talent attraction and retention



Why does it matter?

In this competitive market, we understand the importance of a strong employment offering and the need to recruit and retain the best talent. At Challenger, we offer the opportunity for a broad career experience and aim to provide a workplace where employees can be the very best version of themselves.

Our response

Our recruitment practices

Our recruitment practices focus on getting the right people with the right skills and attributes in the right roles.

We diversify how we source talent to ensure we attract the best available candidates. Using a combination of direct recruitment, preferred recruitment partners and employee referrals, we are able to attract a diverse range of people. Additionally, all recruitment and search agencies are required to put gender equitable shortlists forward for roles, and all people leader roles must be interviewed by a mix of male and female business people.

We also aim to connect with potential future employees by building external talent pools, to more effectively meet future resourcing needs.

A strong employment brand

Our success is underpinned by a work environment where people from diverse backgrounds, with a range of skills and experiences, can contribute and succeed.

We enjoy working together as a talented and passionate group. Our 2017 employee engagement survey results reinforced the strength of our employment brand, with 97% of employees being proud of their association with Challenger, and 87% feeling that their expectations of working at Challenger have been met.

Challenger's employment brand represents our commitment to current and future employees and is built on the pillars: Challenge, Collaborate, Grow and Achieve.

Career development

We empower all employees to take ownership of their careers and provide support to assist them. Our career development process helps employees self-reflect, identify opportunities and undertake development actions through experience, exposure and education.

We provide development through broad and deep roles and exposure to a range of leaders. Employees are offered the opportunity to be involved in a wide range of activities and situations which develop knowledge, skills and experience.

Our environment enables employees to build and grow capabilities across functions and teams. Throughout the year, 102 employees moved across the organisation to other roles as a result of transfers, secondments or promotions.

All our employees receive regular performance and career development reviews, and talent reviews are conducted annually.

Challenger is committed to achieving gender equality



Diversity and inclusion

Why does it matter?

Diversity and inclusion is an important part of our culture. We seek to provide a diverse and inclusive workforce and recognise the value this brings for our employees, customers, shareholders and the communities we operate in.

Our response

Our commitment to diversity

Challenger recognises and values the contribution that people with different backgrounds, experiences and perspectives can bring to the workplace. We encourage a diverse and inclusive workplace where people can succeed regardless of their gender, age, ethnicity, cultural background, sexual orientation, disability and religious belief. We believe diverse teams will deliver value for Challenger through closer alignment with our customers, improved financial performance and stronger corporate reputation.

We are committed to the principles of diversity and our Diversity policy emphasises our commitment to employees being treated fairly, equally and with respect when employment and career decisions are made. Each year, we set measurable objectives to ensure the policy is effective. Our progress against our 2018 measurable objectives is outlined in the [performance data](#).

Executive guidance is provided by the Diversity Committee comprising seven senior leaders from across the business. The committee reports to the CEO and is sponsored by the Chair of the Challenger Board.

Achieving gender balance in our business

Challenger is committed to achieving gender equality. This commitment reflects our strong organisational culture; positions us to attract and retain the best people; positively impacts business performance; and will make Challenger an even better place to work. We are pleased that our work in this area is endorsed by our people, with 94% of our employees reporting in our last employee engagement survey that they believe Challenger genuinely supports equality between men and women.

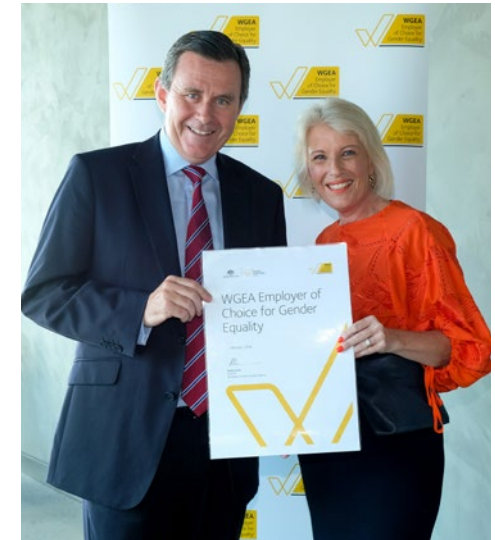
Since the communication of targets in December 2015, we have made considerable progress on achieving this goal.

