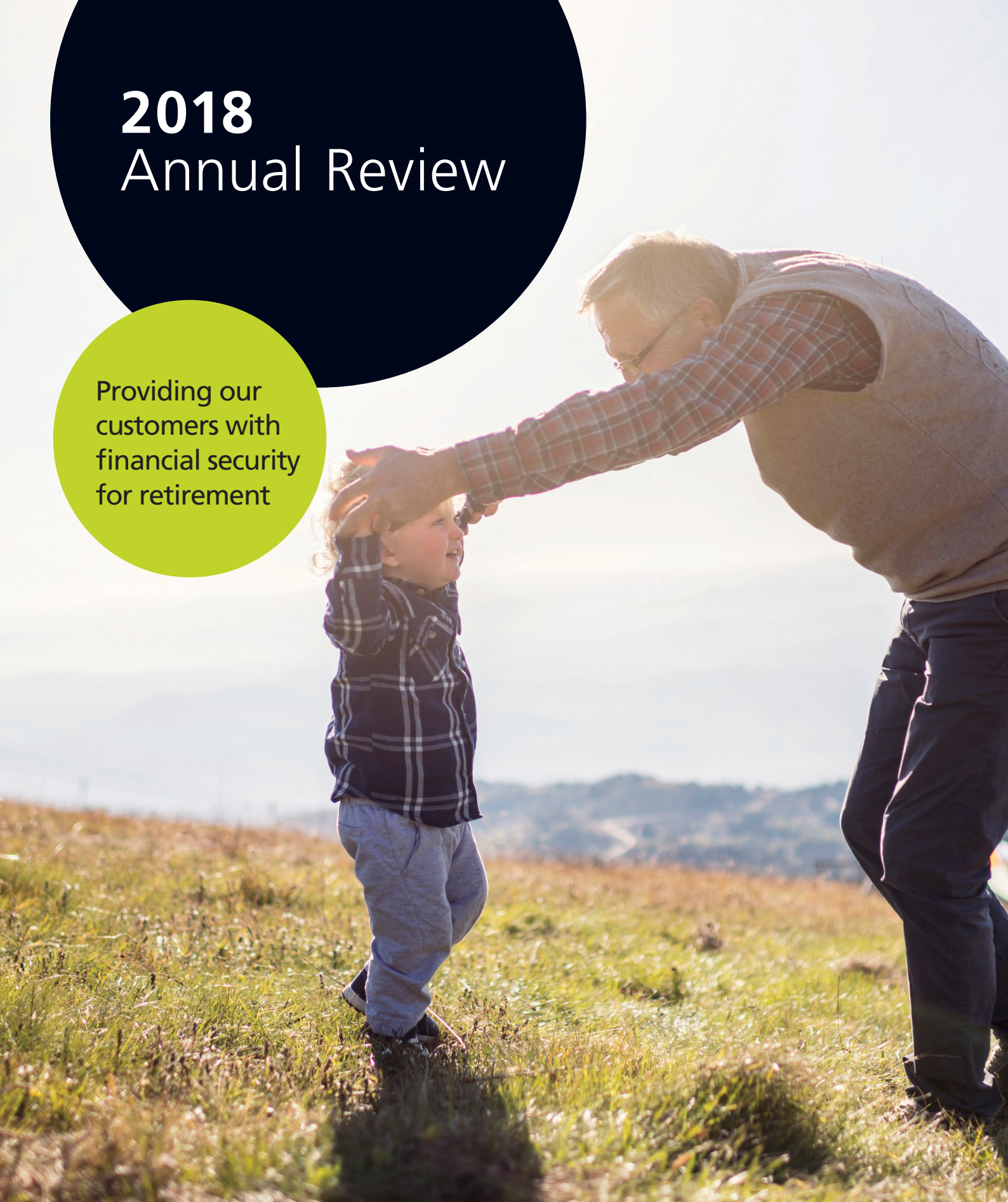


2018 Annual Review

Providing our
customers with
financial security
for retirement



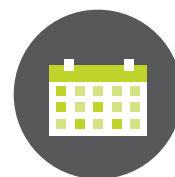
challenger.com.au

Challenger Limited ACN 106 842 371

challenger 

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Key dates

26 September 2018

Final dividend payment date

26 October 2018

2018 Annual General Meeting

12 February 2019

Half-year financial results

26 March 2019

Interim dividend payment date

13 August 2019

Full-year financial results

25 September 2019

Final dividend payment date

31 October 2019

2019 Annual General Meeting

Full listing of key dates available at

› challenger.com.au/share/keydates

Dates may be subject to change

About this Review

This Annual Review provides information about your company in an easy-to-read document. Included in the Annual Review is a performance update, reports from the Chair and the Chief Executive Officer, and information on the environmental, social and governance matters that affect your company.

All numbers as at 30 June 2018 unless otherwise stated.

The 2018 Annual Review can be viewed online at:

› challenger.com.au/annualreview2018

Annual Report

The 2018 Annual Report, including the financial report for the year ended 30 June 2018, can be downloaded from Challenger's online Shareholder Centre at:

› challenger.com.au/annualreport2018

Sustainability Report

The 2018 Sustainability Report can be viewed online at:

› challenger.com.au/sustainabilityreport2018

Corporate Governance Report

The 2018 Corporate Governance Report can be viewed online at:

› challenger.com.au/corporategovernance2018

Annual General Meeting

Location

Wesley Centre
220 Pitt Street
Sydney NSW

Date

26 October 2018

Time

9.30am (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 2018.

