

CHALLENGER ANNOUNCES STRONG FIRST QUARTER PERFORMANCE

- Group assets under management of \$73.5 billion, up 5% for the quarter
- Total Life net book growth of \$523 million, up 57% on pcp
- Total Life sales of \$1.6 billion up 45% on pcp
- Annuity sales of \$1.1 billion, up 6% on pcp
- Strong contribution from long-term annuity sales
- Funds Management net flows of \$3.8 billion

Challenger Limited (ASX:CGF) today reported a significant increase in assets under management, driven by strong results in both Life and Funds Management in the September quarter.

Challenger's total group assets under management was \$73.5 billion at 30 September 2017, up 5% in the quarter.

Funds Management achieved strong positive flows across both Fidante Partners and Challenger Investment Partners of \$3.8 billion for the quarter. Fidante Partners' funds under management (FUM) increased by \$2.7 billion (5%) to \$53.7 billion.

Total Life net book growth was \$523 million for the quarter, up 57% on the prior corresponding period (pcp). Based on opening FY18 liabilities¹, Life net book growth for the quarter was 4.4%, compared to 3.1% in the pcp.

Total Life sales for the quarter were \$1,570 million, up 45% on the pcp. Total Life sales comprised annuity sales of \$1,097 million and Other Life sales of \$473 million.

¹ Life annuity book, Guaranteed Index Return (GIR) and Challenger Index Plus liabilities.

Annuity sales increased by 6% on the pcp and were up 17% on the June 2017 quarter. Long-term sales, being lifetime annuities and 20-year maturity MS Primary (Japanese) business, accounted for 38% of the September 2017 quarter sales, up from 29% in the pcp.

Challenger Chief Executive Officer Brian Benari said: “Challenger continues to demonstrate the strength of its Funds Management model. In the last three months alone we have increased funds under management by \$4 billion, positioning us as one of the country’s fastest growing asset managers.

“In our Life business, we’ve continued to focus on driving sustainable book growth with strong sales of long-term annuities, underpinning future performance. We will realise the benefits of this strategy as scheduled maturities continue to fall through 2018 and beyond.

“Our relationship with MS Primary in Japan continues to deliver strong results, materially contributing to our long-term sales for the quarter.

“We’ve also continued to expand our distribution reach in Australia, going live with our AMP platform arrangements in the quarter, which makes it easier for advisers to include annuities in clients’ portfolios. This is supported by AMP’s model portfolio allocation of 25% to a lifetime annuity.”

Funds Management

Fidante Partners’ FUM was \$53.7 billion, up \$2.7 billion or 5% for the quarter, comprising strong net inflows of \$2.3 billion and positive investment market movements of \$0.4 billion.

Challenger Investment Partners’ FUM was \$17.3 billion, up \$1.3 billion, or 8% for the quarter. Net inflows for the quarter were \$1.4 billion, driven by an increase in fixed income managed on behalf of the Life business due to book growth and the MS&AD equity placement.

Life

Total Life sales increased by 45% on the pcp to \$1,570 million, up from \$1,083 million. Total Life sales comprised annuity sales of \$1,097 million and Other Life sales of \$473 million, which were up from \$50 million in the pcp. Other Life sales were new mandates for

the Challenger Index Plus Fund, which was launched in the December 2016 quarter, and reinvestment of Guaranteed Index Return maturities.

Annuity sales for the September 2017 quarter were up 6% on the pcp. This comprised fixed term annuity sales of \$887 million and lifetime annuity sales of \$210 million. Fixed term sales include 20-year maturity MS Primary business. Lifetime annuity sales decreased by 29% on the pcp and were relatively unchanged from the June 2017 quarter (\$215 million). Lifetime annuity sales include Liquid Lifetime products and the CarePlus aged care product.

Total Life net book growth was \$523 million for the quarter, and increased by \$189 million or 57% on the pcp. Based on opening FY18 liabilities², Life net book growth for the quarter was 4.4%, compared to 3.1% in the pcp.

Annuity net book growth for the quarter was \$352 million, and increased by \$68 million or 24% on the pcp. Based on the opening FY18 Life annuity book, annuity net book growth for the quarter was 3.4%. Annuity net book growth for the quarter was supported by both strong sales growth and a lower rate of annuity maturities.

The annuity maturity rate for the quarter, which is determined by sales activity in prior periods, was 7% of the opening FY18 Life annuity book (8% in the pcp). Challenger continues to expect the maturity rate for FY18 to be approximately 25%. The maturity rate in the first half will be higher than in the second half, reflecting the seasonality of prior period sales and the reweighting to longer tenor sales following the commencement of the MS Primary annuity relationship in November 2016.

Life's investment assets at 30 September 2017 were \$16.5 billion, an increase of \$0.8 billion or 5% for the quarter. The increase in Life's investment assets reflects net book growth, the equity placement to MS&AD and changes in retained earnings net of dividends paid to the Challenger Group.

² Life annuity book, Guaranteed Index Return (GIR) and Challenger Index Plus liabilities.

Capital Management

Challenger remains strongly capitalised and during the quarter further strengthened its capital position following the equity placement to MS&AD Insurance Group Holdings Inc. (MS&AD). The equity placement supports a strategic relationship with MS&AD. Proceeds from the equity placement were used to increase Challenger Life Company's (CLC's) Common Equity Tier 1 Capital.