Women overall working at Challenger

December 2015	June 2018	FY18 Target	FY20 Target
39.5%	43.8%	43.0%	45.0%

Women in management roles

December 2015	June 2018	FY18 Target	FY20 Target
27.4%	38.2%	34.0%	38.0%



In FY18 we exceeded our FY20 target for women in management roles and are committed to building on this success.

We also have a 30% target for female Non-Executive Directors on the Challenger Board by 30 June 2020.

To encourage greater representation of women at senior levels, Challenger continues to develop initiatives targeting improved gender equality. These include:

- gender diversity targets;
- annual gender pay-gap analysis;
- enhancement of our talent acquisition programs; and
- leadership development and sponsorship programs.

We recognise that flexible working makes our business more agile



Employer of Choice for Gender Equality

In March 2018, we were awarded an Employer of Choice for Gender Equality (EOCGE) citation by the Workplace Gender Equality Agency (WGEA). The citation provides valuable public recognition of our commitment to gender equality, and it reflects the growing commitment to workplace gender equality in Australia.

Gender pay equity

Challenger is committed to pay equity as part of our broader diversity strategy and our CEO is a WGEA Equal Pay Ambassador.

The Leadership Team and the Board review gender remuneration equity annually as part of the remuneration calibration process. This focus has ensured that for the past five years, the gap has been successfully closed between women and men performing like roles, and we will ensure that these outcomes continue. Additionally, we've continued to make incremental improvement on the average salary of women in management roles, with a 6% increase recorded in our most recent report to WGEA.

We've also continued to make superannuation guarantee contributions for employees on parental leave.



Women Leading @ Challenger program

In March 2018, on International Women's Day, we announced the launch of our new Women Leading @ Challenger program. This six-month program aims to accelerate the development of some of the fantastic female talent we have across the organisation. Focusing on strengths, it provides the opportunity to create a network of talented women across Challenger, through a structured program.

Our first cohort of talented women has commenced the program and the plan is for a second cohort to commence in early 2019.

Supporting flexible working

A key component of our diversity strategy is to expand flexible working to make our business more agile and enable our people to achieve a better balance between work and life.

We believe in making flexibility a reality for all employees, both men and women, and our flexible work practices are helping us to achieve this.

Over the past year, we've had 30 new formal flexible work agreements approved, with 20% being for men. Overall, 97% of flexible work requests were approved. Adding to this, we've had a large number of employees (men and women) take advantage of adhoc, informal flexible work arrangements throughout the year.

We also support employees who are new parents, both male and female, through our parental leave policy. This policy provides for primary caregivers to receive 12 weeks' paid leave and secondary caregivers two weeks' paid leave.

Broadening the focus of diversity beyond gender is an opportunity for Challenger.

Employees

Employee profile

Number of employees	FTE	Headcount
Overall total	675.7	691

Unless stated otherwise, employee headcount is used as the basis for the following disclosures.

Employees by contract type and gender	Female	Male	Total
Permanent			
Full time	222	370	592
Part time	41	7	48
Fixed term			
Full time	13	24	37
Part time	3	1	4
Contractors			
Agency	2	3	5
Independent	1	3	4
Casual	0	1	1
Total	282	409	691

Employees by region and gender	Female	Male	Total
Adelaide	2	1	3
Brisbane	8	5	13
Hobart	4	7	11
Melbourne	7	18	25
Perth	1	2	3
Sydney	248	338	586
London	10	27	37
Tokyo	2	7	9
Other	0	4	4
Total	282	409	691

Employees by age group	Total
Under 30	109
30 - 50	516
Over 50	66
Total	691

New hires by age group	Total
Under 30	57
30 - 50	125
Over 50	13
Total	195

Employees

New hires by region and gender	Female	Male	Total
Adelaide	1	0	1
Brisbane	1	3	4
Hobart	1	2	3
Melbourne	5	5	10
Sydney	76	78	154
London	7	9	16
Tokyo	1	4	5
Other	0	2	2
Total	92	103	195