2018 highlights

16%
INCREASE
IN ASSETS UNDER
MANAGEMENT

MS&AD
STRATEGIC
RELATIONSHIP
FORMED

ENHANCING
SUSTAINABILITY
APPROACH
FTSE4GOOD SCORE UP
52%¹

#1
RETIREMENT
INCOME BRAND²

35.5
cents
FULL YEAR
DIVIDEND
100% FRANKED

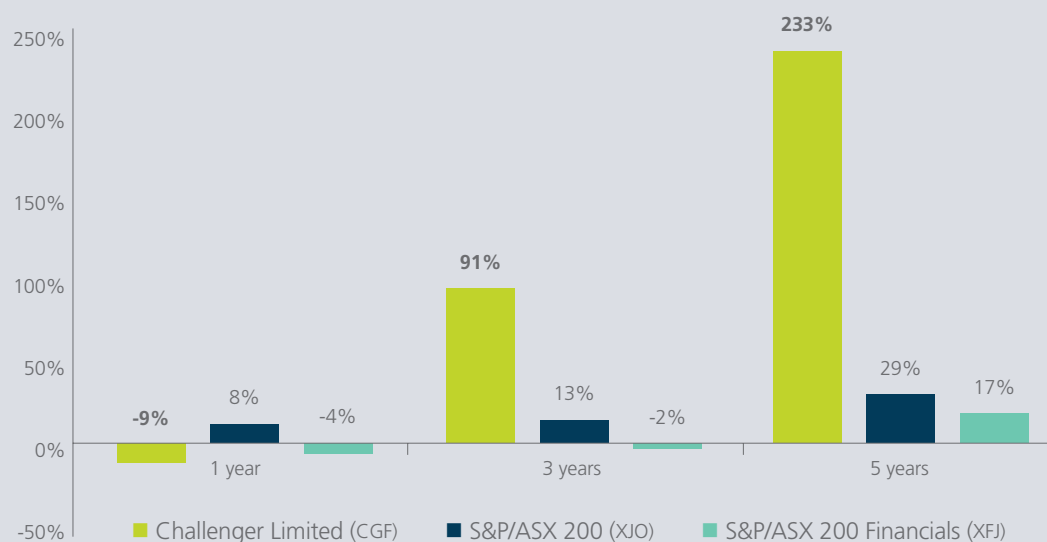
EMPLOYER
OF CHOICE FOR
GENDER
EQUALITY³

¹ FTSE4Good Index Status and Environmental Social Governance (ESG) Rating (June 2018) increased 52% over the last two years.

² Adviser Marketing Pulse Adviser study.

³ Workplace Gender Equality Agency (WGEA) 2017-18 WGEA Employer of Choice for Gender Equality.

Total shareholder return – to 30 June 2018



Superior long-term shareholder returns (share price appreciation and dividends)

About us

Challenger is an investment management company with a vision to provide customers with financial security for retirement. It was established in 1985 and is listed on the Australian Securities Exchange (ASX).

Challenger has two businesses, Life and Funds Management. Both provide products for Australia's fast-growing superannuation system, and are expanding into international markets.

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



#1 market share in annuities¹



One of Australia's fastest growing active fund managers²



Retirees

Life focuses on the retirement spending phase of superannuation by providing products that convert retirement savings into safe and secure income.



Pre-retirees

Funds Management focuses on the retirement savings phase of superannuation by providing products seeking to deliver superior investment returns.

¹ Strategic Insights annuity market share March 2018.

² Consolidated Funds Under Management (FUM) for Australian fund managers – Rainmaker Roundup (March 2012 to 2018).

Chair report



It has been a year of great progress for Challenger. Your company has continued to achieve solid growth in assets and profitability and maintained a strong capital position and rigorous focus on risk management.

Our ongoing performance, outlined in the CEO's report and detailed further throughout this Review, enabled the Board to increase the full-year dividend to 35.5 cents a share.

Challenger has strong business momentum and is well positioned for the next phase of growth.

An important element of this and a key driver of these results has been the broadening of our product range and expansion of our distribution activities in both Life and Funds Management.

Improving outcomes for Australian retirees

Challenger has a clear vision to provide our customers with financial security for retirement. This year we have seen significant industry and regulatory progress that supports this vision. I'm particularly encouraged that products that provide secure and reliable income are becoming more mainstream.

This will be further enhanced by the Government's retirement income framework announced in the Federal Budget which places more focus on the role of superannuation funds in providing members with reliable income for life. In addition, new social security means test rules due to come into effect on 1 July 2019 provide a strong foundation to further grow the use of lifetime income products.

These are positive developments that will help ensure that lifetime income products are an option for more Australians in retirement.

Corporate governance

Strong corporate governance practices are essential for sustainable business performance, and ensuring that we have a highly effective Board is critical. In December 2017, we welcomed two new independent Non-Executive Directors to the Board, Melanie Willis and John Green. These high calibre appointments reflect the success of our Board renewal process, ensuring that we continue to have a diverse and high performing Board with a strong mix of skills, experience and tenure.

Brenda Shanahan and Jonathan Grunzweig retired from the Board in October 2017 and December 2017, respectively. Both brought valuable insight and dedication to the Board over many years, and I thank them for their service.

