

Annual Review 2016

Challenger Limited – providing
our customers with financial
security for retirement.

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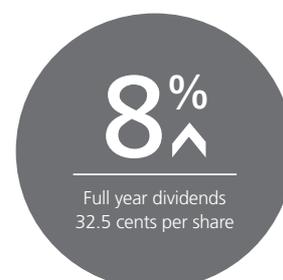
Key dates

- 28 September 2016**
Final dividend payment date
- 27 October 2016**
2016 Annual General Meeting
- 14 February 2017**
Half year financial results
Interim dividend announcement
- 28 March 2017**
Interim dividend payment date
- 15 August 2017**
Full year financial results
Final dividend announcement
- 27 September 2017**
Final dividend payment date
- 26 October 2017**
2017 Annual General Meeting

Dates may be subject to change.
Full listing of key dates:

 challenger.com.au/share/keydates

2016 highlights



ABOUT THIS REVIEW

This Annual Review is intended to provide you with useful information about your company in an easy-to-read document. Included in the Annual Review is an operational and financial performance update, reports from the Chairman and CEO, and information on the environmental, social and governance matters that affect your company.

2016 ANNUAL GENERAL MEETING

Location:
Wesley Centre, 220 Pitt Street, Sydney, NSW

Date:
27 October 2016

Time:
10.30am (Sydney time)

Full details of the meeting will be included in your Notice of Annual General Meeting, which will be sent to shareholders in September 2016.

FINANCIAL HIGHLIGHTS

For further financial information, including our normalised profit framework, refer to page 4.

2016 ANNUAL REPORT

Our 2016 Annual Report, including the full financial report for the year ended 30 June 2016, can be downloaded from Challenger's online Shareholder Centre at:

 challenger.com.au/share

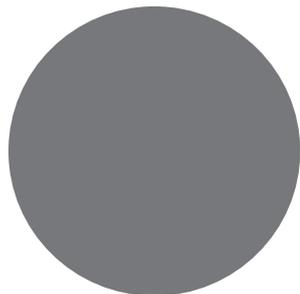
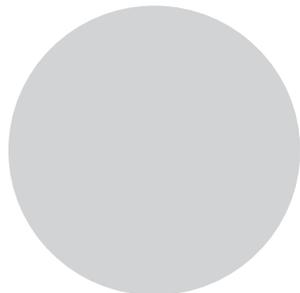
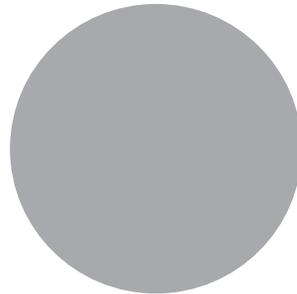
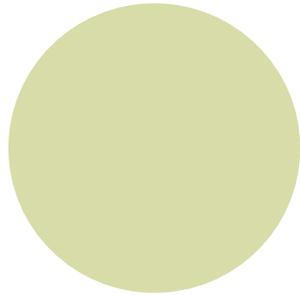
1. Increase in AUM (10%) excludes Kapstream institutional FUM (\$5.4bn) from FY15 following the FUM being derecognised as a result of the sale of Kapstream in July 2015.
2. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in section 4.2 of the Directors' Report in the 2016 Annual Report, which can be found at: www.challenger.com.au/share.

Challenger today

Our vision is to provide our customers with financial security for retirement.

Our diverse and highly agile teams provide Australians with relevant investment products.

Our products help build retirement savings and convert those savings into safe and secure retirement incomes.



Our business

Challenger Limited (Challenger) was established in 1985.

Our vision is to provide our customers with financial security for retirement. We do this by providing a range of investment products.

Our Funds Management business helps build retirement savings and our Life business helps convert these retirement savings into safe and secure retirement incomes.

Across our Funds Management and Life businesses, we manage \$60 billion of assets.

Australia's seventh largest¹ asset manager

Our strategy

To achieve our long term vision, the Challenger Board and management team agree strategic priorities each year.

The Board sets, approves and regularly monitors these strategic priorities, including holding management accountable for the company's progress.



1. Consolidated FUM for Australian fund managers – Rainmaker Roundup March 2016.

Funds Management

Our Funds Management business targets the retirement savings phase of superannuation (super) by providing investment products that aim to deliver superior investment returns and help build retirement savings.

As Australia's seventh largest fund manager, we invest across a broad range of asset classes including commercial property, fixed income, equities and alternative assets. Our investment teams strive to deliver superior returns to our customers and over the years have developed strong performance records.

Our Funds Management business has two parts.

Fidante Partners collaborates with boutique fund managers. Fidante Partners takes responsibility for distribution, administration and business support, leaving the fund managers to do what they do best, manage investment portfolios. Alongside our Australian operations Fidante Partners Europe was established in 2015 to extend our global distribution and product footprint.

Challenger Investment Partners is an absolute return investment manager. Through Challenger Investment Partners, our institutional clients often invest alongside the Life business in fixed income and commercial property, which generate stable absolute investment returns.

Our Funds Management business has \$57 billion in Funds Under Management (FUM).

Life

Our Life business targets the retirement spending phase of super by providing investment products that convert retirement savings into safe and secure retirement incomes.

As Australia's largest annuity provider, we provide reliable guaranteed¹ incomes to over 60,000 Australian retirees. Our annuity products appeal to retirees seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks.

Our lifetime annuities help protect retirees from the risks they face in retirement, including the risk of running out of money late in life.