Voluntary turnover ¹ by age group	Total
Under 30	25
30 - 50	76
Over 50	9
Total	110

Voluntary turnover ¹ by region and gender	Female	Male	Total
Brisbane	0	2	2
Hobart	1	2	3
Melbourne	2	1	3
Sydney	43	49	92
London	5	5	10
Total	51	59	110

Employee safety and wellbeing

Work health and safety	FY16	FY17	FY18
Lost time injury frequency rate (days)	2.4	1.6	0
Workers compensation claims	6	3	4
Absenteeism days per FTE	3.1	2.8	2.7
Fatalities	Nil	Nil	Nil

Employee benefits

Employee benefits by employment type	Permanent full time & part time	Temporary
Life insurance	yes	yes
Disability and invalidity coverage	yes	yes
Parental leave - paid	yes	no
Retirement provision	yes	yes
Stock ownership	yes	no
Other:		
- Salary continuance	yes	no
- Superannuation top-up (up to \$500)	yes	no
- Superannuation on unpaid parental leave	yes	no

¹ Voluntary turnover refers to employees who resign or retire.

Employees

Diversity

Board and Nomination Committee diversity – gender and age	Female	Male	Total
Board			
Over 50	2	6	8
Nomination Committee			
Over 50	2	5	7

Internal employee movement by gender	Female	Male	Total
Transfers	13	18	31
Secondments	7	13	20
Promotions	26	25	51
Total	46	56	102

Remuneration positioning for women compared to men against the market median	Salary package	Total reward
FY14	-2%	-3%
FY15	1%	-1%
FY16	-1%	-2%
FY17	-1%	-1%
FY18	0%	-1%

Gender salary comparison by level ¹	Average female salary as a percentage of average male salary
Senior management	83.85%
Other management	93.84%
Non-management	85.47%

Parental leave return rate	Female	Male
Employees who commenced parental leave during the year	28	3
Employees who returned to work in FY18 after a period of parental leave	16	3
Employees who returned to work after parental leave and were still employed 12 months after return ²	15	3
Parental leave return to work rate ²	90%	100%

¹ This comparison is by level only and not a like-for-like comparison.

² Based on the return to work of employees who commenced parental leave in either FY16 or FY17 and returned to work in FY18.

Employees

Diversity measurable objectives for 2018

Objective	Performance																		
<p>Strategy and business case Incorporate workplace diversity in our organisational strategy</p>	<p>Our Diversity strategy is published on our intranet and we have actively discussed and promoted diversity initiatives, progress and outcomes throughout the year.</p> <p>We also made an application to the Workplace Gender Equality Agency (WGEA) and were recognised as an Employer of Choice for Gender Equality.</p>																		
<p>Stakeholder engagement Continue to build awareness of our priority on, and the benefits of, workplace diversity</p>	<p>We evaluate employee perceptions on diversity and flexibility as part of our employee engagement survey. In 2017, questions required by WGEA were included in the survey. Responses to diversity and flexibility category questions ranked second highest, with 93% responding positively.</p> <p>Challenger employees also enjoyed membership with Women in Super and the Diversity Council of Australia, and 63 employees attended seminars, workshops and networking events during FY18.</p> <p>We also celebrated our cultural diversity on Harmony Day to raise awareness of the diverse cultures that make up our employee population.</p>																		
<p>Gender composition Increase the representation of women in senior leadership</p>	<p>Challenger's talent management practices focus on identifying talented women and supporting their development. Two cohorts of talented women have been identified and have commenced sponsorship programs with members of the Leadership Team.</p> <p>In addition, we announced the launch of a new Women Leading @ Challenger program. This six-month program aims to accelerate the development of high calibre female employees. A second cohort of talented women will complete the program in 2019.</p> <p>We ensure the Nomination Committee and the Board have an appropriate diversity of membership. At the end of FY18, female representation on the Challenger Board and the Nomination Committee was 25% and 29% respectively. The Board has committed to a target of 30% female representation by 30 June 2020.</p> <p>Five-year gender composition targets were implemented in FY16. Our progress towards our FY20 targets are as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>Jun 16</th> <th>Jun 17</th> <th>Jun 18</th> <th>FY18 target</th> <th>FY20 target</th> </tr> </thead> <tbody> <tr> <td>Women in all roles</td> <td>41.7%</td> <td>42.7%</td> <td>43.8%</td> <td>43%</td> <td>45%</td> </tr> <tr> <td>Women in management</td> <td>29.3%</td> <td>32.9%</td> <td>38.2%</td> <td>34%</td> <td>38%</td> </tr> </tbody> </table>		Jun 16	Jun 17	Jun 18	FY18 target	FY20 target	Women in all roles	41.7%	42.7%	43.8%	43%	45%	Women in management	29.3%	32.9%	38.2%	34%	38%
	Jun 16	Jun 17	Jun 18	FY18 target	FY20 target														
Women in all roles	41.7%	42.7%	43.8%	43%	45%														
Women in management	29.3%	32.9%	38.2%	34%	38%														