Reflecting our commitment to strong corporate governance, this year you will find additional detail about our approach and actions in our Corporate Governance Report, and I encourage you to read this on the Challenger website.

Corporate sustainability

Corporate sustainability is an integral part of how we do business and this year the Board approved a refined corporate sustainability strategy based on:

- 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; and
- financially resilient customers and communities.

Our 2018 Sustainability Report provides detailed information about how we are addressing the environmental, social and governance risks and opportunities we see for our business.

One of our competitive advantages at Challenger is our highly engaged team. An essential part of that engagement is the progress we are making in ensuring a diverse and inclusive workforce, a commitment that has been recognised with Challenger's citation as an employer of choice by the Workplace Gender Equality Agency.

There has been significant focus on Government policy areas that affect retirees over the last year

On behalf of the Board, I would like to thank the entire Challenger team for their hard work and dedication which has led to another successful year for your company.

As a Board, our aim is to deliver sustainable returns for our shareholders and build a solid foundation for future growth. I am confident we are well on track.

Peter Polson
Independent Chair

CEO report



Challenger has continued to build momentum in the 2018 financial year, and is ideally positioned to capture the excellent growth opportunities we see in the future.

2018 performance

Strong growth in assets under management (AUM), was a highlight of the year, increasing 16% or \$11.1 billion to more than \$81 billion. Over the past five years, AUM has increased by more than \$36 billion, reflecting significant growth in Life sales and very strong funds flow into our Funds Management business.

Normalised net profit after tax (NPAT), our key measure of profitability, increased by 6% to \$406 million. Excluding a one-off fee in the prior period, normalised NPAT was up 8%. Statutory net profit after tax was \$323 million, and includes mark-to-market gains and losses on our investment assets and policy liabilities.

Driving these results is our success in expanding our customer base by diversifying our products and distribution activities in Australia and internationally.

In our Life business, we achieved book growth of \$1.8 billion, up 37%. New product and distribution initiatives introduced in recent years, including CarePlus for retirees moving into aged care, our new institutional Challenger Index Plus Fund and our Japanese partnership, contributed significantly to this outcome.

Similarly, strong net flows of \$5.3 billion in our Funds Management business were driven by our diverse boutique offerings and strong performance outcomes, with 91% of funds under management outperforming benchmarks for the year.

As part of broadening a key strategic relationship with MS&AD, the parent company of our Japanese annuity partner Mitsui Sumitomo Primary Life Insurance Company, we further strengthened our capital position with a \$500 million equity placement to MS&AD.

I'm pleased to note that S&P Global Ratings affirmed its ratings¹ for Challenger and revised the outlook from stable to positive due to our expanded distribution network and leadership in annuities, which strengthens the quality and resilience of underlying earnings.

Well positioned for future growth

Throughout FY18, we have remained diligently focused on implementing our strategy for growth. This strategy has enabled us to build strong momentum across our business, and we will continue to build on this in FY19 as we position our business to capture the significant opportunities we see ahead.

We remain focused on extending our market reach, making our annuities available through a range of investment and administration platforms. Access to annuities on platforms makes it easier and more efficient for financial advisers to recommend annuities to their clients. This year, we launched on the AMP platform and as a result we have seen an increase in the number of advisers writing our annuities and a greater focus on lifetime annuities. We are now ready to launch on the BT Panorama platform early in the new financial year. When complete, our Life products will be available to two thirds of Australian financial advisers via platforms.

We are currently preparing for the introduction of new means test rules from July 2019 which will enable us to realise the benefits of regulations designed to support a wider range of lifetime income stream products. Further strengthening our approach, we have undertaken detailed research with customers and financial advisers to ensure that our offerings meet their needs.

Underpinning our business growth, we continue to apply our disciplined asset allocation framework, and as a result we are currently refining our asset mix, with a strong focus on risk, optimising our return on equity and ensuring that we are well placed to fund our future growth.

We've also built strong momentum as one of the fastest growing active fund managers in Australia. Our Fidante Partners stable of boutique managers added two US-based fund managers and six new strategies in FY18. Fidante is also now ready to launch Australia's first active fixed income exchange traded funds early in FY19, appealing to a much wider range of customers.

Throughout FY18, we have remained diligently focused on implementing our strategy for growth

Challenger has a highly differentiated business model that gives our business considerable resilience and competitive advantage in high growth markets. We are in good shape to continue to deliver strong returns for shareholders.

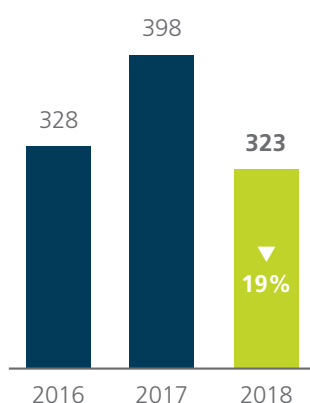
Brian Benari

Managing Director and Chief Executive Officer

¹ Challenger Limited is rated BBB+ and Challenger Life Company Limited is rated A by S&P Global Ratings.