The secure incomes we pay are backed by a high-quality investment portfolio, which includes fixed income and commercial property investments. These investments earn regular and predictable investment income, which we use to pay guaranteed retirement incomes to our customers.

Challenger Life has won the Association of Financial Advisers/Plan for Life 'Annuity Provider of the Year' for the past eight years in a row.

Our Life business has \$14 billion in Assets Under Management (AUM).

1. The word 'guaranteed' means payments are guaranteed by Challenger Life Company from the assets of its relevant statutory fund.

2. Australian fixed income investment managers – Rainmaker Roundup March 2016.

3. Marketing Pulse Advisory Study.

Australia's second largest fixed income manager²

Competitive advantage

- contemporary boutique model (Fidante Partners)
- co-investment model (Challenger Investment Partners)
- investment team talent – boutique and internal managers
- broad range of investment options
- attracting superior net flows

Australia's leading annuity provider

Competitive advantage

- dedicated retirement income focus
- independent product provider
- proven product innovator
- forming distribution partnerships and leveraging technology
- rated leader in retirement incomes by advisers³

Financial highlights 2016

NORMALISED PROFIT AFTER TAX

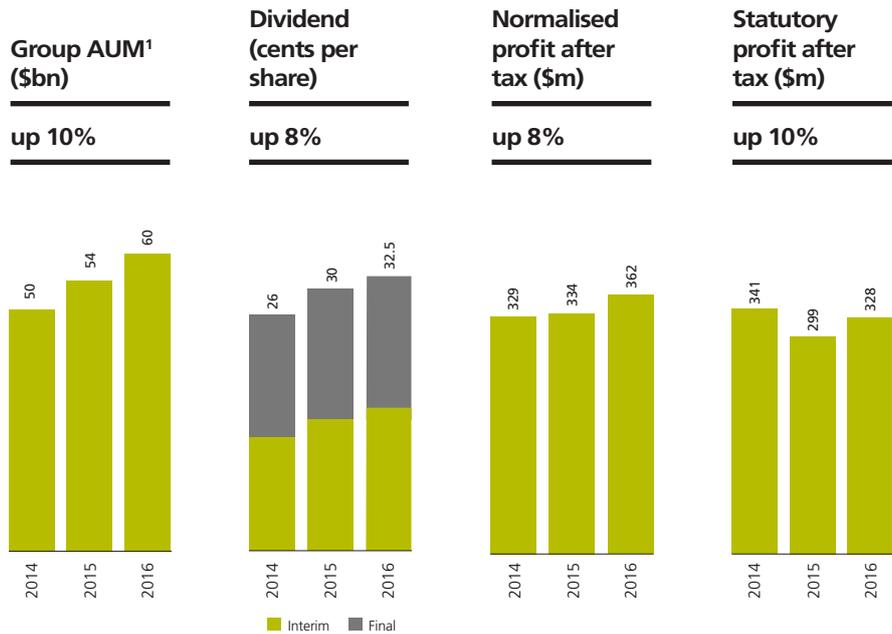
↑ 8%

DIVIDEND

↑ 8%

Our normalised profit reporting framework

Normalised profit is Challenger's preferred profitability measure, as it aims to reflect the underlying performance trends of the business. Normalised profit excludes investment experience, being the difference between actual investment gains and losses and normalised returns (which are based on long-term assumed returns). The normalised profit, which is different to statutory profit, is not audited but has been subject to a review by our auditors. A reconciliation to statutory profit is disclosed in the Directors Report (section 4.2), which forms part of the 2016 Annual Report.



↑ \$60bn

Group AUM up 10%¹

1. Group AUM excludes Kapstream institutional FUM from FY15 following the FUM being derecognised as a result of the sale of Kapstream in July 2015.

Shareholder outcomes

SEPTEMBER 2016 DIVIDEND

100%
FRANKED

ONE YEAR TSR

↑ 33%

OUTPERFORMED ASX100 BY 38%

Challenger ranked 66th in ASX100 with a market capitalisation of \$4.9bn (up \$1.2bn in FY16).

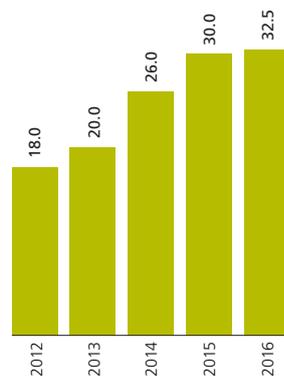
DIVIDEND

Over five years

↑ 97%

DIVIDEND (CENTS PER SHARE)

Over five years



TOTAL SHAREHOLDER RETURN (TSR)