Diversity measurable objectives for 2018

Objective	Performance
Gender pay equity Continue to drive gender pay equity	Challenger has successfully closed gender pay gaps for like roles and continues to make improvements at all levels across the organisation. Our CEO, Brian Benari, is a Workplace Gender Equality Agency Equal Pay Ambassador. Challenger continued to make superannuation guarantee contributions for employees on parental leave. In addition to helping address lower average superannuation balances for women, this initiative aligns with Challenger's vision of providing financial security for retirement.
Flexibility Expand flexible working to make our business more agile and enable employees to better balance life and work	Challenger's 2017 employee engagement survey results indicate that Challenger's existing workplace practices provide the vast majority of employees with the flexibility they need (87% of employees responded favourable to questions asked about flexibility at Challenger). In December 2016, we rolled out an online application and toolkit for formal flexible work requests. Since then we've received 59 flexible work applications and 94% of these have been approved. Just over a quarter of these have been for male employees.
Talent pipeline Focus on recruitment and retention practices to ensure a diverse talent pool	We've continued to work with our recruitment partners to ensure appropriate gender representation for external candidate shortlists. Throughout FY18, we continued to focus on identifying opportunities for internal progression for females within Challenger; for example: <ul style="list-style-type: none"> • 51% of a total of 51 internal promotions were women (38% in FY17); • 35% of a total of 20 internal secondments were women (32% in FY17); and • 42% of a total of 31 internal transfers were women (39% in FY17).

Community and research

Sponsorship of community events, research and leadership forums

Activities	Total
Sponsorship of the Community for Sustainable Retirement Income Leadership Forum	\$160,000
Sponsorship of the Council of the Ageing	\$50,000
Research grant for National Seniors Australia	\$40,000
JP Morgan corporate challenge sponsorship	\$17,500
Financial Industry Community Aid program	\$11,000
Sponsorship of Sohn Hearts & Minds investment leadership conference	\$50,000
Total	\$328,500

Environment

2018 greenhouse gas emissions

Emissions ¹	Units	Source data	tCO ₂ -e
Scope 1			
Natural gas	GJ	67.7	3.5
Total scope 1	GJ	67.7	3.5
Scope 2²			
Electricity	MWh	1,102.8	838.1
Total scope 2	MWh	1,102.8	838.1
Scope 3			
Utilities			
Natural gas ³	GJ	67.7	0.9
Electricity ³	MWh	1,102.8	116.8
Electricity (base building)	MWh	835.5	841.5
Water	ML	8.4	5.2
Equipment & Services			
Paper	tonnes	10.7	11.8
IT equipment	\$ ('000)	838.8	383.6
Postage	\$ ('000)	141.1	25.9
Couriers	\$ ('000)	151.8	109.9
Travel & Commuting			
Accommodation	occupancy nights	2,074.0	114.1
Flights	(000) km	2,885.8	1,195.8
Employee commuting	(000) km	4,221.7	641.3
Taxis and hire cars	\$ ('000)	225.3	24.1
Transport fuels (employee business travel)	litres	499.0	1.2