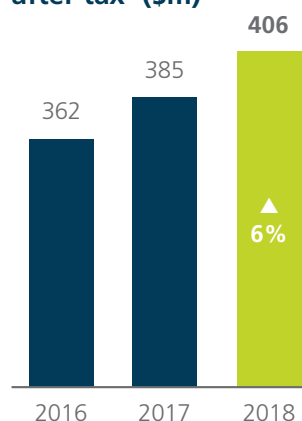
2018 financial performance

Statutory net profit after tax (\$m)



Statutory profit impacted by mark-to-market adjustments and significant items

Normalised net profit after tax¹ (\$m)



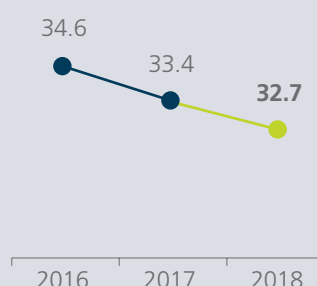
Preferred measure of underlying business performance and benefiting from strong AUM growth

Normalised ROE² (pre-tax) (%)



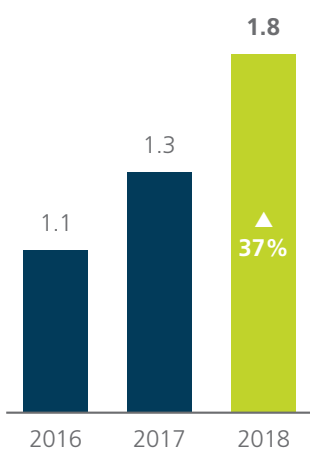
Normalised net profit before tax generated on shareholder capital with 2018 impacted by MS&AD placement

Normalised cost to income ratio (%)



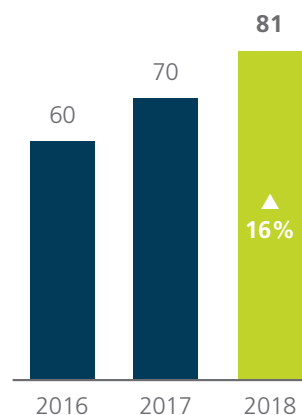
Excellent operating efficiency with record low cost ratio (expenses divided by income)

Life net flows (\$bn)



Record book growth (Life sales less capital payments to annuitants)

Group assets under management (\$m)



Strong growth in the value of assets managed by Challenger

¹ The normalised profit, which is not statutory profit, is not audited but subject to a review by Challenger's auditor. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2018 Annual Report – Operating and Financial Review section.

² Return on Equity (ROE).

Life business

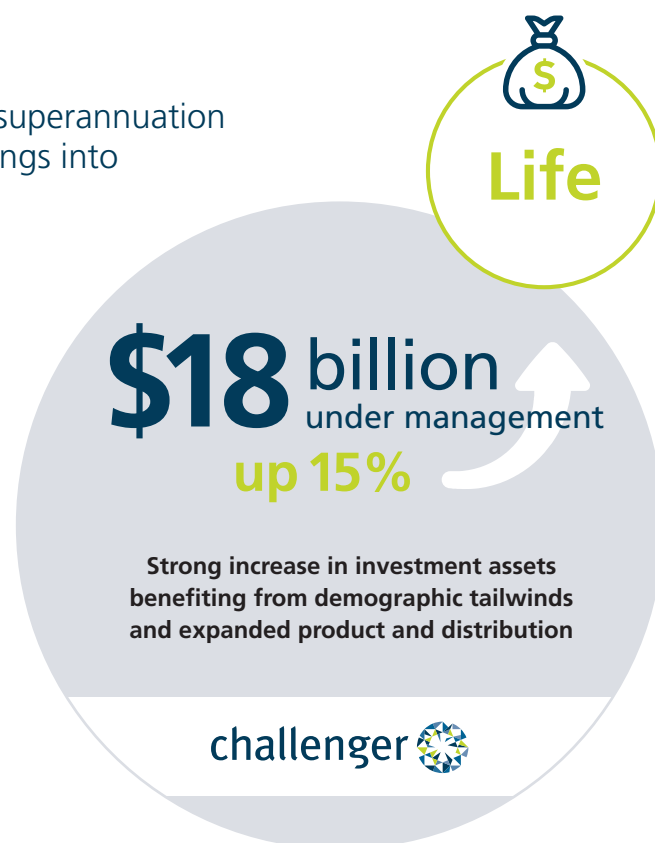
Life focuses on the retirement spending phase of superannuation by providing products that convert retirement savings into safe and secure income for life.

As Australia's largest annuity provider, we provide guaranteed¹ incomes to over 75,000 policyholders. Our annuity products appeal to retirees because they provide security and certainty of guaranteed income while protecting against risks from market downturns and inflation. Our lifetime annuities protect retirees from the risk of outliving their savings by paying guaranteed income for life.

The retirement incomes we pay are backed by a high-quality investment portfolio, predominantly in fixed income and commercial property investments. These investments generate regular and predictable investment income which we use to fund retirement incomes paid to our customers. Investments are managed by internal teams, Challenger Investment Partners and external asset managers.