Over five years

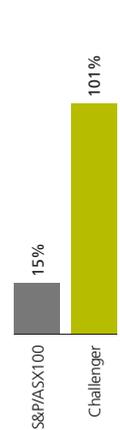
101%

TSR

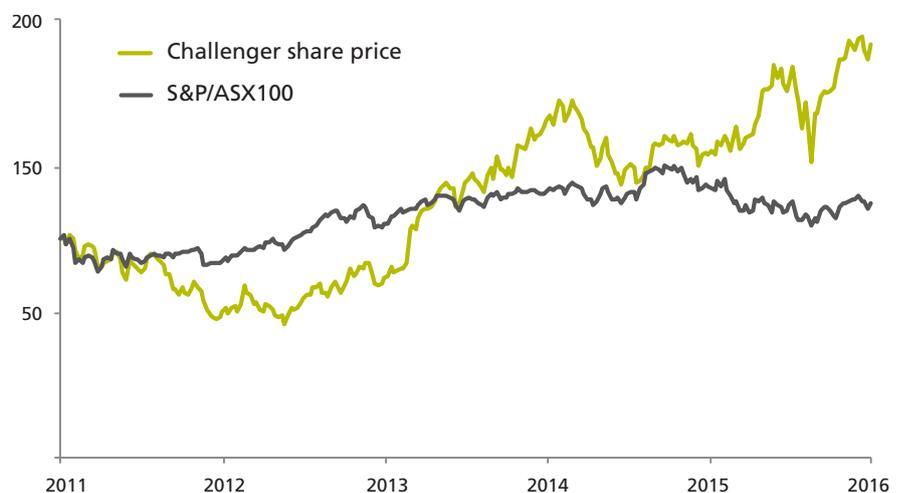
Over three years



Over five years



CHALLENGER SHARE PRICE OUTPERFORMING THE MARKET OVER FIVE YEARS



From the Chairman

Peter Polson
16 August 2016



Fellow shareholders

2016 has been a significant year for Challenger and has marked a tipping point for the retirement incomes market in Australia.

Your company continues to grow strongly reflecting the demand for annuity products from the rapidly-increasing number of Australian retirees and the growing capabilities of our Life and Funds Management businesses.

Over the next 40 years the number of Australians aged over 65 will double to seven million.

We are very well positioned to fulfil Challenger's vision – to meet the financial needs of the rising wave of retirees and to provide them with financial security in retirement.

Over the past year, there has been increased recognition by government of the fiscal and social challenges presented by our ageing population.

In the Federal Budget in May 2016 the government cleared the way for essential reforms that will increase the availability of retirement income products, something that Challenger has been advocating for to create a world-class retirement income system.

At the heart of this is the government's proposed definition of the objective of

superannuation as being to 'provide income in retirement to substitute or supplement the Age Pension', making it clear that the specific purpose of superannuation is to create sustainable retirement income streams. It provides direction for policymakers, for industry participants, like super funds, and for individuals planning for retirement.

At the same time the government announced the removal of tax impediments to allow for a wider range of retirement income products, including Deferred Lifetime Annuities. The new rules, expected to come into effect in July 2017, will provide the building blocks for super funds to develop a Comprehensive Income Product for Retirement, which will enhance the industry's growth profile.

There has been increased recognition by government of the fiscal and social challenges presented by our ageing population

The outcome of these reforms will be a superannuation system better suited to meet the retirement income needs of our customers. Through its progressive approach to the financial needs of retirees, Challenger has helped shape the reform agenda and will continue to be at the forefront of what we expect to be a larger and more innovative retirement incomes market.

Your company is also continuing to make good progress in Funds Management. Our multi-boutique business Fidante Partners continues to be one of Australia's fastest growing fund managers and has a growing global distribution and product platform.

Turning to our financial performance, Challenger continues to grow. Total assets under management, a key driver of financial success, grew by 10% on an organic basis¹ to \$60.0 billion while normalised profit after tax increased 8%, demonstrating solid growth in profitability.

This sustained growth allowed the Board to further increase dividends with a final

dividend of 16.5 cents per share. This dividend together with the interim make the full-year dividend 32.5 cents per share, an 8% increase on last year, with dividends now fully franked across the year. The dividend payout ratio remains within our target ratio of 45–50%. Dividends have doubled over the past five years.

We have had a good response to Challenger Limited's Dividend Reinvestment Plan which gives shareholders the opportunity to receive some or all of their dividends in Challenger shares, instead of cash, without any brokerage or associated costs, making it an efficient way to increase your ownership of Challenger.

While increasing dividends we have also ensured we remain strongly capitalised to support future growth. We hold \$1.1 billion of excess capital and cash – substantially more capital than required by the Australian Prudential Regulation Authority.

A robust risk management framework is vital for you to have trust and confidence in your company. Risk is everyone's business at Challenger. It is measured and permeates from the management team to all levels of the organisation. Our three-lens approach to measuring attitudes towards risk includes external and internal audit as well as in our annual employee 'Your Voice' engagement survey. Our latest employee survey results show that Challenger is performing significantly better in terms of its risk culture than the global financial services norm.

Behind your company's success is a committed team of management and staff whose passion for our business and disciplined approach has delivered another great result and positioned Challenger for future growth and success.

Our Annual General Meeting this year will take place on 27 October 2016 in Sydney. I look forward to seeing you at the AGM where the Challenger senior executive team and I will be happy to answer your questions about the company's performance and growth prospects.

Peter Polson
Chairman

1. Group AUM excludes Kapstream institutional FUM from FY15 following the FUM being derecognised as a result of the sale of Kapstream in July 2015.

Board of Directors

Peter Polson **Chairman**

Peter has been the independent Chairman since 2004 and an independent non-executive director since 2003. Peter is also Chairman of the Nomination Committee, and a member of the Group Risk Committee, Group Audit Committee and Remuneration Committee.

Directorships of other listed companies:
– IDP Education Limited (Chair)
(listed 26 November 2015)

Brian Benari **Chief Executive Officer and Managing Director**

Brian has been Challenger's Managing Director and Chief Executive Officer since 2012. Brian has been employed by Challenger since 2003, with previous roles including Chief Financial Officer and Chief Operating Officer. Prior to Challenger, Brian held senior executive positions with JP Morgan, Bankers Trust and Macquarie Bank.