Emissions ¹	Units	Source data	tCO ₂ -e
Food & Beverage			
Fruit ⁴	\$ ('000)	19.6	38.8
Milk ⁴	\$ ('000)	8.5	6.0
Other foods (from major events) ⁵	\$ ('000)	125.6	121.9
Waste			
Landfill	tonnes	32.8	39.3
Recycling	tonnes	29.6	6.0
Total scope 3			3,684.1
Overall total			4,525.7

Topic	Units	tCO ₂ -e
Direct energy consumption by primary source	GJ	67.7
Indirect energy consumption by primary source	GJ	3,970.1
Direct greenhouse gas (GHG) emissions (scope 1)	tCO ₂ -e	3.5
Energy indirect GHG emissions (scope 2)	tCO ₂ -e	838.1
Other indirect GHG emissions (scope 3)	tCO ₂ -e	3,684.1
GHG emissions per employee	tCO ₂ -e	6.46

¹ Challenger references an operational control boundary for emissions.

² Incorporates Scope 2 emissions calculated using a 'location-based' method. Calculations are based on the Department of Environment National Greenhouse Accounts Factors published in July 2017.

³ Under the GHG Protocol, emissions from natural gas come from its consumption (scope 1) and production and distribution losses (scope 3), and emissions from electricity come from its consumption (scope 2) and transmission and distribution losses (scope 3).

⁴ Incorporates fruit and milk consumption for the Sydney head office.

⁵ Major events include the AGM, Employee Update briefings and Sydney end of year celebration.



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GREENHOUSE GAS EMISSIONS MEASUREMENT & OFFSET VERIFICATION REPORT FOR CHALLENGER LIMITED YEAR ENDED 30 JUNE 2018

Independence

GPP Audit Pty Limited confirms that we are not aware of any actual or perceived conflict of interest in having completed this engagement. Benjamin Jenkins confirms that he has not carried out more than five previous consecutive audits for Challenger Limited.

Scope of audit

GPP Audit Pty Limited has been engaged to undertake an independent assurance audit to determine whether Challenger Limited has appropriately measured and offset their greenhouse gas emissions in line with the National Carbon Offset Standard (NCOS) and the NCOS Carbon Neutral Program Guidelines (the Guidelines).

Benjamin Jenkins of GPP Audit Pty Limited conducted the audit in accordance with ASAE 3000. The audit has been planned and performed in accordance with the proposal approved by the participant to enable me to provide reasonable assurance regarding the measurement and offset of the greenhouse gas emissions of Challenger Limited for the period 1 July 2017 to 30 June 2018.

Responsibility of Challenger Limited's management

Management of Challenger Limited is responsible for preparing the reporting documentation in accordance with NCOS for Organisations in all material respects. This responsibility includes design, implementation and maintenance of internal controls relevant to the preparation and presentation of reporting documentation that is free from material misstatement, whether due to fraud or error. Management of Challenger Limited is responsible for the interpretation and application of the requirements of NCOS for Organisations. Emissions quantification is subject to inherent uncertainty because incomplete scientific knowledge has been used to determine emissions factors and the values needed to combine emissions due to different gases.

Our responsibility

Our responsibility is to express an opinion on the measurement and offset of the greenhouse gas emissions of Challenger Limited for the period 1 July 2017 to 30 June 2018 based on the procedures we have performed and the evidence we have obtained. We have conducted our reasonable assurance engagement in accordance with the Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information.

The Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information requires us to plan and perform this engagement to obtain reasonable assurance about whether on the measurement and offset of the greenhouse gas emissions are free from material misstatement, omissions or misrepresentations. A reasonable assurance engagement involves performing procedures to obtain evidence about the compliance of the measurement and offset of the greenhouse gas emissions with the NCOS for Organisations. The nature, timing and extent of procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, we have considered internal controls relevant to Challenger Limited's preparation of the measurement and offset of the greenhouse gas emissions. We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our assurance conclusion.