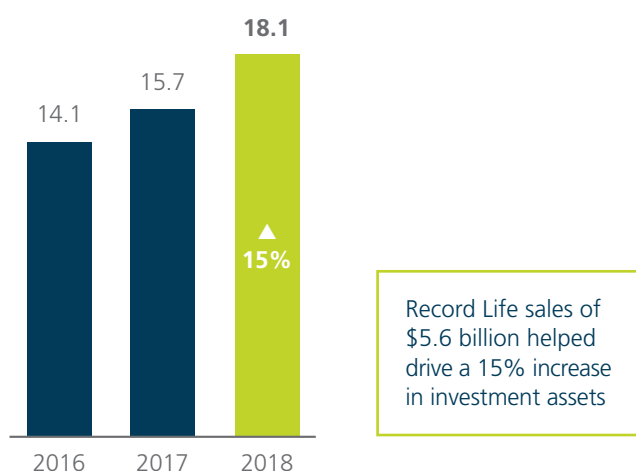
We continue to diversify into new products and expand our distribution, which is growing the size of our business. We also consistently apply a strong risk management approach to investing.

Chris Plater – Chief Executive, Life

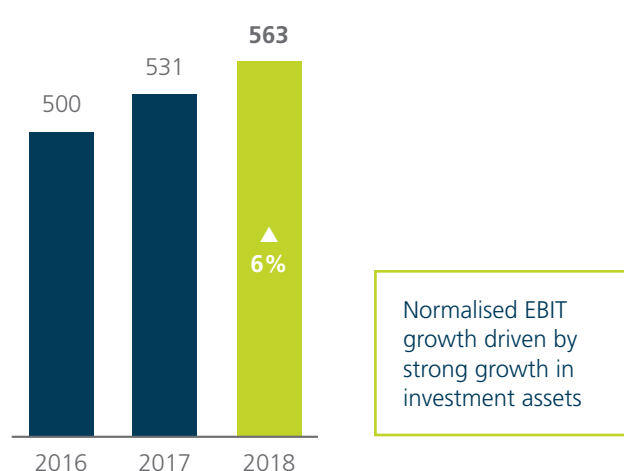


2018 financial performance

Investment assets (\$bn)



Normalised EBIT² (\$m)



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

² Earnings before interest and tax (EBIT).

Enhancing the retirement phase of Australia's super system



Australia's modern superannuation system started in 1992 and is now the fourth largest pension system globally. It is worth around \$2.6 trillion today. This growth is expected to continue, with Australian super assets forecast to double over the next 10 years¹.

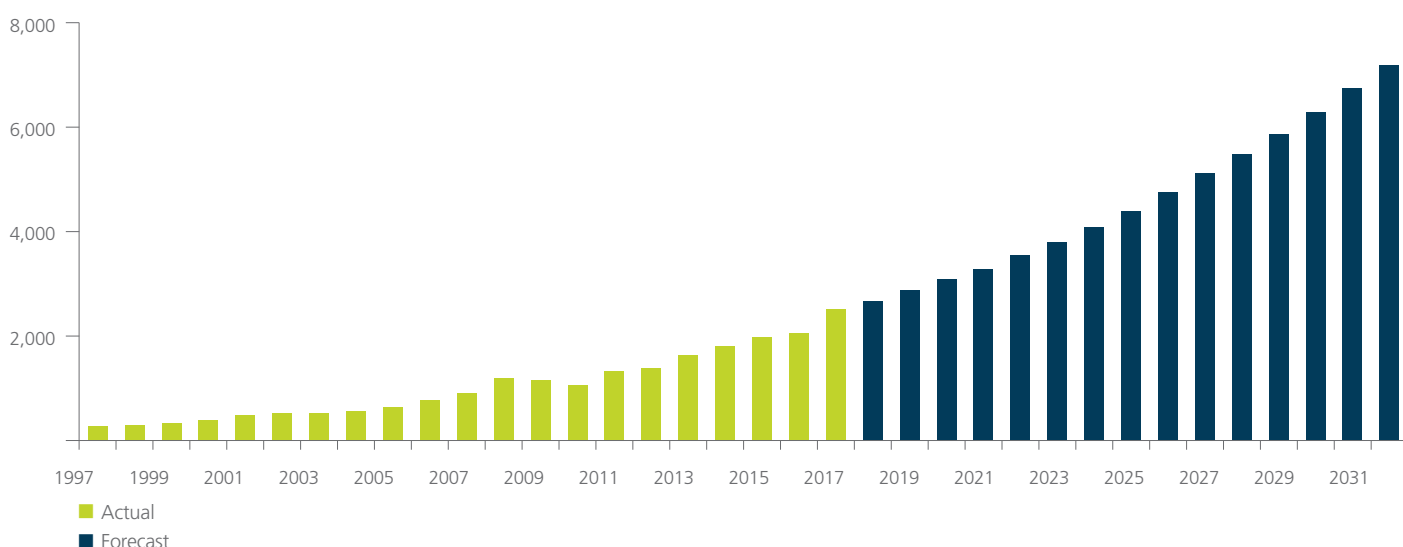
The super system is successful at what is essentially the first part of its job – helping Australians build savings for their retirement. Australians now have meaningful super balances when they retire, with the median being over \$250,000². Despite the system only being in place for half the working life of today's retirees, it is starting to make a significant difference so that six out of 10 retirees provide for themselves, either fully or in part, rather than receiving a full Age Pension.

Today's retirees are not only more self-reliant, they are also living longer, with those turning 65 expected to live on average to 87 for men and 90 for women. This means that half of these retirees will live beyond those ages. While the super system continues to be effective in accumulating assets, it has reached a stage where the retirement phase needs further development.

The Government has responded by implementing reforms to enhance the retirement phase of super. It has introduced new rules that enable the creation of a wider range of retirement income products and is in the process of developing a new Retirement Income Framework for superannuation.