Graham Cubbin **Independent Non-Executive Director**

Graham has been an independent non-executive director since 2004, and is Chair of the Remuneration Committee, and a member of the Group Risk Committee, Group Audit Committee and Nomination Committee.

Directorships of other listed companies:
– Bell Financial Group Limited
– McPherson's Limited (Chair)
– WPP AUNZ Limited (formally STW Communications Group Limited)
– White Energy Company Limited

Steven Gregg **Independent Non-Executive Director**

Steven has been an independent non-executive director since 2012, and is a member of the Remuneration Committee and Nomination Committee.

Directorships of other listed companies:
– Caltex Australia Limited
– Tabcorp Holdings Limited



Peter Polson



Brian Benari



Graham Cubbin



Steven Gregg



Jonathan Grunzweig



Brenda Shanahan



JoAnne Stephenson



Leon Zwier

Jonathan Grunzweig **Independent Non-Executive Director**

Jonathan has been an independent non-executive director since 2010, and is a member of the Nomination Committee. Jonathan is Executive Director and Global Head – Special Situations at Colony Capital, Inc. a leading global real estate and investment management firm.

Brenda Shanahan **Independent Non-Executive Director**

Brenda has been an independent non-executive director since 2011, and is a member of the Group Risk Committee, Group Audit Committee, Remuneration Committee and Nomination Committee.

Directorships of other listed companies:
– Bell Financial Group Limited
– Clinuvell Pharmaceuticals Limited

JoAnne Stephenson **Independent Non-Executive Director**

JoAnne has been an independent non-executive director since 2012, and is Chair of the Group Risk Committee and Group Audit Committee, and a member of the Nomination Committee.

Directorships of other listed companies:
– Asaleo Care Limited
– Japara Healthcare Limited

Leon Zwier **Independent Non-Executive Director**

Leon has been an independent non-executive director since 2006, and is a member of the Nomination Committee. Leon is a partner in the law firm Arnold Bloch Leibler.

Full Director bios are included in the 2016 Annual Report available at:



challenger.com.au/share

CEO's report

Brian Benari

16 August 2016



The superannuation industry is moving ahead of government reform

It has been an exciting and consequential year for Challenger in which your company has continued to strengthen its leadership position in a growing retirement incomes market.

Our business continues to achieve strong growth and benefits from demographic tailwinds due to the increasing number of Australians moving into retirement.

Every day about 700 Australians turn 65 and, with Australia only five years into a 20-year cycle of retiring baby-boomers, this trend is set to continue. Not only are there more retirees but retirees are living longer and are having to be more financially self-reliant, which creates demand for the long-term security provided by guaranteed annuities.

Even though superannuation balances are increasing, with the average couple now holding about \$400,000 in super at retirement, an appreciation of the financial risk that comes from increased longevity and lower expectations of investment market returns has created real concern among ordinary Australians about the risk of outliving their savings.

A recent survey of over-50s by National Seniors Australia showed that only 45% of senior Australians are confident their superannuation savings will be adequate.

Most people respond in a fairly common-sense way to that kind of uncertainty. Three-quarters of older Australians would cut back their spending, according to the survey, although that often leads to situations where retirees underspend in retirement and live a diminished lifestyle because of the fear of running out of money.

This highlights weaknesses in Australia's retirement system. Our superannuation system currently stands at \$2 trillion – bigger than Australia's GDP. It is seen internationally as a leader in generating savings in the run up to retirement but it ranks much lower when it comes to converting those savings into sustainable lifetime income.

As we anticipated, this has prompted proposed policy reform that addresses some of the shortcomings of our current superannuation system and will lead to a larger and more diverse retirement income sector. That's positive news for retirees who will be able to access a wider and more innovative range of products that more specifically meet their needs for guaranteed income.

These investment platforms combined are Australia's largest and are used by half of all financial advice firms.

The superannuation industry is moving ahead of government reform and is now beginning to adapt more rapidly to the needs of its retiring members. As you would expect, Challenger has been leading this change.

Over the past year Challenger has launched a number of distribution partnerships to make Challenger annuities more readily available to financial advisers and super fund members through investment and administrative platforms.

For financial advisers, our annuities can now be accessed through Colonial First State's First Wrap and First Choice platforms.

These investment platforms combined are Australia's largest and are used by half of all financial advice firms.

In the industry fund sector, Challenger annuities are available via Link Group's platform, which serves more than 10 million industry super fund members. Three funds using the platform have already launched or are in the process of launching our annuity solutions to their members: Local Government Super, legalsuper and caresuper. Between them these three funds have about 400,000 members. We expect more funds to follow.

We also have a distribution partnership with VicSuper which uses Challenger annuities, tailored to its member base, as part of its award-winning Guaranteed Income for Life solution.

These annuities on platform partnerships have grown even faster than we anticipated and are already making a contribution to Challenger's results.

Our 2016 financial results are driven by continued growth in assets under management to \$60.0 billion. This is a very strong result when considering it excludes \$5.4 billion of funds under management due to the sale of our interest in Kapstream Capital.

On a statutory basis, net profit after tax was up 10%, which included the profit from the Kapstream sale.

Normalised net profit after tax was up 8% to \$362 million. Even though there were more Challenger shares on issue due partly to the success of our Dividend Reinvestment Plan, normalised earnings per share rose 6% to 64.6 cents.