GPP Audit Pty Limited has not conducted any audit procedures with respect to the internal control environment and data management system of the audited body as a whole. As such, no assurance is provided on any internal control environment and data management system not associated with preparing the measurement and offset of the greenhouse gas emissions.

Summary of procedures undertaken

The procedures we conducted in our reasonable assurance engagement included: Assessment of completeness of emission sources; Assessment of greenhouse gas information systems and controls; and Assessment of greenhouse gas information and data.

Use of our reasonable assurance engagement report

This report has been prepared for the use of Challenger Limited for the sole purpose of reporting on the measurement and offset of their greenhouse gas emissions for the period 1 July 2017 to 30 June 2018. Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than Challenger Limited for any consequences of reliance on this report for any purpose.

Inherent limitations

There are inherent limitations in performing assurance—for example, assurance engagements are based on selective testing of the information being examined—and because of this, it is possible that fraud, error or non-compliance may occur and not be detected. An assurance engagement is not designed to detect all misstatements, as an assurance engagement is not performed continuously throughout the period that is the subject of the engagement and the procedures performed on a test basis. The conclusion expressed in this report has been formed on the above basis.

Audit conclusion

In our opinion, the audited body has appropriately measured and offset their greenhouse gas emissions in all material aspects in accordance with the NCOS for Organisations.

Benjamin Jenkins – Director, GPP Audit Pty Limited
NGER Registration Number 0129/2011

Dated this 25th Day of July 2018



Liability limited by a scheme
Approved under Professional
Standards legislation

Benjamin Jenkins B. Bus CA
Director
P: 0403 035 743 E: ben@gppaudit.com.au

Material issue boundary map

Challenger material issue	GRI material topic	Boundary
Responsible operations		
Conduct and trust*	GRI 102: General Disclosures - Ethics and integrity GRI 415: Public policy GRI 418: Customer privacy	Internal and external
Long-term risk management*	GRI 102: General Disclosures - Strategy GRI 201: Economic performance (201-1)	Internal and external
Responsible investment*	GRI 201: Economic performance (201-1)	External
Technology and information security	Challenger specific topic	Internal and external
Investing in the community	Challenger specific topic	Internal and external
Our customers		
Positive customer outcomes*	Challenger specific topic	Internal and external
Policy and regulation		
Regulatory change*	Challenger specific topic	Internal and external
Operating environment impacts		
Market structures and competition*	Challenger specific topic	External
Ageing population demographics*	Challenger specific topic	External
Challenging investment markets	Challenger specific topic	External
Climate change	GRI 305: Emissions	Internal and external
Our people		
Workforce wellbeing and culture Talent attraction and retention Diversity and inclusion	GRI 401: Employment GRI 403: Occupational health and safety (403-1 & 403-2) GRI 405: Diversity and equal opportunity	Internal

* Material matters rated highest in importance to both our stakeholders and our business.

GRI content index

GRI standard	Disclosure	Reference or response	Page
General disclosures			
GRI 102: General Disclosures 2016	102-1 Name of the organisation	Challenger Limited	
	102-2 Activities, brands, products and services	www.challenger.com.au/about/index.htm	
	102-3 Location of headquarters	5 Martin Place Sydney NSW 2000	
	102-4 Location of operations	www.challenger.com.au/about/OtherOffices.asp	
	102-5 Ownership and legal form	www.challenger.com.au/about/index.htm	
	102-6 Markets served	www.challenger.com.au/about/index.htm	
	102-7 Scale of the organisation	2018 Annual Report: About Challenger	
	102-8 Information on employees and other workers	Performance data – Employees	33
	102- 9 Supply chain	2018 Annual Report: Overview. Information included in the section on 'Operating segments and principle activities'	
	102-10 Significant changes to the organisation and supply chain	No significant changes during the reporting period	
	102-11 Precautionary approach	2018 Corporate Governance Statement: Principle 7– Recognise and manage risk	
102-12 External initiatives	FTSE4GOOD (voluntary) Principles of Responsible Investment (voluntary)		