The Government reforms are designed to enhance the retirement phase and better align it with the overall objective of the superannuation system – providing income in retirement to substitute or supplement the Age Pension. These reforms provide a significant opportunity to increase the proportion of retirement savings invested in lifetime incomes, including annuities.

Australian superannuation growth³ (\$bn)



¹ Rice Warner superannuation projections.

² Australian Prudential Regulation Authority (APRA) June 2017.

³ 1997 to 2017: APRA data; 2018 to 2032: Rice Warner 2017 superannuation projections.

Funds Management business

Funds Management focuses on the retirement savings phase of superannuation by providing products seeking to deliver superior investment returns.

As one of Australia's fastest growing active fund managers, we invest across a broad range of asset classes including fixed income, commercial property and Australian and global equities. Over the years, our investment teams have developed strong long-term performance track records.

Challenger's Fidante Partners forms long-term alliances with talented investment teams to create, support and grow specialist funds management businesses. Fidante's deep experience in funds management, extensive investor networks and operational infrastructure enable investment teams to focus on what they do best, managing money.

Funds Management also includes Challenger Investment Partners (CIP), which originates and manages assets for leading global and Australian institutions, including Challenger Life. CIP is an institutional manager that works with clients on global opportunities, principally across fixed income and real estate investments. CIP's clients benefit from a broad product offering and market insights and in many instances co-invest with Challenger's Life business.

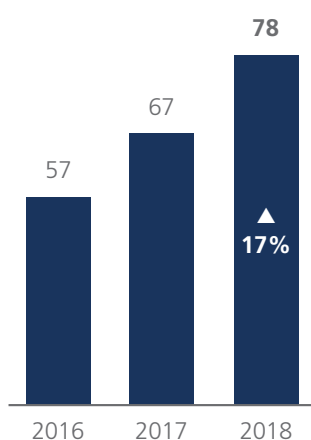


Strong FUM growth and performance fees drove a 28% increase in earnings.

Ian Saines – Chief Executive, Funds Management

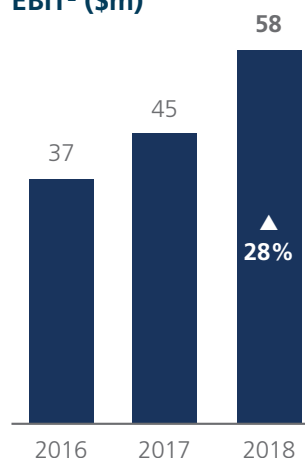
2018 financial performance

Funds under management¹ (\$bn)



Strong FUM growth supported by superior investment performance

Funds Management EBIT² (\$m)



Strong growth in earnings driven by FUM increase and performance fees

¹ FY16 represents organic net flows and excludes boutique acquisitions and disposals.

² Earnings before interest and tax (EBIT).

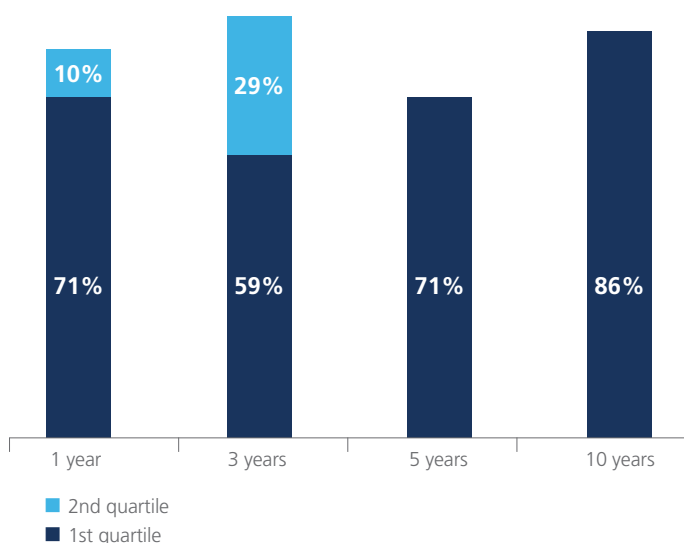
Boutique managers outperform

Boutique investment managers are recognised as high conviction investors who take more active exposures and achieve higher investment returns.

Australian boutique managers have a history of outperforming traditional fund managers in the medium and long term. Over the last 10 years, 86% of Fidante Partners' boutique manager funds have achieved either first or second quartile investment performance, which means the great majority of our funds are performing well above average.