Challenger's pre-tax Return on Equity at 17.8% was slightly below our 18% target due partly to a \$10 million pre-tax loss from our Fidante Partners Europe business, where market uncertainty ahead of the Brexit vote had an impact on financial transaction activity in the alternatives sector in the first half of calendar year 2016.

Challenger is increasingly differentiated from a number of other financial services companies. We have strong momentum and expanded market opportunities

In our Life business, shareholders benefitted from stable margins that meant strong asset book growth translated into earnings growth.

Our distribution partnerships have contributed to accelerating growth in annuity sales, already accounting for 6% of sales. Overall annuity sales grew 22% to a record \$3.4 billion, with sales of our lifetime annuities up 21% to \$581 million. Growth was particularly strong in the fourth quarter with annuity sales of \$1.1 billion, exceeding \$1 billion in a quarter for the first time. The tenor of new annuity business also increased reflecting the quality of sales from our partnerships.

We are also seeing increasing growth in sales of our CarePlus aged care product following its launch in August 2015, which is designed to provide financial security through regular income for retirees receiving aged care services.

We have seen significant progress on the Funds Management side of our business, with double digit growth in average funds under management, excluding Kapstream, boosted by organic flows of \$2.4 billion. Overall, over the past five years funds under management in this business has grown from \$24 billion to \$57 billion with net flows consistently outperforming peers over many years.

The acquisition last year of what is now Fidante Partners Europe has enhanced our global funds distribution capability, providing us with a channel to UK and European alternative assets investors, and increased our scale in the attractive alternative asset class. We have grown funds under management of our European boutiques by \$1.3 billion over the year, including a \$375 million fund raising for an innovative industrial water infrastructure fund for Resonance Asset Management.

Our people are highly engaged and are the single biggest contributor to our success. In our annual 'Your Voice' survey, our key indicator of employee engagement, the 2016 survey scored sustainable engagement at 88%. One of the most significant results was 90% of people said they would recommend Challenger as a good place to work. Overall, the results showed we were above the Australian national norm in all 17 categories surveyed including customer focus, diversity and flexibility as well as career and development. We were also above every global financial services benchmark.

I would like to thank our employees for their commitment and outstanding contribution to another strong year for your company.

Challenger is increasingly differentiated from other financial services companies. We have strong momentum and expanded market opportunities, particularly as we see policy and industry changes that will see a shift to superannuation being thought of as a pathway to create retirement income streams.

We are continuing to deliver strong shareholder outcomes and, as a market leader with strong competitive advantages, our Life and Funds Management businesses are very well positioned to capture the opportunities ahead.



Brian Benari
Chief Executive Officer

Executive team

Brian Benari
Chief Executive Officer and Managing Director

Brian has been Challenger's Managing Director and Chief Executive Officer since 2012. Brian has been employed by Challenger since 2003, with previous roles including Chief Financial Officer and Chief Operating Officer. Prior to Challenger, Brian held senior executive positions with JP Morgan, Bankers Trust and Macquarie Bank.

Andrew Tobin
Chief Financial Officer

Andrew is the Chief Financial Officer and joined Challenger in 2007. Andrew became Challenger's Chief Financial Officer in 2012. Prior to Challenger, Andrew held senior executive roles at Commonwealth Bank of Australia and MLC.

Richard Howes
Chief Executive, Life

Richard is responsible for the Life business and joined Challenger in 2003. Prior to Challenger, Richard held positions at Zurich Capital Markets, Macquarie Bank and Bankers Trust.

Chris Plater
Principal Executive Officer and Chief Investment Officer, Life

Chris joined Challenger in 2003 and has responsibility for the regulated Challenger Life Company. Chris was appointed Life's Chief Investment Officer in 2008 and Principal Executive Officer in 2015. Prior to joining Challenger, Chris worked at Bankers Trust, Commonwealth Bank of Australia, Lehman Brothers and Zurich Capital Markets in a variety of financial markets roles.

Angela Murphy
Executive General Manager, Human Resources

Angela is responsible for Challenger's Human Resources department and joined Challenger in 2012. Prior to Challenger, Angela held senior Human Resource positions at the Westpac Group and Mercer Human Resource Consulting.



Brian Benari



Michael Vardanega



Andrew Tobin



Ian Saines



Richard Howes



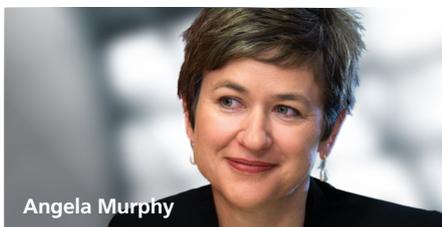
Richard Willis



Chris Plater



Paul Rogan



Angela Murphy



Rob Woods

Michael Vardanega
General Counsel and Executive General Manager, Corporate Affairs

Michael is responsible for Challenger's legal and corporate affairs departments and joined Challenger in 2006. Prior to Challenger, Michael held senior legal positions with law firms, including Ashurst.

Ian Saines
Chief Executive, Funds Management

Ian is responsible for the Funds Management business and joined Challenger in 2015. Prior to Challenger, Ian held senior executive positions with the Commonwealth Bank of Australia.

Richard Willis
Chief Risk Officer

Richard is responsible for establishing and maintaining Challenger's risk management framework and joined Challenger in 2003. Prior to Challenger, Richard held senior positions with Zurich Capital Markets and Bankers Trust.