Outlook

For the 2018 financial year, Challenger is targeting normalised net profit before tax of between \$545 million and \$565 million, representing growth of 8% to 12% on the 2017 financial year.

Challenger continues to target an overall normalised pre-tax return on equity of 18%, noting that this will be impacted in the 2018 financial year by higher levels of capital until fully deployed.

ENDS

For more information contact:

Investors

Stuart Kingham
Head of Investor Relations
Tel (02) 9994 7125
Mob 0401 139 067

Jana Flanagan
Investor Relations Manager
Tel (02) 9994 7815
Mob 0423 823 209

Media

Michelle Taylor
Head of Corporate Affairs & Advocacy
Tel (02) 9994 7181
Mob 0400 356 692

Paul Marriage
Corporate Communications
Tel (02) 9994 7053
Mob 0405 848 327

Challenger Total Group Assets and Funds Under Management

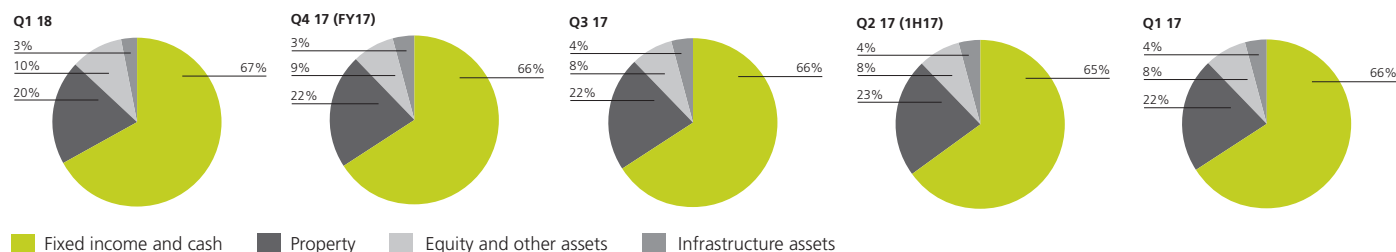
\$m	Q1 18	Q4 17	Q3 17	Q2 17	Q1 17
Funds Management (FUM)	70,962	66,906	64,271	62,113	58,893
Life investment assets	16,486	15,677	14,940	14,607	14,316
Adjustments to remove double counting of cross holdings	(13,903)	(12,595)	(12,640)	(12,015)	(11,215)
Total Assets and Funds Under Management	73,545	69,988	66,571	64,705	61,994

Life quarterly sales and investment assets

\$m	Q1 18	Q4 17	Q3 17	Q2 17	Q1 17
Fixed Term sales	887	720	662	905	737
Lifetime sales	210	215	218	258	296
Life annuity sales	1,097	935	880	1,163	1,033
Maturities and repayments	(745)	(828)	(536)	(998)	(749)
Life annuity flows	352	107	344	165	284
Annuity book growth¹	3.4%	1.1%	3.6%	1.7%	3.0%
Other Life sales	473	1	378	512	50
Other maturities and repayments	(302)	–	(361)	(168)	–
Other Life flows	171	1	17	344	50
Other Life net book growth¹	10.1%	0.1%	1.3%	26.2%	3.8%
Total Life sales	1,570	936	1,258	1,675	1,083
Total maturities and repayments	(1,047)	(828)	(897)	(1,166)	(749)
Total Life net flows	523	108	361	509	334
Life book growth¹	4.4%	1.0%	3.3%	4.7%	3.1%

Life	Q1 18	Q4 17	Q3 17	Q2 17	Q1 17
Fixed income and cash ²	11,096	10,415	9,907	9,521	9,518
Property ²	3,305	3,408	3,330	3,328	3,183
Equity and other	1,594	1,360	1,181	1,232	1,079
Infrastructure ²	491	494	522	526	536
Total Life investment assets	16,486	15,677	14,940	14,607	14,316
Average Life investment assets³	16,059	15,559	14,689	14,354	14,227

Life asset allocation



¹ Book growth percentage represents net flows for the period divided by opening book value for financial year.

² Fixed income, property and infrastructure are reported net of debt.

³ Average Life investment assets calculated on a monthly basis.

Funds Management Assets and Funds Under Management and net flows

\$m	Q1 18	Q4 17	Q3 17	Q2 17	Q1 17
Funds Management					
Fidante Partners					
Equities	23,343	22,365	21,576	20,833	19,124
Fixed income	23,237	21,808	20,393	19,726	19,065
Alternatives	7,110	6,787	6,426	6,399	6,332
Total Fidante Partners	53,690	50,960	48,395	46,958	44,521
Challenger Investment Partners					
Fixed income	12,538	11,051	11,068	10,357	9,703
Property	4,734	4,895	4,808	4,798	4,669
Total Challenger Investment Partners	17,272	15,946	15,876	15,155	14,372
Total funds under management	70,962	66,906	64,271	62,113	58,893
Average Fidante Partners	52,604	50,046	47,438	45,516	44,041
Average Challenger Investment Partners	16,522	15,998	15,490	14,632	14,000
Average total funds under management¹	69,126	66,044	62,928	60,148	58,041
Analysis of flows					
Funds Management net flows					
Equities	647	809	(157)	936	(56)
Fixed Income	1,491	1,161	446	573	369
Alternatives	185	31	95	(50)	(31)
Total Fidante Partners	2,323	2,001	384	1,459	282
Challenger Investment Partners	1,439	(32)	650	835	641
Net flows	3,762	1,969	1,034	2,294	923

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