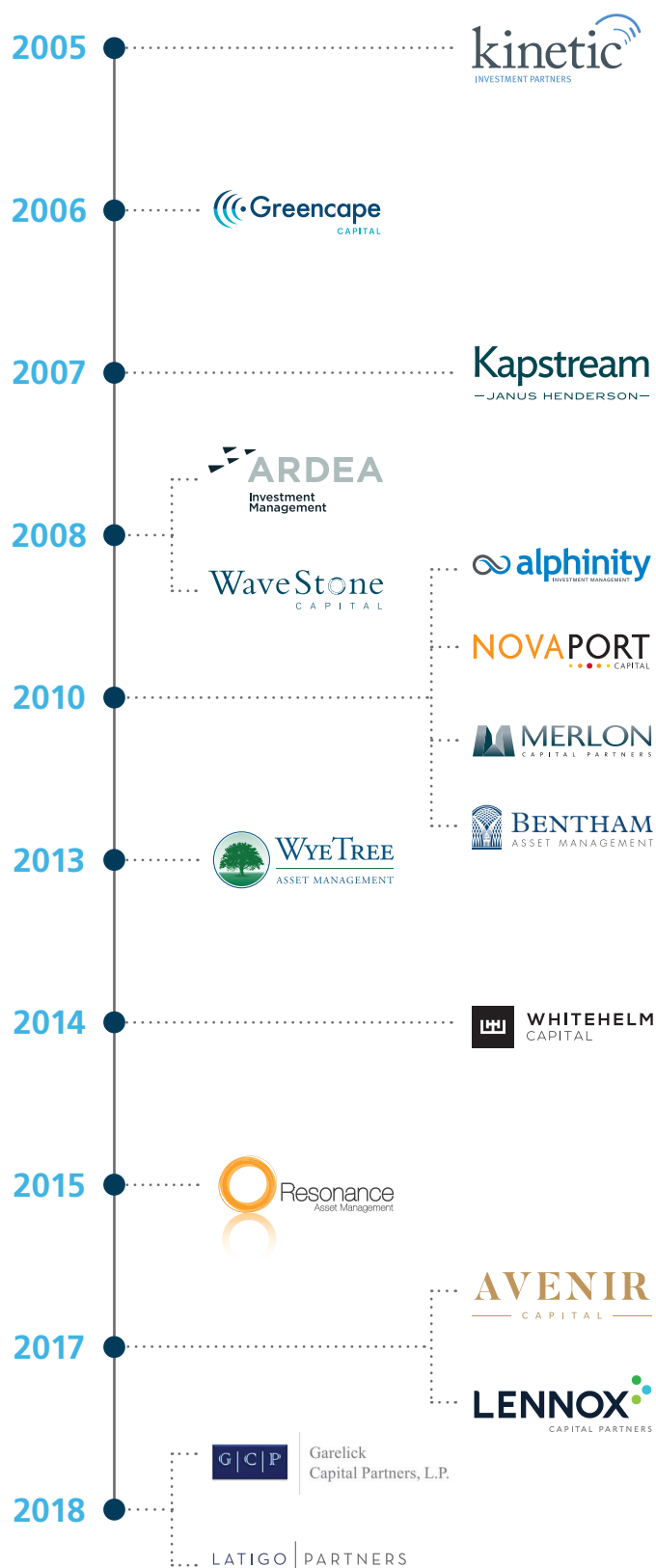
Our model and a strong track record of performance is attracting record inflows. Over the past five years, clients have invested over \$25 billion with us. Our superior boutique manager investment performance underpins these inflows and our growth.

Fidante Partners percentage of funds 1st or 2nd quartile¹



¹ Mercer as at June 2018.

Our boutique partnerships



Sustainability

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

This year we have identified our seven **most material matters**. You can find detailed responses to these in our 2018 Sustainability Report.

Conduct and trust

We live in an era where trust in institutions has declined. Earning public trust requires us to set and maintain high standards of conduct and transparency.

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.

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.

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

Regulations, new technology and new entrants are challenging the established approach to financial products and services. Market structures, including changes to existing business models, create challenges and opportunities 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.

Responsible investment

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

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.

In Australia, a key ongoing priority is to make Challenger annuities readily available through superannuation and investment 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 support them with education and tools, complemented by our strong brand presence.

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 targeted in our education programs, helping empower more customers to plan for financial security for retirement.

This year we've undertaken a detailed customer research program to help understand the preferences of existing and future customers.

Our people and workplace

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

We track employee engagement formally through an engagement survey and complement this with feedback gathered at employee events, discussions and forums.

In our 2017 survey, our overall sustainable engagement score was 88%, placing us well above the Australian National Norm, the Global Financial Services Norm and the Global High Performing Companies Norm.

A focus on gender diversity

Challenger is committed to achieving gender equality. This commitment reflects our strong organisational culture and positions us to attract and retain the best people.

In March 2018, we were awarded an Employer of Choice for Gender Equality citation by the Workplace Gender Equality Agency. This citation provides valuable public recognition of our commitment to gender equality.



Community engagement

We aim to contribute to the prosperity of the communities in which we operate, and partner with six charitable and not-for-profit organisations supporting a broad range of Australians.

Our community partners are:



Read more about these topics and our other important sustainability matters in our 2018 Sustainability Report
challenger.com.au/sustainabilityreport2018

Board of Directors



Peter Polson

Independent Non-Executive Director and Chair

Peter has been the independent Chair since 2004 and an independent Non-Executive Director since 2003. Peter is Chair of the Nomination Committee and a member of the Group Risk Committee, the Group Audit Committee and the Remuneration Committee.



Steven Gregg

Independent Non-Executive Director

Steven has been an independent Non-Executive Director since 2012, and is a member of the Remuneration Committee, the Group Risk Committee, the Group Audit Committee and the Nomination Committee.



Brian Benari

Managing Director and Chief Executive Officer

Brian has been Challenger's Managing Director and Chief Executive Officer since 2012 and was previously appointed Chief Financial Officer in 2008.



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 the Group Audit Committee, and a member of the Nomination Committee.



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, the Group Audit Committee and the Nomination Committee.



Melanie Willis

Independent Non-Executive Director

Melanie has been an independent Non-Executive Director since 2017, and is a member of the Group Risk Committee, the Group Audit Committee and the Nomination Committee.