Paul Rogan
Chief Executive, Distribution, Marketing and Research

Paul is responsible for coordinating Challenger's distribution, marketing and research activities across both Life and Funds Management. Paul joined Challenger in 2005, and held previous roles in Challenger including Chief Financial Officer. Prior to Challenger Paul held senior positions at Lend Lease and NAB.

Rob Woods
Chief Executive, Strategy and Mergers and Acquisitions (M&A)

Rob is responsible for Challenger's strategy and M&A activities and joined Challenger in 2003. Rob's previous Challenger roles include Chief Executive of both the Life and Funds Management businesses. Prior to Challenger, Rob held senior positions with Bankers Trust.

Funds Management case study: Australian retail property portfolio

Challenger is one of Australia's largest commercial property managers. We manage a range of office, retail and logistics properties.



Property is an ideal asset to provide long-term rental incomes, which the Life business uses to meet its obligations to annuitants and provide regular income payments to its retiree customers. The Funds Management business manages a \$1.8 billion retail property portfolio on behalf of the Life business, and a total of \$4.6 billion of properties on behalf of the Life business and third-party clients.

Globally we are in a low interest rate environment, which is driving increased demand for higher returning assets, such as Australian commercial property. Challenger is partnering with a range of global sovereign wealth funds and institutional investors to buy and manage high-quality Australian properties including retail shopping centres. This is growing our third-party income whilst expanding our property management business.

Did you know?

Challenger touches the lives of millions of Australians every week, be they employees, customers or members of the community that use the shopping centres and office buildings which form part of our investment portfolio.

Shopping centres are no longer just a place to shop, they are becoming a key activity centre bringing communities together and providing invaluable community services.

As our business grows we have been actively acquiring shopping centres for both the Life business and third party investors. Over the past five years we have acquired \$1.6 billion of shopping centres right across the country. We own a number of well-known shopping centres, which might include one near you.



FIDANTE PARTNERS collaborates with boutique fund managers. Fidante Partners takes responsibility for distribution, administration and business support, leaving the boutique fund managers to do what they do best, manage investment portfolios.

Fidante Partners boutique fund managers invest across domestic and international equities, fixed income and alternative investments.

Equity managers



Fixed income managers



Alternatives managers



Life case study: annuities via platform

A 'game changer' for retirement advice.

Over the past year we have developed a digital capability that is facilitating our award winning annuity products being available from Australia's leading superannuation funds and investment platforms. This important strategic initiative is part of a growing superannuation industry trend to make retirement income options more readily available.

Annuities via platform are a game changer for advisers as it improves the ease and accessibility of delivering retirement income solutions to their clients, helps advisers meet client needs in managing market, inflation and longevity risks and facilitates retirement portfolio construction by combining account-based pensions with annuities to manage retirees' concerns of outliving their savings.

In August 2015 we launched a strategic initiative with Colonial First State, the country's largest investment platform provider. Challenger annuities are now available alongside other financial products.

“Overwhelmingly it's been really positive from the planners and it's very much what the market has been crying out for, that it's not about one product solution.”

– Peter Chun
General Manager, Product & Investments, Colonial First State

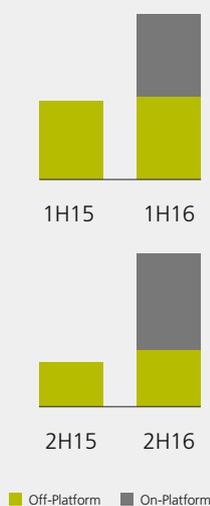
We also formed a ground-breaking partnership with VicSuper, creating a lifetime annuity tailored to the needs of its member base. By combining Challenger annuities with their account-based pension products, VicSuper has effectively created Australia's first Comprehensive Income Product for Retirement.

These digital initiatives not only facilitate better retirement options for Australia's retiring baby-boomers, but also expand our distribution base by bringing annuities into the mainstream.

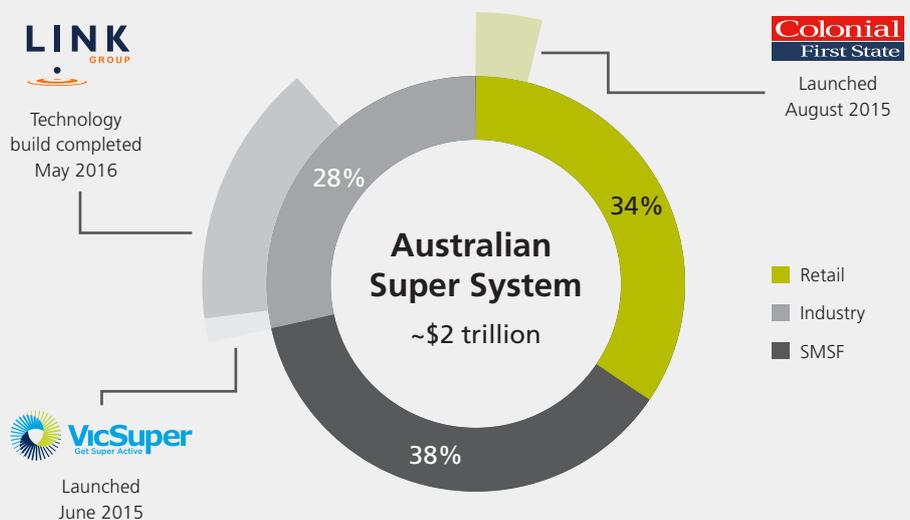
We are also rolling out these digital initiatives across the industry fund superannuation segment, with a partnership with the Link Group, who service the needs of 10 million Australian superannuation fund members. There has already been strong interest from Link's industry fund clients who want to be among the first to make Challenger annuities available to their members. Local Government Super launched Challenger annuities through the Link Group in July 2016 and legalsuper and caresuper are targeted to launch in Q1 2017. Between them these funds have 400,000 members who will now be able to access our annuity products.