GRI standard	Disclosure	Reference or response	Page
GRI 102: General Disclosures 2016 (continued)	102-13 Membership of associations	Asia Pacific Loan Markets Association Limited Asia Pacific Real Estate Association Limited Association of Certified Anti-Money Laundering Specialists Association of Corporate Counsel GC100 Association of Superannuation Funds of Australia Australia Japan Business Co-Op Committee Australia Korea Business Council Australian Compliance Institute Inc. Australian Human Resources Institute Australian Payroll Association Pty Ltd Australian Private Equity and Venture Capital Association Limited Australian Securitisation Forum Committee for Economic Development of Australia Corporate Executive Board Diversity Council Australia Ltd Financial Institutions Remuneration Group Inc Financial Services Council Fund Executives Association Limited Governance Risk Compliance Institute Group of 100 Investment Innovation Institute Law Council of Australia National Seniors Australia Ltd Principles for Responsible Investment Association Property Council of Australia Risk Management Association Australia Tasmanian Chamber of Commerce & Industry Ltd Women in Super	

GRI content index

GRI standard	Disclosure	Reference or response	Page
General disclosures (continued)			
GRI 102: General Disclosures 2016 (continued)	102-14 Statement from senior decision-maker	Chair's report	<u>03</u>
	102-16 Values, principles, standards and norms of behaviour	Conduct and trust	<u>10</u>
	102-18 Governance structure	Governance and risk management	<u>08</u>
	102-40 List of stakeholder groups	What matters most	<u>06</u>
	102-41 Collective bargaining agreements	Challenger does not have any employees covered by collective bargaining agreements	
	102-42 Identifying and selecting stakeholders	What matters most	<u>06</u>
	102-43 Approach to stakeholder engagement	What matters most	<u>06</u>
	102-44 Key topics and concerns raised	What matters most	<u>06</u>
	102-45 Entities included in the consolidated financial statements	2018 Annual Report: note 22 to the Financial Statement	
	102-46 Defining report content and topic boundaries	Material issue boundary map	<u>40</u>
	102-47 List of material topics	What matters most	<u>06</u>
	102-48 Restatements of information	No restatements of information	
	102-49 Changes in reporting	Addition of: Positive customer outcomes, Market structures and competition and Challenging investment markets as material topics.	

GRI standard	Disclosure	Reference or response	Page
GRI 102: General Disclosures 2016 (continued)	102-50 Reporting period	1 July 2017 – 30 June 2018	
	102-51 Date of most recent report	15 August 2017	
	102-52 Reporting cycle	Annual	
	102-53 Contact point for questions regarding this report	Kylie Lauc	
	102-54 Claims of reporting in accordance with the GRI Standards	About this report	<u>02</u>
	102-55 GRI content index	GRI content index	<u>41</u>
	102-56 External assurance	The carbon emissions calculations provided in this report have been externally assured by GPP Audit Pty Ltd. Other topics in this report have not been externally assured.	<u>39</u>

GRI content index

GRI standard	Disclosure	Reference or response	Page
Responsible operations			
Material topic: Conduct and trust			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Conduct and trust Material issue boundary map	<u>10</u> <u>40</u>
	103-2 The management approach and its components	Conduct and trust	<u>10</u>
	103-3 Evaluation of the management approach	Conduct and trust	<u>10</u>
GRI 415: Public Policy 2016	415-1 Political contributions	Conduct and trust	<u>10</u>
GRI 418: Customer Privacy 2016	418-1 Complaints concerning privacy	Conduct and trust	<u>10</u>
Material topic: Long-term risk management			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	Long-term risk management Material issue boundary map	<u>12</u> <u>40</u>
	103-2 The management approach and its components	Long-term risk management	<u>12</u>
	103-3 Evaluation of the management approach	Long-term risk management	<u>12</u>
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	2018 Annual Report: note 3 to the Financial Statement	
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