John M. Green

Independent Non-Executive Director

John has been an independent Non-Executive Director since 2017, and is a member of the Group Risk Committee, the Group Audit Committee and the Nomination Committee.



Leon Zwier

Independent Non-Executive Director

Leon has been an independent Non-Executive Director since 2006, and is a member of the Nomination Committee.

Leadership Team

Brian Benari

Managing Director and Chief Executive Officer

Natalie Nicholson

Chief Human Resources Officer

Michelle Taylor

Chief Executive, Corporate Affairs and Sustainability

Tony Bofinger

Chief Risk Officer

Chris Plater

Chief Executive, Life

Andrew Tobin

Chief Financial Officer

Richard Howes

Chief Executive, Distribution, Product and Marketing

Ian Saines

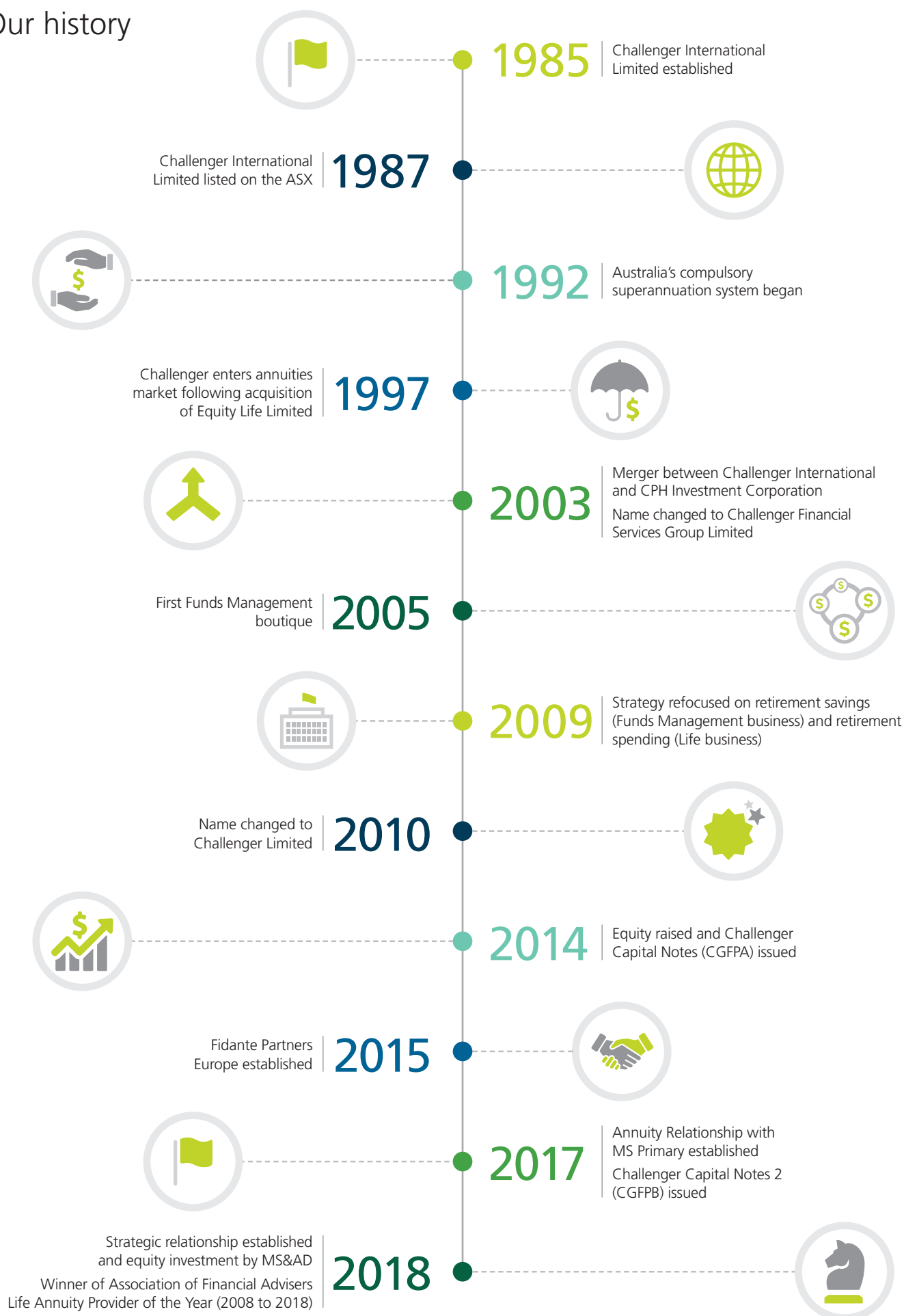
Chief Executive, Funds Management

Michael Vardanega

General Counsel and Chief Executive Group Strategy

**Full bios for
Directors and the
Leadership Team
available at
challenger.com.au**

Our history



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
› challenger.com.au

Company Secretaries

Michael Vardanega
Andrew Brown

Manage your shareholding at Computershare Investor Services

Computershare Investor Services
Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000
Telephone: 1800 780 782

Go electronic

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

› computershare.com.au

Unless otherwise specified, all amounts are in Australian dollars.

The information, including all amounts, in this Annual Review are current as at 30 June 2018, and unless stated otherwise, any comparison is based on the prior corresponding period.

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.