These digital initiatives are making it easier for retirees to access guaranteed retirement incomes that last as long as they do. They are also delivering increased sales volumes for Challenger, with a 100% increase in Challenger annuities sold via the Colonial First State hub in the 2016 financial year.

Growth in Colonial First State and VicSuper annuity sales



New platform opportunities provide access to 1/3 of super industry¹



1. Represents either funds under administration/funds under management for each platform/super fund. For CFS, estimated that 70% of total FirstChoice and FirstWrap FUM (\$95bn) is in superannuation products. Total super system FUM excludes public sector and corporate segments.

Our sustainability commitment

Today we live in a world where people are living longer due to advances in medical treatments and healthier lifestyles. More than 700 people reach retirement age every day in Australia and we're just a few years into a 20-year baby boomer retirement cycle.

The ageing population trend poses significant economic and social policy challenges for Australia, which our business model addresses. Our vision to provide our customers with financial security for retirement is at the heart of Challenger's sustainability agenda.

Industry leadership and policy reform

Challenger has for many years been a staunch advocate of policy reforms that allow people to use their superannuation savings to create long

term, sustainable incomes. Our advocacy takes place through a range of political meetings, participation in policy forums and providing media commentary on issues concerning retirement risk.

Challenger was pleased with the Commonwealth Government's announcement in the May 2016 Budget that it would implement a series of reforms to ultimately expand the availability of a new range of lifetime income products for retirees. Challenger is committed to playing an active role in the development of these reforms.

Progressing environmental sustainability

We recognise that every business can play a role in addressing climate change and environmental degradation, regardless of its size and scale. Challenger measures and discloses climate change information annually through the Carbon Disclosure Project (CDP) – an international benchmark recognised as the most credible sustainability rating in the world. We also continued our commitment to reducing the environmental impact of property – both the buildings we occupy and the buildings we own. In early 2016, Challenger moved its head office to

a new five-star NABERS rated building in Sydney which will further reduce our carbon footprint.

Responsible investment

During the 2016 financial year, Challenger became a signatory to the United Nations Principles for Responsible Investment (UNPRI). This obligates us to consider environment, social and governance factors and integrate these factors into our investment and ownership decisions.

Challenger carbon neutral in 2016

In excess of 5,700 tonnes of CO₂ offset, equivalent to 1,200 return flights to London.

Our full commitment to sustainability is outlined in our Sustainability Report and can be viewed at:

 challenger.com.au/sustainabilityreport



Our brand journey

Our advertising campaign

In February 2016, Challenger launched our third national consumer advertising campaign targeting Australians who are on the cusp of retirement or are already retired.

The 'Lifestyle Expectancy' campaign shines a spotlight on the three inherent fears retirees have in retirement: the fear of outliving savings, the rising cost of living and share market volatility.

The campaign has been brought to life by three television ads which show how retirement lifestyles can suffer if retirement savings run out, and print ads which use an "expiry date sticker" to warn that a comfortable retirement lifestyle may not last forever.



Results

Will you be able to maintain a comfortable lifestyle in retirement?

According to the Association of Superannuation Funds of Australia (ASFA) Retirement Standard, the guideline for a person aged around 65 to maintain a comfortable lifestyle is \$43,184 per year. The income needed to fund this lifestyle includes Age Pension payments where applicable, and presumes the retiree to be healthy and involved in a range of recreational activities and hobbies. See what's included in this guideline. Based on the inputs you've provided within this tool, there's a 95% chance that you will not be able to maintain this level of income in retirement.

Low risk High risk

95%

Lifestyle risk assessment

Would you like to know about ways to help manage risks and reduce your chance of running out of money in retirement?

If yes, download your detailed PDF report.

An automatically generated PDF with a detailed summary of these results will be sent to the email address you've provided. If you have chosen to sign up for updates from Challenger, your information will be stored for future marketing purposes. We will never sell your information to third parties. View our privacy policy.

Name

Email address

Postcode

Do you consult a financial planner about your investments?

Yes No

Yes, I would like to receive updates from Challenger

Consumers are invited to visit a dedicated campaign website where they can 'discover their lifestyle expectancy' using our lifestyle expectancy tool; and learn more about Challenger annuities.

www.challenger.com.au/lifestyle-expectancy

In the first ten weeks of the campaign, our ads were seen by 53%¹ of our target retiree audience. The advertising stood out positively in consumers' minds according to 63%¹ who said it was different to other advertising, and 55%¹ who said it made them interested in finding out more about Challenger or annuities.

As a result of our advertising over the last five years, Challenger has built up a strong presence in the market with growing

brand awareness. Prior to the launch of our first campaign in 2011, prompted brand awareness was at 13%. The success of our advertising campaigns since have bolstered our brand positioning, lifting our prompted awareness to 57% (May 2016).

More retirees than ever before are asking about annuities, as evidenced by a recent survey of financial advisers who reported that 47%² of their clients had enquired about an annuity.

Challenger is highly regarded by financial advisers, who overwhelmingly describe Challenger as a leader in retirement income and have a high degree of familiarity with our products.

A look at our brand journey



2011 'Real Stories' campaign

Challenger's inaugural 'Real Stories' campaign in 2011 raised awareness of the risks of retirement investing following the Global Financial Crisis, whilst also relaunching Challenger's brand to the consumer market.



2013 'Retirement on Paper' campaign

Challenger launched the 'Retirement on Paper' campaign in 2013 with the aim of educating Australia's retiring baby-boomer market about three core benefits of annuities: security, certainty and control, concurrently raising awareness of the Challenger brand.



2016 'Lifestyle Expectancy' campaign

Challenger's newest campaign launched in February 2016, and responds to the three inherent fears retirees have in retirement: the fear of outliving savings, the rising cost of living and share market volatility. The campaign shines a spotlight on how outliving savings can impact a retiree's lifestyle in retirement.



1. Marketing Pulse Adviser Study.
 2. Wealth Insights Fund Manager Survey 2016.

Our people

Challenger's 600 plus employees are highly engaged and are the single biggest contributor to our success. We recognise this by providing development and diversity programs to help our people to be their best in the workplace. Regular recognition is given to employees who demonstrate the Challenger Principles.

The Challenger Principles

Challenger has five principles integral to our culture and linked to everything we do.

Integrity

Being authentic and accountable for what we say and do.

Commercial ownership

Achieving the best for the client, the business and employees.

Working together

True collaboration and embracing diversity.

Compliance

Being responsible for how and what we do.

Creative customer solutions

Superior customer service and providing innovative solutions to clients.

Record engagement scores

Our annual 'Your Voice' survey is our key indicator of employee engagement. Conducted by Willis Towers Watson, the 2016 survey scored sustainable engagement at 88%. One of the most significant results was 90% of people said they would recommend Challenger as a good place to work. Overall, the results showed we were above the Australian national norm in all 17 categories surveyed including customer focus, diversity and flexibility as well as career and development. We were also above every global financial services benchmark.

Developing and recognising our employees

The way in which Challenger develops the careers of its employees and recognises their achievements is a major driver of engagement.



'Making a Difference', our employee recognition program, encourages everyone at Challenger to recognise a colleague or team with an average of more than 300 instances of recognition made every month. We've also made significant investment in developing Challenger's future leaders. Numerous managers attended Challenger's customised leadership program delivered by the Australian Graduate School of Management.

Diversity in Leadership

Challenger is giving substantial focus to improving the representation of women within its most senior ranks. The Board and senior leadership team monitor gender diversity targets on a monthly basis and specific targets have been set to increase the number of female leaders within the organisation.

Caring for our employees

Protecting the wellbeing of our employees occurs through a range of programs and initiatives. Approximately 95% of employees believe Challenger cares about health and safety in the workplace.

Challenger also partners with BeyondBlue and other organisations to increase the awareness and understanding of mental health and has a zero tolerance approach to discrimination, harassment and bullying at work.

To support new parents, employees who are primary care givers to newborns receive 12 weeks paid parental leave or two weeks paid leave if they are the secondary care giver. Challenger also covers superannuation entitlements over the parental leave period, resulting in a material uplift in superannuation balances upon retirement.



Our history

- 1985:** Challenger International Limited established
-
- 1987:** Challenger International Limited lists on ASX
-
- 1992:** Australia's compulsory superannuation system begins
-
- 1997:** Challenger enters annuities market following acquisition of Equity Life Limited
-
- 2003:** Merger between Challenger International and CPH Investment Corporation
Name changed to Challenger Financial Services Group Limited
Acquires Interstar Securities (Mortgage Management business)
-
- 2005:** First Funds Management boutique added
-
- 2006:** Standard & Poor's assigns an 'A' Insurer Financial Strength rating to Challenger Life
-
- 2009:** Strategy focused on retirement savings (Funds Management) and retirement spending (Life)
Mortgage Management business sold
-
- 2010:** Name changed to Challenger Limited
-
- 2014:** Equity raise and launch of Challenger Capital Notes to support growth
-
- 2015:** Partnerships with Colonial First State and VicSuper
Winner of Plan for Life Annuity Provider of the Year (2008 to 2015)
Fidante Partners Europe established following Dexion Capital acquisition
Fidante Partners Professional Planner / Zenith Distributor of the Year
-
- 2016:** Seventh largest Australian fund manager¹ – \$60 billion in AUM
Australia's leading annuity provider²

Our awards



Additional information

Principal place of business and registered office in Australia

Level 2
5 Martin Place
Sydney NSW 2000
Telephone: 02 9994 7000
Facsimile: 02 9994 7777

Company secretaries

Michael Vardanega
Andrew Brown

Website

 challenger.com.au

Manage your shareholding at Computershare Investor Services

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000
Telephone: 02 8234 5000
 computershare.com.au
Telephone: 1800 780 782

Go electronic

Challenger can deliver all of your shareholder communications electronically, just update your details via Computershare Investor Services.

Online digital version of this review

The 2016 Annual Review is available at:
 challenger.com.au/annualreview2016

Challenger Limited ABN 85 106 842 371.

Unless otherwise specified, all amounts are in Australian dollars.

The information, including all amounts, in this Annual Review is current as at 30 June 2016.

This Annual Review is not financial product advice, investment advice or a recommendation to acquire Challenger's securities and has been prepared without taking into account your objectives, financial situation or needs. This document is not, and should not be considered as, an offer or an invitation to acquire securities in Challenger or any other financial products.

